

(Translation)

Stock code: 8165

March 6, 2013

## NOTICE OF THE 68<sup>th</sup> ORDINARY GENERAL MEETING OF SHAREHOLDERS

Dear Shareholder

You are cordially invited to attend the 68<sup>th</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 rights in writing or via the Internet, etc. Please review the attached Reference Material for Ordinary General Meeting of Shareholders and exercise your voting rights by no later than 5:30 p.m., Wednesday, March 27, 2013, following the “Procedure for Exercising Voting Rights” on pages 63 to 65.

Sincerely yours,

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

### MEETING AGENDA

- 1. Date and Time:** 10:00 a.m., Thursday, March 28, 2013  
**2. Venue:** Hall on the second floor of Senshukai Head Office,  
1-8-9 Doshin, Kita-ku, Osaka

**3. Agenda:**

- Items to be reported:*
1. Business Report, Consolidated Financial Statements for the 68<sup>th</sup> fiscal year (January 1 to December 31, 2012); and Audit Reports of the Accounting Auditors and the Audit & Supervisory Board regarding Consolidated Financial Statements for the 68<sup>th</sup> fiscal year
  2. Non-consolidated Financial Statements for the 68<sup>th</sup> fiscal year (January 1 to December 31, 2012)

*Items to be proposed:*

- |            |                                                                 |
|------------|-----------------------------------------------------------------|
| Proposal 1 | Appropriation of surplus                                        |
| Proposal 2 | Election of nine (9) Directors                                  |
| Proposal 3 | Election of one (1) substitute Audit & Supervisory Board Member |

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

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

[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.]

[Appendix]

## **Business Report** **(January 1 to December 31, 2012)**

### **1. Summary of operations**

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

##### **Overview**

During the fiscal year ended December 31, 2012, the future of the Japanese economy remained uncertain, reflecting a slowdown in the world economy caused by the European debt crisis and the continued appreciation of the yen. In the retail industry, the business environment continued to be difficult due to sluggish consumer spending amid uncertainty over the future of income and employment. In the mail-order industry, while sales are on the rise year after year due in part to a further expansion in consumption over the Internet including via smartphones and tablets, competition has become increasingly fierce partly because of entrants from different industries.

Under such a business environment, the Senshukai Group adopted the Medium-Term Management Plan, which will end in the fiscal year ending December 31, 2013 (the 69<sup>th</sup> fiscal year), and made Group-wide efforts to achieve the targets defined in the plan through the promotion of the growth strategies.

In the fiscal year under review, consolidated net sales rose steadily from the previous fiscal year, posting 145,750 million yen (a year-on-year increase of 6.2%).

On the profit front, operating income was 2,109 million yen (a year-on-year decrease of 32.1%), because the cost-to-sales ratio rose due to increases in bargain sales and inventory-clearance sales resulting from a rise in inventories, as well as across-the-board growth of selling, general and administrative expenses. Ordinary income was 2,765 million yen (a year-on-year decrease of 14.5%) despite an increase in foreign exchange gains and the booking of gain on valuation of compound financial instruments.

Net income was 2,029 million yen (a year-on-year increase of 28.2%), as extraordinary loss such as loss on valuation of investment securities declined from the previous fiscal year.

## **Business results by segment**

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

The mail-order business, which consists of catalogue and buyer's club businesses, posted net sales of 130,456 million yen (a year-on-year increase of 5.7%). On the profit front, despite increased sales, the cost-to-sales ratio rose due to increases in bargain-price and inventory-clearance sales resulting from a rise in inventories. The rise in inventories was caused by placing top priority on keeping sufficient stock to reduce losses from missed sales opportunities. Furthermore, logistics-related expenses increased owing to a rise in the number of shipments, catalogue-related expenses rose resulting from the reorganization of media, and depreciation expenses increased due to investments in systems. Consequently, operating income was 994 million yen (a year-on-year decrease of 54.4%).

#### **(1) Catalogue Business**

In the catalogue business, we provide lifestyle proposals in a variety of genres and deliver products that are unique to Senshukai through diverse kinds of catalogues and the online shop "Belle Maison Net."

During the fiscal year under review, some months saw sales fall temporarily from a year earlier due mainly to bad weather, but overall sales continued to be steady. In addition, online sales and net online sales\* grew, thanks to cross-media promotion measures such as TV commercials and a free-shipping campaign for new membership, and to the launch of various application services through smartphones and tablets. Consequently, the number of active customers exceeded 4.0 million, and the catalog business posted consolidated net sales of 121,284 million yen (a year-on-year increase of 7.0%). (\*Net online sales refers to sales of merchandise recognized when consumers place items in the shopping cart to order them on the Internet.)

#### **(2) Buyer's Club Business**

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

During the fiscal year under review, the buyer's club business posted consolidated net sales of 9,171 million yen (a year-on-year decrease of 8.9%) due to a decline in membership although sales of new merchandise were robust.

**[Bridal Business]**

Consolidated net sales in the bridal business, centered on the subsidiary Dears Brain Inc. which operates the house wedding business, was 10,197 million yen (a year-on-year increase of 21.3%). This was mainly because the number of wedding ceremonies rose as a result of new wedding places being opened in the cities of Fukuoka and Kagoshima. Operating income was 752 million yen (a year-on-year increase of 55.8%).

**[Corporate Business]**

In the fiscal year under review, consolidated net sales in the corporate business that provides products and services to corporations was 3,833 million yen (a year-on-year decrease of 7.8%) due in part to the termination of a contract with a large-volume customer. Operating income was 396 million yen (a year-on-year decrease of 11.5%).

**[Other Businesses]**

In the fiscal year under review, consolidated net sales in other businesses that consist of the service business (with travel services and credit-card services as the core fields) and the pet business, sales of pet supplies through pet shops, was 1,262 million yen (a year-on-year decrease of 2.1%). As a result, operating loss amounted to 33 million yen (against an operating loss of 14 million yen in the previous fiscal year).

Note: The business segment classification was changed due to a business transfer within the Group. Hence, the above year-on-year comparisons of net sales and operating income and loss relating to this matter were made by calculating the figures for the previous fiscal year based on the new classification of the business segment.

**Net sales by business segment**

(Millions of yen)

Name of the segment and product	67 <sup>th</sup> fiscal year (Jan. 1 to Dec. 31, 2011)		68 <sup>th</sup> fiscal year (Jan. 1 to Dec. 31, 2012)		Change from the previous fiscal year	Year-on-Year (%)
	Amount	% of total	Amount	% of total		
Mail-order Business:						
Apparel	54,648	39.8	58,882	40.4	4,233	7.7
Interior goods	29,509	21.5	32,285	22.2	2,776	9.4
Household sundries	18,706	13.6	18,283	12.5	-423	-2.3
Clothing sundries	14,010	10.2	15,240	10.5	1,229	8.8
Foodstuffs	4,547	3.3	3,958	2.7	-589	-13.0
Others	1,983	1.5	1,807	1.2	-175	-8.9
Subtotal	123,405	89.9	130,456	89.5	7,050	5.7
Bridal Business	8,407	6.1	10,197	7.0	1,790	21.3
Corporate Business	4,159	3.0	3,833	2.6	-325	-7.8
Other Businesses	1,289	1.0	1,262	0.9	-26	-2.1
Total	137,261	100.0	145,750	100.0	8,489	6.2

Note: Effective from the fiscal year under review, some businesses of Other Businesses were transferred to the Mail-order Business due to a business transfer within the Group. Accordingly, the above year-on-year comparison was made by calculating the net sales by business segment for the previous fiscal year based on the new classification of the business segment.

**(2) Capital expenditures**

In the fiscal year under review, the Senshukai Group invested a total of 3,720 million yen in capital expenditures, and 882 million yen to develop computer systems, etc.

**(3) Fund procurement**

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

The Company has also concluded commitment line contracts totaling 15,300 million yen with its correspondent financial institutions, and the balance of borrowings outstanding at the end of the fiscal year under review is 1,000 million yen.

#### **(4) Issues to be handled**

The Senshukai Group has formulated a three-year Medium-Term Management Plan that began in the fiscal year ended December 31, 2011 (the 67<sup>th</sup> fiscal year) and it will end in the fiscal year ending December 31, 2013 (the 69<sup>th</sup> fiscal year).

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

###### i) Creating a “new Belle Maison”

- We will view the “Belle Maison” as a single strategic unit and create a new Belle Maison that is needed by customers. In order to achieve this, we will separate the product development function and sales function, take action ahead of our competitors by quickly detecting changes in the market, and enhance the development of original products pursuing the value by ensuring our products are “available only at Belle Maison.”

- We will leverage our strengths of operating an Internet site on our own and having capabilities for in-house product development, and strive to expand the Belle Maison Net by transforming our infrastructure of the mail-order business to allow us to remain competitive in the Internet business.

###### ii) Strengthening Internet business

- We will strengthen collaboration between Belle Maison Net and other Internet businesses to promote strategic sharing of customer assets, expand selection of merchandise, enhance marketability of merchandise, and develop appropriate systems, in order to make the most of synergistic effects of businesses and strengthen the Internet business throughout the entire Group.

- We will cultivate two or more EC sites of specialized shops which are different from Belle Maison Net through our subsidiaries to boost sales profit on a Group level.

###### iii) Expanding bridal business

- We will continue to make investment in Dears Brain Inc., which owns and operates wedding places, to expand the bridal business. In addition, we will strategically embrace marriages as events that provide important information for our existing businesses, and make it easier to increase cooperation within the Group to expand the entire Group’s customer base.

###### iv) Ensuring high-quality and low-cost business operations

- Getting back to the starting point on a Group level, we will ensure high-quality business operations in which we assign top priority to providing products and services that give satisfaction to customers.

- We will ensure low-cost business operations that will allow us to respond flexibly to

market changes on a Group level.

2) Status of initiatives in the fiscal year under review

i) Creating a “new Belle Maison”

- Expanding Belle Maison Net

During the fiscal year under review, we strove to strengthen our capability to win orders by improving the functions of the Belle Maison Net and the quality of the website. Specifically, we redesigned the top page of the website, reworked the detailed descriptions of our products, introduced behavioral targeting advertising\*, enhanced smartphone-compatible services, and developed related applications. As a result, online sales continued to be strong, posting 81,300 million yen. (\*Behavioral targeting advertising: A method in which user behavior is analyzed based on their Internet browsing history, and users are provided with information and advertisements pertinent to them.)

- Enhancing marketability of merchandise

Starting from the previous fiscal year, we developed strategic merchandise such as clothing and interior goods, incorporating customer opinions in such development as well as pursuing a comfortable feel of texture and high functionality. As a result, we had various hit products such as “Fuwa Fuwa Towels” and “UV Cut Sunglasses” in the fiscal year under review.

- Reviewing strategies for enticing customers

Following the previous fiscal year, we conducted cross-media promotion through TV commercials in the fiscal year under review. We also made our catalogues available in various locations and held a free-shipping campaign only for new members joining through the Internet. As a result, the number of active customers exceeded 4.0 million.

- Reorganizing catalogues

In January 2013, we reorganized the catalogues “watashino kitaifuku,” which we launched in January 2012, reviewing the types of catalogues to suit the life stages, scenes and preferences of customers. We will reorganize our catalogues in sequence.

- Enhancing added values of customer services

In the fiscal year under review, we started “Star Belle Maison,” a policy for loyal customers. Under the policy, we give such customers coupons which can be used for shopping according to the total amount that they shop. Also, for customers buying new furniture, we launched the “Unwanted Furniture Exchange Service,” which was first carried out in the Spring 2013 issue of “sumutoco,” our main catalogue for



interior goods. We will continue to review our customer services.

ii) Strengthening Internet business

Senshukai Iihana Co., Ltd., a subsidiary, opened two new online shopping sites: “KURIMO,” which specializes in presents and gifts, and “Hana Kurasu Yasai Kurasu,” a gardening specialty site.

Other Internet-related subsidiaries will successively open new online shopping sites.

iii) Expanding bridal business

In the bridal business, we opened two new guesthouse wedding places in 2012: “CANOVIANO Fukuoka” with an attached restaurant in Fukuoka-shi, Fukuoka in January, and “The Peak Premium Terrace,” our second wedding place in Kagoshima-shi, Kagoshima, in November. This increased the number of such wedding places to 15. As a result, the number of wedding ceremonies increased, and consolidated net sales in this business rose from the previous fiscal year to 10,100 million yen. We will successively open new wedding places to further expand the business.

iv) Ensuring high-quality and low-cost business operations

We introduced a new business management system in December 2011 as part of a reform of our business management process. We have been using the system to expedite budget formulation and conduct multidimensional analysis of management data since the fiscal year under review. We will study how to implement various measures to ensure high-quality and low-cost business operations.

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

Accordingly, we will strengthen our corporate governance through improvement and enhancement of our internal control system by clarifying the scope of supervisory roles of Directors, strengthening our compliance system, and promoting quick and accurate information disclosure.

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

We look forward to your continuous support and encouragement.

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

(Millions of yen)

Fiscal year	65 <sup>th</sup> fiscal year (ended Dec. 2009)	66 <sup>th</sup> fiscal year (ended Dec. 2010)	67 <sup>th</sup> fiscal year (ended Dec. 2011)	68 <sup>th</sup> fiscal year (ended Dec. 2012)
Net sales	147,292	136,859	137,261	145,750
Ordinary income (loss)	-1,410	3,167	3,233	2,765
Net income (loss)	-3,811	2,037	1,583	2,029
Net income (loss) per share (Yen)	-84.18	47.04	36.56	46.86
Total assets	91,837	90,086	90,441	92,887
Net assets	37,906	39,411	41,444	44,932
Net assets per share (Yen)	874.89	909.99	956.94	1,037.48

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

### 1) Relationship with the parent company

No applicable items

### 2) Major subsidiaries

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

The Company owns a total of 12 consolidated subsidiaries, including the seven major subsidiaries described above. Belle Maison Logisco Co., Ltd., newly established in the fiscal year under review, is included in the scope of consolidation.

## (7) Major business

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

## (8) Principal offices

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

## (9) Employees of the Senshukai Group

### 1) Consolidated basis

Segment	Number of employees	Change from the previous fiscal year
Mail-order Business	1,120	-7
Bridal Business	277	35
Corporate Business	38	5
Other Businesses	69	-5
Other staff (consolidated basis)	115	13
Total	1,619	41

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

### 2) The Company

Number of employees	Change from the previous fiscal year	Average age	Average service years
818	16	40.5	13.6

Notes:

1. The number of employees includes regular and contract staff, but does not include (63) employees seconded to subsidiaries, etc.
2. The retirement age of employees is 60.

## (10) Major creditors

Creditors	Borrowings outstanding (Millions of yen)
Sumitomo Mitsui Banking Corporation	4,161
Mizuho Bank, Ltd.	2,775
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,042
Sumitomo Mitsui Trust Bank, Limited	924

## 2. Items regarding shares of the Company

(1) Total number of shares authorized to be issued:	180,000,000
(2) Total number of shares issued:	47,630,393
(3) Number of shareholders:	19,095
(4) Major shareholders (Top 10 shareholders)	

Name	No. of shares held (Thousands)	Shareholding ratio (%)
Brestsheave Co., Ltd.	3,650	8.43
Toppan Printing Co., Ltd.	1,838	4.24
Sawzan, Ltd.	1,792	4.14
Sumitomo Mitsui Banking Corporation	1,665	3.85
Dai Nippon Printing Co., Ltd.	1,509	3.49
Mizuho Bank, Ltd.	1,319	3.05
Senshukai Group Employee Stock Ownership Plan	1,255	2.90
Nippon Life Insurance Company	988	2.28
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	752	1.74
Sumitomo Mitsui Trust Bank, Limited	705	1.63

Notes:

1. Amounts less than one thousand shares have been omitted.
2. The shareholding ratio is calculated by subtracting treasury stock (4,321,445 shares).

## 3. Items regarding subscription rights to shares of the Company

No applicable items

#### 4. Directors and Audit & Supervisory Board Members

##### (1) Name of Directors and Audit & Supervisory Board Members (As of December 31, 2012)

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

Notes:

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

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

	Number of Directors and Audit & Supervisory Board Members	Amount (Millions of yen)
Directors [of which External Directors]	9 [2]	289 [16]
Audit & Supervisory Board Members [of which External Audit & Supervisory Board Members]	4 [2]	40 [10]
Total [of which External Directors and External Audit & Supervisory Board Members]	13 [4]	330 [26]

Notes:

1. The amount of remuneration paid to Directors does not include salaries for employees paid to Directors who concurrently serve as employees.
2. It was resolved at the 62<sup>nd</sup> Ordinary General Meeting of Shareholders, held on March 29, 2007, that the maximum amount of remuneration to be paid to Directors in total per year shall not exceed 400 million yen (however, not including salaries for employees).
3. It was resolved at the 62<sup>nd</sup> Ordinary General Meeting of Shareholders, held on March 29, 2007, that the maximum amount of remuneration to be paid to Audit & Supervisory Board Members in total per year shall not exceed 70 million yen.

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

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

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

## B. Major activities in the fiscal year under review

	Major activities
Director Tomoko Oishi	She attended 17 of the 19 meetings of the Board of Directors held in the fiscal year under review. She gives advice and proposals for ensuring validity and appropriateness of decision-making of the Board of Directors, offering opinions mainly based on her insight and experience on working women, our main customers, as a professor acquired familiarity with labor issues for women over many years.
Director Toshikatsu Sano	He attended all of the 19 meetings of the Board of Directors held in the fiscal year under review. He has successively served as Director mainly at financial-related companies, and gives advice and proposals for ensuring validity and appropriateness of decision-making of the Board of Directors, offering opinions from the perspective of corporate manager based on his wealth of knowledge, experience, etc.
Audit & Supervisory Board Member Hideyuki Koizumi	He attended all of the 19 meetings of the Board of Directors and all of the 14 meetings of the Audit & Supervisory Board held in the fiscal year under review. He gives opinions for ensuring validity and appropriateness of decision-making of the Board of Directors at the meetings of the Board of Directors from the professional standpoint as a certified public accountant. Also, he properly offers necessary views about the accounting procedure of the Company at the meetings of the Audit & Supervisory Board.
Audit & Supervisory Board Member Hiroshi Morimoto	He attended 17 of the 19 meetings of the Board of Directors and all of the 14 meetings of the Audit & Supervisory Board held in the fiscal year under review. He gives opinions for ensuring validity and appropriateness of decision-making of the Board of Directors at the meetings of the Board of Directors from the professional standpoint as an attorney. Also, he properly offers necessary views about compliance of the Company at the meetings of the Audit & Supervisory Board.

## C. Outline of the agreement to limit liability

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

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

### **(1) Name of the accounting auditor:**

Ernst & Young ShinNihon LLC

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

- 1) Compensation, etc. for the accounting auditors for the fiscal year under review  
48 million yen
- 2) The total fiscal benefit that should be paid by the Company and its subsidiaries  
49 million yen

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

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

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

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

The Board of Directors shall make dismissal or non-reappointment of the accounting auditor the purpose of a General Meeting of Shareholders after obtaining the consent of the Audit & Supervisory Board, or based on the demand of the Audit & Supervisory Board, mentioned below, when it recognizes necessity for doing so, including a case in which performance of duties by the accounting auditor is hindered.

When the accounting auditor falls under any of the items stipulated in Article 340, Paragraph 1 of the Corporation Act, the Audit & Supervisory Board shall dismiss the accounting auditor based on the consent of all Audit & Supervisory Board Members. In this case, an Audit & Supervisory Board Member selected by the Audit & Supervisory Board shall report the dismissal of the accounting auditor and the reason for dismissal at the first General Meeting of Shareholders to be held after the dismissal.

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

The Company made a resolution on the basic policy for the internal control system, and provision of it, as follows, at the meeting of the Board of Directors based on the provisions of Article 362, Paragraph 4, Item 6 and Paragraph 5 of the Corporation Act and has been executing it.



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

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

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

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

the “Confidential Document Handling Rules” separately.

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

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

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

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

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

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

9. System for exclusion of antisocial forces

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

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

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

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

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

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

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

In order to increase corporate value, the Company has developed and is implementing new Medium-Term Management Plan, covering three fiscal years from January 2011 to December 2013, following the previous Medium-Term Management Plan. We are confident that we will be able to increase our corporate value and by extension, meet the expectations of shareholders by steadily implementing the Medium-Term Management Plan.

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

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

The Company introduced a “Policy toward Large-scale Purchases of Shares of the Company” (hereinafter referred to as the “previous plan”) at the 63<sup>rd</sup> Ordinary General Meeting of Shareholders, held on March 28, 2008, as a countermeasure against takeovers in ordinary times with an effective period up to the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ended December 31, 2010. In consideration of various developments surrounding countermeasures against takeovers, the Company thereafter continued to examine the appropriate countermeasures against takeovers in ordinary times. Accordingly, the Company decided to continue with the previous plan, after making partial revision, (hereinafter, the revised plan shall be referred to as “the plan”) as part of our efforts for ensuring and increasing the corporate value of the Company and common interests of shareholders, to prevent any attempts at abusive acquisitions targeting the Company, with the approval of shareholders at the 66<sup>th</sup> Ordinary General Meeting of Shareholders held on March 30, 2011 to continue with the prevailing plan until the conclusion of the Ordinary General Meeting of Shareholders covering the fiscal year ending December 31, 2013.

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

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

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

Therefore, these efforts are in line with the basic policy and in accord with common interests of shareholders of the Company, and not aimed at maintaining the status of Directors and Audit & Supervisory Board Members of the Company.

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

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

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

###### **(2) The relevant efforts neither damage common interests of shareholders nor are aimed at maintaining the status of Directors and Audit & Supervisory Board Members of the Company**

We believe that efforts for preventing control by inappropriate persons in light of the basic policy neither damage common interests of shareholders nor are aimed at maintaining the status of Directors and Audit & Supervisory Board Members of the Company, since 1) they comply thoroughly with the "Guidelines on takeover defense for ensuring and/or increasing corporate value and stakeholder profits," released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005 and also satisfy the "Takeover Defense Measures in Light of Recent Environmental Changes," released by the Corporate Value Study Group of the Ministry of Economy, Trade and Industry on June 30, 2008; 2) they attach importance to the intention of shareholders in various ways: they will be continued on condition that amendments to the Articles of Incorporation made based on the prescribed procedure are approved by shareholders in the General Meeting of

Shareholders in accordance with provisions of the Articles of Incorporation and the so-called sunset clause is established; 3) a Special Committee has been established; and 4) they are not a dead-hand type of countermeasure against takeovers.



**Consolidated Balance Sheet**  
**As of December 31, 2012**

	Millions of yen
	As of December 31, 2012
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and deposits	7,452
Notes and accounts receivable-trade	6,663
Short-term investment securities	595
Merchandise and finished goods	16,644
Raw materials and supplies	188
Deferred tax assets	523
Accounts receivable-other	9,951
Forward exchange contracts	772
Other	3,744
Allowance for doubtful accounts	-289
<b>Total Current Assets</b>	<b>46,248</b>
<b>Noncurrent Assets</b>	
<b>Property, Plant and Equipment:</b>	
Buildings and structures	14,050
Machinery, equipment and vehicles	710
Tools, furniture and fixtures	731
Land	11,908
Construction in progress	57
Other	715
<b>Total Property, Plant and Equipment</b>	<b>28,174</b>
<b>Intangible Assets:</b>	
Goodwill	2,278
Other	3,995
<b>Total Intangible Assets</b>	<b>6,273</b>
<b>Investments and Other Assets</b>	
Investment securities	5,950
Long-term loans receivable	797
Lease and guarantee deposits	1,563
Deferred tax assets	9
Other	4,186
Allowance for doubtful accounts	-317
<b>Total Investments and Other Assets</b>	<b>12,190</b>
<b>Total Noncurrent Assets</b>	<b>46,639</b>
<b>Total Assets</b>	<b>92,887</b>

	Millions of yen
	As of December 31, 2012
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Notes and accounts payable-trade	8,073
Short-term loans payable	3,405
Current portion of bonds	700
Accounts payable-other	6,568
Accounts payable-factoring	13,993
Accrued expenses	2,225
Income taxes payable	207
Accrued consumption taxes	253
Provision for sales promotion expenses	307
Other	1,326
<b>Total Current Liabilities</b>	<b>37,062</b>
<b>Noncurrent Liabilities</b>	
Bonds payable	1,850
Long-term loans payable	6,993
Deferred tax liabilities for land revaluation	631
Provision for retirement benefits	34
Asset retirement obligations	353
Other	1,030
<b>Total Noncurrent Liabilities</b>	<b>10,892</b>
<b>Total Liabilities</b>	<b>47,955</b>
<b>NET ASSETS</b>	
<b>Shareholders' Equity</b>	
Capital stock	20,359
Capital surplus	21,038
Retained earnings	13,581
Treasury stock	-2,775
<b>Total Shareholders' Equity</b>	<b>52,203</b>
<b>Accumulated other comprehensive income</b>	
Valuation difference on available-for-sale securities	-578
Deferred gains or losses on hedges	438
Revaluation reserve for land	-7,041
Foreign currency translation adjustment	-89
<b>Total accumulated other comprehensive income</b>	<b>-7,271</b>
<b>Total Net Assets</b>	<b>44,932</b>
<b>Total Liabilities and Net Assets</b>	<b>92,887</b>

**Consolidated Statement of Income**  
**For fiscal year ended December 31, 2012**

	Millions of yen
	For fiscal year ended December 31, 2012
<b>Net sales</b>	<b>145,750</b>
<b>Cost of sales</b>	<b>76,392</b>
<b>Gross profit</b>	<b>69,357</b>
<b>Selling, general and administrative expenses</b>	<b>67,248</b>
<b>Operating income</b>	<b>2,109</b>
<b>Non-operating income</b>	<b>1,260</b>
Interest and dividends income	169
Gain on valuation of compound financial instruments	208
Foreign exchange gains	416
Equity in earnings of affiliates	93
Gain on adjustment of account payable	160
Other	212
<b>Non-operating expenses</b>	<b>605</b>
Interest expenses	238
Commission fee	187
Other	179
<b>Ordinary income</b>	<b>2,765</b>
<b>Extraordinary income</b>	<b>23</b>
Gain on sales of noncurrent assets	1
Gain on sales of investment securities	22
<b>Extraordinary loss</b>	<b>326</b>
Loss on sales and retirement of noncurrent assets	169
Impairment loss	64
Loss on liquidation of business	84
Other	6
<b>Income before income taxes and minority interests</b>	<b>2,462</b>
Income taxes-current	184
Income taxes-deferred	249
<b>Income before minority interests</b>	<b>2,029</b>
<b>Net income</b>	<b>2,029</b>

**Consolidated Statement of Changes in Shareholders' Equity**  
**For fiscal year ended December 31, 2012**

(Millions of yen)

	Shareholders' Equity				
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance as of January 1, 2012	20,359	21,038	12,288	-2,775	50,910
Changes of items during the fiscal year under review					
Dividends from surplus			-736		-736
Net income			2,029		2,029
Purchase of treasury stock				-0	-0
Disposal of treasury stock		-0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year under review	—	-0	1,293	-0	1,292
Balance as of December 31, 2012	20,359	21,038	13,581	-2,775	52,203

(Millions of yen)

	Accumulated Other Comprehensive Income					Total Net Assets
	Valuation Difference on Available-for-sale Securities	Deferred Gains or Losses on Hedges	Revaluation Reserve for Land	Foreign Currency Translation Adjustment	Total Accumulated Other Comprehensive Income	
Balance as of January 1, 2012	-1,008	-1,237	-7,041	-177	-9,465	41,444
Changes of items during the fiscal year under review						
Dividends from surplus						-736
Net income						2,029
Purchase of treasury stock						-0
Disposal of treasury stock						0
Net changes of items other than shareholders' equity	430	1,676	—	87	2,194	2,194
Total changes of items during the fiscal year under review	430	1,676	—	87	2,194	3,487
Balance as of December 31, 2012	-578	438	-7,041	-89	-7,271	44,932

## **Notes to Consolidated Financial Statements**

### **Basis for Preparing Consolidated Financial Statements**

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

- (1) Number of consolidated subsidiaries: 12

Names of major consolidated subsidiaries:

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

Belle Maison Logisco Co., Ltd., established in the fiscal year under review, is included in the scope of consolidation.

- (2) Number of unconsolidated subsidiaries: 2

Names of major unconsolidated subsidiaries: Senshukai Hong Kong Limited

[Reason for exclusion from the scope of consolidation]

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

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

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

Names of major unconsolidated subsidiaries under the equity method:

Senshukai Hong Kong Limited

Shanghai Senshukai Trading Co., Ltd., a former unconsolidated subsidiary under the equity method, has been excluded from the scope of the equity method as it was merged by absorption with Shanghai Senshu Merchant and Commerce Co., Ltd., a consolidated subsidiary, in February 2012.

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

Names of affiliates under the equity method:

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

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

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

relevant companies.

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

Senshukai Marketing Support Co., Ltd.

[Reason for exclusion from the scope of equity method]

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

### **3. Fiscal year-ends of consolidated subsidiaries**

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

### **4. Accounting policies**

- (1) Valuation criteria and methods of significant assets

1) Securities

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

2) Derivatives

Stated at fair value.

3) Inventories

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

- (2) Depreciation method of significant depreciable assets

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

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

The main useful lives are as follows:

Buildings and structures: 38–50 years

Machinery, equipment and vehicles: 12 years

2) Intangible assets (excluding lease assets):

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

3) Lease assets:

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

(3) Basis for provision of significant reserves

1) Allowance for doubtful accounts

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

2) Provision for sales promotion expenses

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

3) Provision for retirement benefits

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

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

(4) Basis for recognizing important revenues and expenses

Basis for recognition of revenues relating to finance leases

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

(5) Criteria for converting significant assets or liabilities denominated in foreign currencies into Japanese currency

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

(6) Promotion expenses

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

(7) Hedge accounting method

The Company adopts deferral hedge accounting.

(8) Amortization and amortization period of goodwill

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

(9) Consumption taxes

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

(10) Application of the consolidated tax payment system

The consolidated tax payment system is applied.

### **Changes in Method of Presentation**

(Matters related to consolidated statement of income)

"Co-sponsor fee," which was separately presented until the previous fiscal year (1 million yen for the fiscal year under review), is included in "Other" under non-operating income due to lack of materiality.

### **Additional Information**

The Company has applied the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors made on or after the beginning of the fiscal year under review.



## Notes to Consolidated Balance Sheet

1. Amounts less than one million yen have been omitted.
2. Accumulated depreciation on property, plant and equipment  
32,301 million yen
3. Breakdown of assets pledged as collateral
  - (1) Pledged assets

Buildings and structures	574 million yen
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  - (2) Liabilities corresponding to the aforementioned assets

Short-term loans payable	130 million yen
<u>Long-term loans payable</u>	<u>70 million yen</u>
Total	200 million yen
4. Guarantee obligation:

Guarantee for bank borrowings	
Utilizers of employee housing loan	6 million yen
5. The land for business use owned by the Company was revaluated under the “Act on Revaluation of Land” (Act No. 34 of March 31, 1998), and the “Act for Partial Revision of the Act on Revaluation of Land” (amended on March 31, 1999), and unrealized losses resulting from the revaluation were posted as “Revaluation reserve for land” in net assets, after deducting the related deferred tax liabilities.

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

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

Date of revaluation:	March 31, 2000
The difference between the fair value of land at the end of fiscal year under review and its book value after revaluation:	-2,833 million yen

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

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

Total amount of commitment line contracts:	15,300 million yen
<u>Balance of borrowings outstanding:</u>	<u>1,000 million yen</u>
Balance:	14,300 million yen

#### 7. Financial covenants

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

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

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

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

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

47,630,393 shares

3. Matters on dividends from surplus

(1) Dividends paid

Resolution	Class of stock	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 29, 2012	Common stock	303	7	December 31, 2011	March 30, 2012
Meeting of the Board of Directors held on July 26, 2012	Common stock	433	10	June 30, 2012	August 31, 2012

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

Proposal for Resolution	Class of stock	Financial funds of dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders to be held on March 28, 2013	Common stock	Retained earnings	433	10	December 31, 2012	March 29, 2013

## Notes on Financial Instruments

### 1. Policy on financial instruments

#### (1) Notes on the status of financial instruments

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

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

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

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

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

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

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

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

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

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

Consolidated balance sheet amounts, fair values as of December 31, 2012, and their differences are as follows. The amounts shown in the following table do not include financial instruments whose fair values are extremely difficult to determine (see Note 2).

	Consolidated balance sheet amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Cash and deposits	7,452	7,452	–
(2) Notes and accounts receivable–trade	6,663	6,663	–
(3) Accounts receivable–other	9,951	9,951	–
(4) Short-term investment securities and investment securities	5,583	5,583	–
Total assets	29,652	29,652	–
(5) Notes and accounts payable–trade	8,073	8,073	–
(6) Short-term loans payable	1,000	1,000	–
(7) Accounts payable–other	6,568	6,568	–
(8) Accounts payable–factoring	13,993	13,993	–
(9) Bonds payable (*1)	2,550	2,588	38
(10) Long-term loans payable (*2)	9,399	9,445	46
Total liabilities	41,585	41,670	84
(11) Derivative transactions			
Hedge accounting not adopted	(14)	(14)	–
Hedge accounting adopted	786	786	–
Derivative transactions (*3)	772	772	–

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

\*2. Current portion of long-term loans payable, which is included in short-term loans payable in the consolidated balance sheet (whose consolidated balance sheet amount is 2,405 million yen), is included in long-term loans payable.

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

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

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

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

(4) Short-term investment securities and investment securities

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

(5) Notes and accounts payable–trade, (6) Short-term loans payable, (7) Accounts payable–other, and (8) Accounts payable–factoring

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

(9) Bonds payable

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

(10) Long-term loans payable

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

(11) Derivative transactions

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

(Note 2) Stocks of unconsolidated subsidiaries and affiliates (whose consolidated balance sheet amount is 403 million yen), unlisted stocks (whose consolidated balance sheet amount is 517 million yen), investments in investment partnership, etc. (whose consolidated balance sheet amount is 40 million yen) are excluded from “(4) Short-term investment securities and investment securities” described above because they do not have market prices and it is deemed extremely difficult to determine the fair values.

**Per Share Information**

1. Net assets per share:	1,037.48 yen
2. Net income per share:	46.86 yen

**Significant Subsequent Events**

No applicable items

**Non-consolidated Balance Sheet**  
**As of December 31, 2012**

	Millions of yen
	As of December 31, 2012
<b>ASSETS</b>	
Current Assets	
Cash and deposits	4,446
Notes receivable-trade	269
Accounts receivable-trade	5,896
Short-term investment securities	560
Merchandise and finished goods	16,217
Raw materials and supplies	169
Prepaid expenses	2,267
Deferred tax assets	402
Short-term loans receivable	774
Accounts receivable-other	10,168
Forward exchange contracts	772
Other	1,254
Allowance for doubtful accounts	-327
Total Current Assets	42,872
Noncurrent Assets	
Property, Plant and Equipment:	
Buildings	8,949
Structures	251
Machinery and equipment	685
Vehicles	3
Tools, furniture and fixtures	589
Land	10,826
Total Property, Plant and Equipment	21,306
Intangible Assets:	
Software	3,344
Other	490
Total Intangible Assets	3,835
Investments and Other Assets	
Investment securities	5,546
Stocks of subsidiaries and affiliates	6,670
Long-term loans receivable	2,664
Lease and guarantee deposits	751
Long-term prepaid expenses	19
Other	3,952
Allowance for doubtful accounts	-453
Allowance for investment loss	-309
Total Investments and Other Assets	18,841
Total Noncurrent Assets	43,983
Total Assets	86,855



	Millions of yen
	As of December 31, 2012
<b>LIABILITIES</b>	
Current Liabilities	
Notes payable-trade	1,313
Accounts payable-trade	5,743
Short-term loans payable	1,000
Current portion of long-term loans payable	2,008
Current portion of bonds	700
Accounts payable-other	6,125
Accounts payable-factoring	13,993
Accrued expenses	1,287
Income taxes payable	86
Accrued consumption taxes	185
Deposits received	651
Provision for sales promotion expenses	300
Other	260
Total Current Liabilities	33,656
Noncurrent Liabilities	
Bonds payable	1,850
Long-term loans payable	6,105
Deferred tax liabilities	58
Deferred tax liabilities for land revaluation	631
Asset retirement obligations	48
Total Noncurrent Liabilities	8,693
Total Liabilities	42,350
<b>NET ASSETS</b>	
Shareholders' Equity	
Capital stock	20,359
Capital surplus	
Legal capital surplus	12,864
Other capital surplus	8,174
Total capital surplus	21,038
Retained earnings	
Legal retained earnings	1,118
Other retained earnings	
Reserve for advanced depreciation of noncurrent assets	62
Reserve for overseas investment loss	37
Retained earnings brought forward	11,846
Total other retained earnings	11,946
Total retained earnings	13,064
Treasury stock	-2,775
Total Shareholders' Equity	51,687
Valuation and Translation Adjustments	
Valuation difference on available-for-sale securities	-578
Deferred gains or losses on hedges	438
Revaluation reserve for land	-7,041
Total Valuation and Translation Adjustments	-7,181
Total Net Assets	44,505
Total Liabilities and Net Assets	86,855

**Non-consolidated Statement of Income**  
**For fiscal year ended December 31, 2012**

	Millions of yen
	For fiscal year ended December 31, 2012
<b>Net sales</b>	<b>130,589</b>
<b>Cost of sales</b>	<b>69,879</b>
<b>Gross profit</b>	<b>60,710</b>
<b>Selling, general and administrative expenses</b>	<b>58,713</b>
<b>Operating income</b>	<b>1,996</b>
<b>Non-operating income</b>	<b>1,199</b>
Interest and dividends income	261
Gain on valuation of compound financial instruments	208
Foreign exchange gains	434
Gain on adjustment of account payable	160
Other	134
<b>Non-operating expenses</b>	<b>541</b>
Interest expenses	183
Commission fee	187
Other	171
<b>Ordinary income</b>	<b>2,654</b>
<b>Extraordinary income</b>	<b>22</b>
Gain on sales of noncurrent assets	0
Gain on sales of investment securities	22
<b>Extraordinary loss</b>	<b>659</b>
Loss on sales and retirement of noncurrent assets	79
Loss on valuation of stocks of subsidiaries and affiliates	274
Provision of allowance for doubtful accounts	40
Impairment loss	44
Bad debts expenses	149
Other	71
<b>Income before income taxes</b>	<b>2,018</b>
Income taxes-current	-59
Income taxes-deferred	160
<b>Net income</b>	<b>1,916</b>

**Non-consolidated Statement of Changes in Shareholders' Equity**  
**For fiscal year ended December 31, 2012**

(Millions of yen)

	Shareholders' Equity										
	Capital Stock	Capital Surplus			Retained Earnings					Treasury Stock	Total Shareholders' Equity
		Legal Capital Surplus	Other Capital Surplus	Total Capital Surplus	Legal Retained Earnings	Other Retained Earnings			Total Retained Earnings		
						Reserve for Advanced Depreciation of Noncurrent Assets	Reserve for Overseas Investment Loss	Retained Earnings Brought Forward			
Balance as of January 1, 2012	20,359	12,864	8,174	21,038	1,118	65	41	10,659	11,884	-2,775	50,506
Changes of items during the fiscal year under review											
Reversal of reserve for advanced depreciation of noncurrent assets						-2		2	—		—
Reversal of reserve for overseas investment loss							-3	3	—		—
Dividends from surplus								-736	-736		-736
Net income								1,916	1,916		1,916
Purchase of treasury stock										-0	-0
Disposal of treasury stock			-0	-0						0	0
Net changes of items other than shareholders' equity											
Total changes of items during the fiscal year under review	—	—	-0	-0	—	-2	-3	1,187	1,180	-0	1,180
Balance as of December 31, 2012	20,359	12,864	8,174	21,038	1,118	62	37	11,846	13,064	-2,775	51,687

(Millions of yen)

	Valuation and Translation Adjustments				Total Net Assets
	Valuation Difference on Available-for-sale Securities	Deferred Gains or Losses on Hedges	Revaluation Reserve for Land	Total Valuation and Translation Adjustments	
Balance as of January 1, 2012	-1,008	-1,244	-7,041	-9,294	41,211
Changes of items during the fiscal year under review					
Reversal of reserve for advanced depreciation of noncurrent asset					—
Reversal of reserve for overseas investment loss					—
Dividends from surplus					-736
Net income					1,916
Purchase of treasury stock					-0
Disposal of treasury stock					0
Net changes of items other than shareholders' equity	430	1,683	—	2,113	2,113
Total changes of items during the fiscal year under review	430	1,683	—	2,113	3,293
Balance as of December 31, 2012	-578	438	-7,041	-7,181	44,505

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

### **Principal accounting policies**

#### **1. Valuation criteria and methods of assets**

(1) Securities

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

(2) Derivatives

Stated at fair value.

(3) Inventories

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

#### **2. Depreciation method of noncurrent assets**

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

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

The main useful lives are as follows:

Buildings: 38–50 years

Machinery and equipment: 12 years

(2) Intangible assets (excluding lease assets):

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

(3) Lease assets:

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

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

(1) Allowance for doubtful accounts

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

(2) Allowance for investment loss

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

(3) Provision for sales promotion expenses

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

### **4. Basis for recognizing revenues and expenses**

Basis for recognition of revenues relating to finance leases

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

### **5. Criteria for converting assets or liabilities denominated in foreign currencies into Japanese currency**

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

### **6. Promotion expenses**

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

### **7. Hedge accounting method**

The Company adopts deferral hedge accounting.

### **8. Consumption taxes**

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

### **9. Application of the consolidated tax payment system**

The consolidated tax payment system is applied.

### **Additional Information**

The Company has applied the “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24, issued on December 4, 2009) and the “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors made on or after the beginning of the fiscal year under review.

### **Notes to Non-consolidated Balance Sheet**

1. Amounts less than one million yen have been omitted.
2. Accumulated depreciation on property, plant and equipment  
29,562 million yen
3. Guarantee obligation:
  - Guarantee for bank borrowings
  - Utilizers of employee housing loan  
6 million yen
  - Guarantees on notes and accounts payable–trade
    - Pet First Co., Ltd.  
11 million yen
4. Short-term cash credit for subsidiaries and affiliates  
1,380 million yen
  - Long-term cash credit for subsidiaries and affiliates  
2,301 million yen
  - Short-term cash debt for subsidiaries and affiliates  
177 million yen
5. The land for business use owned by the Company was revaluated under the “Act on Revaluation of Land” (Act No. 34 of March 31, 1998), and the “Act for Partial Revision of the Act on Revaluation of Land” (amended on March 31, 1999), and unrealized losses resulting from the revaluation were posted as “Revaluation reserve for land” in net assets, after deducting the related deferred tax liabilities.

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

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

Date of revaluation: March 31, 2000

The difference between the fair value of land at the end of fiscal year under review and its book value after revaluation: -2,833 million yen

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

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

Total amount of commitment line contracts:	15,300 million yen
<u>Balance of borrowings outstanding:</u>	<u>1,000 million yen</u>
Balance:	14,300 million yen

#### 7. Financial covenants

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

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



### **Notes to Non-consolidated Statement of Income**

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

2. Transaction with subsidiaries and affiliates

Sales:	135 million yen
Operating expense:	8,396 million yen
Non-operating transaction:	264 million yen

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

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

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

4,321,445 common shares

## Tax Effect Accounting

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

(Millions of yen)

(1) Current		(2) Noncurrent	
<u>Deferred tax assets</u>		<u>Deferred tax assets</u>	
Loss brought forward	632	Loss on valuation of stocks of subsidiaries and affiliates	581
Loss on valuation of inventories	247	Amount exceeding the limit of tax depreciation	335
Accrued bonuses	201	Valuation difference on available-for-sale securities	295
Provision for sales promotion expenses	114	Loss on valuation of investment securities	199
Other	228	Allowance for doubtful accounts	111
		Allowance for investment loss	110
Sub-total deferred tax assets	1,423	Other	370
Valuation allowance	678		
Total deferred tax assets	745	Sub-total deferred tax assets	2,003
		Valuation allowance	1,847
		Total deferred tax assets	156
<u>Deferred tax liabilities</u>		<u>Deferred tax liabilities</u>	
Deferred gains or losses on hedges	339	Valuation difference on available-for-sale securities	138
Other	3	Other	76
Total deferred tax liabilities	342	Total deferred tax liabilities	214
Net deferred tax assets	402	Net deferred tax assets	58

## 2. Details of deferred tax liabilities for land revaluation

(Millions of yen)

<u>Deferred tax assets</u>	
Deferred tax assets for land revaluation	2,913
Valuation allowance	2,913
<hr/>	
Total deferred tax assets for land revaluation	—
<u>Deferred tax liabilities</u>	
Deferred tax liabilities for land revaluation	631
<hr/>	
Net deferred tax liabilities for land revaluation	631

## Noncurrent Assets Used Through Leases

In addition to noncurrent assets posted in the non-consolidated balance sheet, some tools, furniture and fixtures, etc. are used under finance lease contracts without transfer of ownership of the leased assets to the lessee.

## Related Party Transactions

Type	Company name	Ownership percentage of voting rights, etc.	Relationship	Nature of transactions	Transaction amount (Millions of yen)	Account items	Balance at end of fiscal year (Millions of yen)
Subsidiary	Senshu Logisco Co., Ltd.	Directly 100.0%	Contract of packing and wrapping, etc.	Forgiveness of debts (Note 1)	700	—	—
Subsidiary	Dears Brain Inc.	Directly 100.0%	Interlocking of Directors, etc.	Loan of funds (Note 2)	1,850	Short-term loans receivable	671
				Collection of loans	468	Long-term loans receivable	2,201
				Receipt of interests	28	—	—

Transaction condition or policy for deciding transaction condition

Notes:

1. Forgiveness of debts was carried out as a part of business structural reform.
2. The interest rates of loans are rationally decided by taking into account market interest rates.

## Per Share Information

1. Net assets per share: 1,027.63 yen
2. Net income per share: 44.26 yen

## Significant Subsequent Events

No applicable items

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

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

**Audit Report of Independent Auditor**

February 13, 2013

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

Ernst & Young ShinNihon LLC

Yutaka Matsumura (Seal)

Certified Public Accountant, Designated, Limited Liability and  
Operating Partner

Kazuki Wadabayashi (Seal)

Certified Public Accountant, Designated, Limited Liability and  
Operating Partner

We have audited the consolidated financial statements of Senshukai Co., Ltd. for the fiscal year from January 1, 2012 to December 31, 2012, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in shareholders' equity and notes to consolidated financial statements for the purpose of reporting under the provisions of Article 444, Paragraph 4 of the Corporation Act.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

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

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

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

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

#### *Opinion*

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

#### *Conflicts of Interest*

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

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

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

**Audit Report of Independent Auditor**

February 13, 2013

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

Ernst & Young ShinNihon LLC

Yutaka Matsumura (Seal)

Certified Public Accountant, Designated, Limited Liability and  
Operating Partner

Kazuki Wadabayashi (Seal)

Certified Public Accountant, Designated, Limited Liability and  
Operating Partner

We have audited the non-consolidated financial statements of Senshukai Co., Ltd. for the 68th fiscal year from January 1, 2012 to December 31, 2012, comprising the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in shareholders' equity and notes to non-consolidated financial statements and the accompanying financial schedule for the purpose of reporting under the provisions of Article 436, Paragraph 2, Item 1 of the Corporation Act.

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

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

*Auditor's Responsibility*

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

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

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

#### *Opinion*

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

#### *Conflicts of Interest*

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

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

## Audit Report

The Audit & Supervisory Board has prepared this Audit Report upon deliberation based on the Audit Report created by each Audit & Supervisory Board Member regarding the performance by the Directors of their duties during the 68<sup>th</sup> fiscal year from January 1, 2012 to December 31, 2012, and hereby reports as follows:

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

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

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

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

We examined the contents of the basic policy, specified in Item 3(a) of Article 118 of the Ordinance for Enforcement of the Corporation Act, and each effort in accordance with Item 3(b) of the same Article, which are stated in the Business Report, in consideration of the status of deliberations at the meetings of the Board of Directors and other meetings.

As for the subsidiaries, we communicated and exchanged information with the Directors and Audit & Supervisory Board Members, etc. of the subsidiaries and received reports on their business operations as the occasion demanded. Based on the above-mentioned methods, we examined the business reports and accompanying financial schedule for the relevant fiscal year.

In addition, we monitored and verified whether or not the accounting auditor had maintained their independent positions and had conducted appropriate audits and received reports on activities of execution of duty from the accounting auditor and received explanation as the occasion demanded. Also, we received notice that the "system to assure that duty is executed appropriately" (the matters listed in the items of Article 131 of the Corporate Accounting Rules) has been maintained in accordance with the "Quality Control Standards for Audits" (October 28, 2005, the Business Accounting Council) from the Accounting Auditors and demanded explanation as the occasion demanded. Based on the above methods, we examined the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in shareholders' equity and notes for non-consolidated financial statements) and accompanying financial schedule as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in shareholders' equity and the notes for consolidated financial statements).



## 2. Results of Audit

### (1) Results of audit on the business report

- 1) The business report and accompanying financial schedule are found to accurately present the status of the Company in conformity with the laws and regulations and Articles of Incorporation.
- 2) In connection with the performance by the Directors of their duties, no dishonest act or significant fact of a violation of laws, regulations, or the Articles of Incorporation is found to exist.
- 3) The contents of the resolutions of the Board of Directors regarding the internal control systems are found to be proper. Also, the descriptions in the business report and execution of duty by the Directors regarding the relevant internal control system are found to accurately present the matters to be stated therein and have nothing to be pointed out including the internal control system regarding financial reporting.
- 4) Basic policy on the person who controls decisions on financial and operational policies of the Company, which is stated in the business report, has nothing to be pointed out. The efforts in accordance with Item 3(b) of Article 118 of the enforcement rules of the Corporation Act, which are stated in the business report, are found to be in line with the relevant basic policy and at the same time to neither damage common interests of shareholders of the Company nor be aimed at maintaining the status of Directors and Audit & Supervisory Board Members of the Company.

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

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

### (3) Results of audit on the consolidated financial statements

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

February 14, 2013

Audit & Supervisory Board, Senshukai Co., Ltd.

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

## Reference Material for Ordinary General Meeting of Shareholders

### Proposal 1: Appropriation of surplus

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

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

(1) Type of dividend property

Cash

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

10 yen per share of common stock of the Company; the total amount of 433,089,480 yen

(3) Effective date of dividends from surplus:

March 29, 2013

The annual dividend will amount to 20 yen per share, including an interim dividend of 10 yen per share.

**Proposal 2: Election of nine (9) Directors**

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

The candidates for Directors are as follows.

No.	Name (Date of birth)	Brief personal profile, positions and responsibilities at the Company and important concurrent occupations or positions at other organizations	(1) No. of the Company's shares held (2) Any conflict of interests between the candidate and the Company
1	Yasuhiro Yukimachi (January 30, 1932)	Oct. 1953 Joined Mirakukai Nov. 1955 Founded the Company, Director of the Company Oct. 1976 Managing Director of the Company Jan. 1985 Senior Managing Director of the Company Oct. 1991 Executive Vice-president and Director of the Company Apr. 1999 Executive Vice-president and Representative Director of the Company Apr. 2000 President and Representative Director of the Company Jan. 2011 Chairman and Representative Director of the Company (present position)	(1) 495,036  (2) None
2	Michio Tanabe (July 23, 1946)	Apr. 1967 Joined the Company Jun. 1997 Director of the Company Mar. 2001 Director and Executive Officer of the Company Mar. 2005 Managing Director of the Company Mar. 2008 Senior Managing Director of the Company Jan. 2011 President and Representative Director of the Company (present position)	(1) 12,500  (2) None
3	Kiichi Tagawa (September 25, 1947)	Mar. 1966 Joined the Company Jun. 1997 Director of the Company Mar. 2001 Director and Executive Officer of the Company Mar. 2005 Managing Director of the Company Mar. 2008 Senior Managing Director of the Company Jan. 2011 Senior Managing Director and Executive Officer of the Company (present position) In charge of Administration Division and Tokyo Headquarters (General Affairs Division, Operation Division, Business Development Division) of the Company Jan. 2012 In charge of Administration Division and Tokyo Headquarters (General Affairs Division, Business Development Division, Public Relations Department) of the Company Jan. 2013 In charge of Administration Division and Tokyo Headquarters (General Affairs Department, Accounting Department, Legal & Credit Department, Business Development Division, Public Relations Department) of the Company (present position)	(1) 29,000  (2) None

No.	Name (Date of birth)	Brief personal profile, positions and responsibilities at the Company and important concurrent occupations or positions at other organizations	(1) No. of the Company's shares held (2) Any conflict of interests between the candidate and the Company
4	Shohachi Sawamoto (February 9, 1948)	<p>Mar. 1972 Joined the Company</p> <p>Jun. 1997 Director of the Company</p> <p>Mar. 2001 Director and Executive Officer of the Company</p> <p>Mar. 2005 Managing Director of the Company</p> <p>Jan. 2011 Senior Managing Director and Executive Officer of the Company (present position) In charge of Belle Maison Business Division (EC Business Division, Catalogue Business Division, Product Development Division, Belle Maison Business Planning Department) of the Company</p> <p>Jan. 2013 In charge of Belle Maison Business Division (Sales Planning Division, Product Development Division, Belle Maison Business Planning Department) of the Company (present position)</p>	<p>(1) 18,930</p> <p>(2) None</p>
5	Mamoru Asada (April 1, 1954)	<p>Mar. 1982 Joined the Company</p> <p>Mar. 2005 Executive Officer of the Company</p> <p>Mar. 2006 Director and Executive Officer of the Company</p> <p>Mar. 2008 Director and Managing Executive Officer of the Company</p> <p>Jan. 2009 Division Director of Project Division of the Company (present position)</p> <p>Jan. 2011 Managing Director and Executive Officer of the Company (present position) In charge of Monthly Business and Project Division (Monthly Business Division, Project Division) of the Company (present position)</p>	<p>(1) 12,200</p> <p>(2) None</p>
6	Shigemitsu Mineoka (October 17, 1951)	<p>Jul. 1977 Joined the Company</p> <p>Mar. 2005 Executive Officer of the Company</p> <p>Mar. 2008 Managing Executive Officer of the Company</p> <p>Mar. 2009 Director and Managing Executive Officer of the Company</p> <p>Jan. 2011 Director and Executive Officer of the Company (present position) Division Director of EC Business Division of the Company</p> <p>Jan. 2012 Deputy in charge of Belle Maison Business Division, in charge of Operation Division of the Company</p> <p>Jan. 2013 Deputy in charge of Belle Maison Business Division, in charge of CS Promotion Section of the Company (present position) President and Representative Director of Senshukai Call Center Co., Ltd. (present position)</p>	<p>(1) 13,000</p> <p>(2) None</p>

No.	Name (Date of birth)	Brief personal profile, positions and responsibilities at the Company and important concurrent occupations or positions at other organizations	(1) No. of the Company's shares held (2) Any conflict of interests between the candidate and the Company
7	Hiroyuki Hoshino (December 10, 1959)	Sep. 1982 Joined the Company Mar. 2006 Executive Officer of the Company Jan. 2008 Division Director of Tokyo Business Division of the Company Mar. 2009 Director and Executive Officer of the Company (present position) Jul. 2009 President and Representative Director of Pet First Co., Ltd. Dec. 2010 President and Representative Director of Mobakore Co., Ltd. Jan. 2011 Division Director of Business Development Division of the Company Jan. 2013 General Manager of Corporate Development Division of the Company (present position)	(1) 4,300 (2) None
8	Tomoko Oishi (November 8, 1954)	Apr. 1977 Joined Yamaha Music Foundation Feb. 1988 Joined Yokohama Women's Association for Communication and Networking Jun. 1997 Joined Japan Association for The Advancement of Working Women Apr. 2001 Professor of Kyoto Gakuen University, Faculty of Business Administration (present position) Mar. 2006 Director of the Company (present position) Apr. 2011 Dean of Kyoto Gakuen University, Faculty of Business Administration (present position)	(1) 0 (2) None
9	Toshikatsu Sano (July 12, 1945)	Jun. 1969 Joined Mitsui Bank (presently, Sumitomo Mitsui Banking Corporation) Jun. 1997 Director and General Manager of Fund and Securities Planning Department of Sakura Bank (presently, Sumitomo Mitsui Banking Corporation) Apr. 2000 Managing Executive Officer and General Manager of Nagoya Branch of Sakura Bank (presently, Sumitomo Mitsui Banking Corporation) Apr. 2001 Managing Executive Officer of Mitsui Mutual Life Insurance Company (presently, MITSUI LIFE INSURANCE COMPANY LIMITED) Jul. 2001 Director and Managing Executive Officer of Mitsui Mutual Life Insurance Company (presently, MITSUI LIFE INSURANCE COMPANY LIMITED) Jun. 2005 President of SMBC Consulting Co., Ltd. Mar. 2008 Director of the Company (present position)	(1) 0 (2) None

Notes:

1. Tomoko Oishi and Toshikatsu Sano are the candidates for External Directors.
2. We believe that Tomoko Oishi will properly perform her duties as External Director concerning working women who are principle customers of the Company, by making the most of her thorough knowledge about labor issues of women, acquired through her long experience as a university professor, as well as her insight and experience although she has not directly taken part in corporate management. We nominated Toshikatsu Sano, who has successively served as Director mainly at financial-related companies, since we want him to reflect his wealth of knowledge, experience, etc. in management.
3. Tomoko Oishi and Toshikatsu Sano are currently External Directors of the Company, and their terms of office as External Directors will reach seven (7) years and five (5) years, respectively at the conclusion of this meeting.
4. The Company has concluded agreements with Tomoko Oishi and Toshikatsu Sano to limit their liabilities for compensation as stipulated in Article 427, Paragraph 1 of the Corporation Act, based on the provisions of the

Articles of Incorporation. If they are reelected, we plan to continue the agreements. The limit of liabilities for compensation under the relevant agreement is the minimum amount stipulated in laws and regulations.

5. The Company has notified Tomoko Oishi as an Independent Director as prescribed by the Financial Instruments Exchange. If she is reelected, we plan to maintain her position as Independent Director.

**Proposal 3: Election of one (1) substitute Audit & Supervisory Board Member**

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

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

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

Name (Date of birth)	Brief personal profile and important concurrent occupations or positions at other organizations	(1) No. of the Company's shares held (2) Any conflict of interests between the candidate and the Company
Kouichi Masui (November 17, 1950)	Mar. 1986 Registered as a certified public accountant Jul. 1986 Registered as a certified tax accountant Jul. 1987 Established Masui Kouichi Office, Representative of the Office (present position) Jan. 1989 Established Mass Management Co., Ltd., President of Mass Management Co., Ltd. (present position)	(1) 0  (2) None

Notes:

1. Kouichi Masui is a candidate for substitute External Audit & Supervisory Board Member.
2. We nominated Kouichi Masui as substitute External Audit & Supervisory Board Member as we expect that he will make the best use of his financial and accounting knowledge he has cultivated through his long experience as a certified public accountant and a certified tax accountant for the audit system of the Company if he takes office as an Audit & Supervisory Board Member.
3. We may cancel this election by a resolution of the Board of Directors after obtaining the consent of the Audit & Supervisory Board, if the cancellation is before he takes office.
4. If Kouichi Masui is elected as proposed and takes his office, we plan to conclude an agreement with him to limit his liability for compensation as stipulated in Article 427, Paragraph 1 of the Corporation Act, based on the provisions of the Articles of Incorporation. The limit of liability for compensation under the relevant agreement is the minimum amount stipulated in laws and regulations.

## **Procedure for Exercising Voting Rights**

### **1. Voting by mail**

Please indicate your approval or disapproval of the proposals on the enclosed voting form and return it to us. All forms must be received by no later than 5:30 p.m., Wednesday, March 27, 2013, the day before the Ordinary General Meeting of Shareholders.

### **2. Voting website**

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

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

### **3. Handling of votes**

- (1) When exercising your voting rights via the Internet, input the “voting right exercise code” and “password” written in the enclosed voting form, and indicate your approval or disapproval by following the on-screen instructions.
- (2) The deadline for voting is 5:30 p.m., Wednesday, March 27, 2013. An early exercise of your vote would be very much appreciated.
- (3) If shareholders duplicate the vote, such as by exercising the voting rights both by mail and via the Internet, we will consider only the Internet vote to be valid. If you vote more than once over the Internet, we will consider the latest vote to be valid.
- (4) Any fees to Internet providers and telecommunication companies (connection fees, etc.) incurred by shareholders in using the dedicated voting website, are to be borne by the shareholders.

### **4. Handling of password and voting right exercise code**

- (1) The password is a means to verify identity of a person who exercises voting rights as the shareholder in question. Be sure to handle your password as carefully as you handle your registered seal and PIN numbers.
- (2) If you repeatedly enter a wrong password for a certain number of times, it will be blocked and disabled. If you wish to have a password reissued, please follow the on-screen instructions for the necessary procedures.
- (3) The voting right exercise code written in the enclosed voting form is valid only for this General Meeting of Shareholders.

## 5. System requirements

- (i) The resolution of your monitor screen must be 800 x 600 pixels (SVGA) or higher.
- (ii) The following applications must be available:
  - (a) For web browser: Microsoft® Internet Explorer Ver. 5.01 SP2 or above
  - (b) For PDF file browser: Adobe® Acrobat® Reader™ Ver. 4.0 or above; Adobe® Reader® Ver. 6.0 or above
- \* Internet Explorer, Adobe® Acrobat® Reader™, and Adobe® Reader® are registered trademarks or trademarks, or product names of Microsoft Corporation and Adobe Systems Incorporated, respectively, used in the United States and other countries.
- \* These software programs are distributed free of charge from the respective companies' websites.
- (iii) If your browser, ad-in tools or such like have a pop-up blocker function, it must be deactivated (or temporarily deactivated), and the setting for privacy protection must also allow use of cookies on this website.
- (iv) If you have any problems with connecting to the website above, Internet communications may have been limited due to the setting of your firewall proxy server, security software or other items. Please check your software settings.

## 6. PC-related technical inquiries, etc.

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

Stock Transfer Agency Web Support, Sumitomo Mitsui Trust Bank, Limited Tel: 0120-652-031 (toll-free and available from 9:00 a.m. to 9:00 p.m., only in Japan)
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- (2) For other inquiries, contact the following:

- (i) Shareholders who have an account at a securities firm  
Contact the securities firm where you have an account.
- (ii) Shareholders who do not have an account at a securities firm (shareholders who have a special account)

Stock Transfer Agency Business Center, Sumitomo Mitsui Trust Bank, Limited Tel: 0120-782-031 (toll-free and available from 9:00 a.m. to 5:00 p.m. except Saturdays, Sundays and national holidays, only in Japan)
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**7. Use of electronic voting platform (for institutional investors)**

Institutional investors may also use the “electronic voting platforms” operated by ICJ Inc. to electronically exercise the voting rights for this General Meeting of Shareholders.