

Summary of Financial Results for the First Quarter of Fiscal Year 2017 (Three Months Ended March 31, 2017)

[Japanese GAAP]

April 28, 2017

Company name: **SENSHUKAI CO.,LTD.**

Stock exchange: Tokyo Stock Exchange, First Section

Stock code: 8165

URL: <http://www.senshukai.co.jp>

Representative: Mr. Hiroyuki Hoshino, President and Representative Director

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Scheduled date of filing of Quarterly Report: May 12, 2017

Scheduled date of payment of dividend: -

Preparation of supplementary materials for quarterly financial results: None

Holding of quarterly financial results meeting: None

(All amounts are rounded down to the nearest millions of yen)

1. Consolidated Financial Results for the 1st Quarter of 2017 (January 1, 2017 – March 31, 2017)

(1) Consolidated operating results (cumulative)

(Percentages represent changes from the same period of the previous fiscal year)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | |
|---------|-----------------|-------|------------------|---|-----------------|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| 1Q 2017 | 28,992 | (5.3) | (1,343) | - | (901) | - | (570) | - |
| 1Q 2016 | 30,599 | (1.6) | (1,716) | - | (1,222) | - | (735) | - |

Note: Comprehensive income (millions of yen) 1Q 2017: (798) (- %) 1Q 2016: (2,790) (- %)

| | Net income per share | Diluted net income per share |
|---------|----------------------|------------------------------|
| | Yen | Yen |
| 1Q 2017 | (10.97) | - |
| 1Q 2016 | (14.09) | - |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|------------------|-----------------|-----------------|--------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| 1Q 2017 | 101,781 | 51,565 | 50.6 | 990.06 |
| Fiscal Year 2016 | 101,959 | 52,572 | 51.5 | 1,009.26 |

Reference: Shareholders' equity (millions of yen) 1Q 2017: 51,509 Fiscal Year 2016: 52,508

2. Dividends

| | Dividend per share | | | | |
|------------------------------|--------------------|--------|--------|----------|-------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal Year 2016 | - | 4.00 | - | 4.00 | 8.00 |
| Fiscal Year 2017 | - | - | - | - | - |
| Fiscal Year 2017 (forecasts) | - | 4.00 | - | 4.00 | 8.00 |

Note: Revision to the most recently announced dividend forecast: None

3. Consolidated Outlook for Fiscal Year 2017 (January 1, 2017 – December 31, 2017)

(Percentages represent changes from the same period of the previous fiscal year)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | | Net income per share |
|----------------------|-----------------|-----|------------------|------|-----------------|-------|---|--------|----------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| 2Q 2017 (cumulative) | 68,900 | 4.6 | 350 | - | 750 | 313.3 | 500 | 208.0 | 9.61 |
| Full Year 2017 | 135,000 | 4.6 | 1,350 | 13.0 | 1,650 | (1.4) | 1,000 | (29.6) | 19.22 |

Note: Revision to the most recently announced consolidated outlook: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: Yes

Note: Please refer to “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements (Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)” on page 8 for further information.

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of shares outstanding (common shares)

1) Number of shares outstanding at the end of the period (including treasury shares)

| | | | |
|----------|-------------------|-------------------|-------------------|
| 1Q 2017: | 52,230,393 shares | Fiscal Year 2016: | 52,230,393 shares |
|----------|-------------------|-------------------|-------------------|

2) Number of treasury shares at the end of the period

| | | | |
|----------|----------------|-------------------|----------------|
| 1Q 2017: | 203,654 shares | Fiscal Year 2016: | 203,527 shares |
|----------|----------------|-------------------|----------------|

3) Average number of shares outstanding during the period

| | | | |
|----------|-------------------|----------|-------------------|
| 1Q 2017: | 52,026,773 shares | 1Q 2016: | 52,207,132 shares |
|----------|-------------------|----------|-------------------|

Note: The Senshukai stock held by the trust that is recorded as treasury shares under shareholders' equity is included in the number of treasury shares at the end of 1Q 2017 and the end of Fiscal Year 2016, and is deducted from the number of shares that is used to calculate the average number of shares outstanding during 1Q 2017.

* This quarterly financial report is not subject to audit procedures.

* Cautionary statement with respect to forward-looking statements

The above projections are based on information available at the time of release of this report. Actual results could differ significantly from these projections due to a variety of factors. For further details regarding the projections, please refer to page 3, “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecasts and Other Forward-looking Statements.”

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first quarter (January 1 to March 31) of 2017, the Japanese economy followed an improvement trend in corporate earnings and the employment situation, against the backdrop of the government's economic and monetary policies. However, the economic outlook became increasingly unclear because of concerns over slowing economic growth overseas and other factors. In Japan's retail industry, market conditions continued to be challenging. Consumers sentiment weakened as they were increasingly budget minded.

The Senshukai Group is currently in the fourth year of the medium- to long-term management plan "Innovate for Smiles 2018" that covers the five-year period ending in 2018. All group companies are focusing their energy on achieving the goals of this plan.

Net sales in the first quarter decreased 5.3% year-over-year to 28,992 million yen. This was mainly because of sluggish sales of apparel since last year.

Operating loss was 1,343 million yen compared with a loss of 1,716 million yen in the same period of 2016. Reduction in selling, general and administrative expenses fell short of offsetting the higher cost to sales ratio.

Ordinary loss was 901 million yen compared with a loss of 1,222 million yen in the same period of 2016. This was mainly due to an increase in share of profit of entities accounted for using equity method. Loss attributable to owners of parent was 570 million yen compared with a loss of 735 million yen in the same period of 2016.

Overview by segment

(Mail-order Business)

Consolidated sales in the mail-order business, centered on the catalog and the Internet businesses, decreased 8.3% year-over-year to 24,196 million yen in the first quarter. There was an operating loss of 1,275 million yen compared with a loss of 1,179 million yen in the same period of 2016.

(Bridal Business)

Consolidated sales in the bridal business, centered on the house wedding business, increased 23.1% year-over-year to 3,533 million yen in the first quarter. There was an operating loss of 178 million yen compared with a loss of 672 million yen in the same period of 2016.

(Corporates Business)

Consolidated sales in the corporates business, which provides products and services to corporations, decreased 11.0% year-over-year to 1,021 million yen in the first quarter, and operating income decreased 16.8% to 133 million yen.

(Others)

Consolidated sales in other businesses, which provides services business (primarily insurance and credit card services) and a childcare business, increased 26.3% year-over-year to 240 million yen in the first quarter. Operating loss was 22 million yen compared with a loss of 25 million yen in the same period of 2016.

(2) Explanation of Financial Position

(Balance sheet position)

Assets totaled 101,781 million yen at the end of the first quarter of 2017, a decrease of 178 million yen from the end of 2016.

Current assets decreased 17 million yen to 52,600 million yen. The main factors were decreases of 1,429 million yen in accounts receivable-other and 1,308 million yen in cash and deposits, while there were increases of 1,171 million yen in merchandise and finished goods, 844 million yen in other, and 699 million yen in notes and accounts receivable-trade. Non-current assets decreased 161 million yen to 49,180 million yen. The factors include decreases of 293 million yen in property, plant and equipment, and 23 million yen in intangible assets, while there was an increase of 155 million yen in investments and other assets.

Current liabilities decreased 633 million yen to 28,665 million yen. The main factors were decreases of 727 million yen in electronically recorded obligations-operating, 488 million yen in other, and 288 million yen in income taxes payable, while there was an increase of 881 million yen in accounts payable-trade. Non-current liabilities increased 1,461 million yen to 21,550 million yen. The main factor was an increase of 1,620 million yen in long-term loans payable, while there was a decrease of 159 million yen in other.

Net assets decreased 1,006 million yen to 51,565 million yen. The main factors were decreases of 778 million yen in retained earnings and 163 million yen in deferred gains or losses on hedges. Consequently, the equity ratio was 50.6%.

(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements

Senshukai currently maintains its consolidated forecasts for 2017 that was released on February 2, 2017.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

(Millions of yen)

| | Fiscal Year 2016 (As of Dec. 31, 2016) | 1Q 2017 (As of Mar. 31, 2017) |
|-------------------------------------|---|----------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 16,605 | 15,296 |
| Notes and accounts receivable-trade | 3,889 | 4,588 |
| Merchandise and finished goods | 20,580 | 21,752 |
| Accounts receivable-other | 7,818 | 6,388 |
| Other | 3,877 | 4,721 |
| Allowance for doubtful accounts | (152) | (147) |
| Total current assets | 52,618 | 52,600 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 16,128 | 15,874 |
| Land | 11,310 | 11,310 |
| Other, net | 2,112 | 2,072 |
| Total property, plant and equipment | 29,551 | 29,258 |
| Intangible assets | | |
| Goodwill | 2,027 | 1,973 |
| Other | 2,120 | 2,150 |
| Total intangible assets | 4,147 | 4,124 |
| Investments and other assets | | |
| Investment securities | 8,651 | 9,151 |
| Other | 7,256 | 6,912 |
| Allowance for doubtful accounts | (266) | (266) |
| Total investments and other assets | 15,642 | 15,797 |
| Total non-current assets | 49,341 | 49,180 |
| Total assets | 101,959 | 101,781 |

| | (Millions of yen) | |
|---|---|----------------------------------|
| | Fiscal Year 2016 (As of Dec. 31, 2016) | 1Q 2017 (As of Mar. 31, 2017) |
| Liabilities | | |
| Current liabilities | | |
| Electronically recorded obligations-operating | 10,365 | 9,637 |
| Accounts payable-trade | 5,840 | 6,722 |
| Short-term loans payable | 1,546 | 1,479 |
| Income taxes payable | 387 | 99 |
| Provision for sales promotion expenses | 437 | 492 |
| Other | 10,721 | 10,233 |
| Total current liabilities | 29,298 | 28,665 |
| Non-current liabilities | | |
| Bonds with subscription rights to shares | 7,000 | 7,000 |
| Long-term loans payable | 9,300 | 10,920 |
| Net defined benefit liability | 98 | 101 |
| Provision for management board incentive plan trust | 9 | 7 |
| Other | 3,680 | 3,520 |
| Total non-current liabilities | 20,088 | 21,550 |
| Total liabilities | 49,387 | 50,215 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 22,304 | 22,304 |
| Capital surplus | 23,860 | 23,860 |
| Retained earnings | 12,385 | 11,606 |
| Treasury shares | (151) | (151) |
| Total shareholders' equity | 58,399 | 57,620 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,271 | 1,179 |
| Deferred gains or losses on hedges | (11) | (175) |
| Revaluation reserve for land | (6,983) | (6,983) |
| Foreign currency translation adjustment | (143) | (107) |
| Remeasurements of defined benefit plans | (23) | (23) |
| Total accumulated other comprehensive income | (5,890) | (6,110) |
| Non-controlling interests | 64 | 56 |
| Total net assets | 52,572 | 51,565 |
| Total liabilities and net assets | 101,959 | 101,781 |

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income**(Quarterly Consolidated Statement of Income)****(For the Three-month Period)**

(Millions of yen)

| | 1Q 2016 (Jan. 1, 2016 – Mar. 31, 2016) | 1Q 2017 (Jan. 1, 2017 – Mar. 31, 2017) |
|---|---|---|
| Net sales | 30,599 | 28,992 |
| Cost of sales | 16,566 | 15,922 |
| Gross profit | 14,033 | 13,070 |
| Selling, general and administrative expenses | 15,750 | 14,413 |
| Operating loss | (1,716) | (1,343) |
| Non-operating income | | |
| Interest income | 7 | 6 |
| Dividend income | 5 | 5 |
| Share of profit of entities accounted for using equity method | 416 | 428 |
| Gain on adjustment of account payable | 88 | 65 |
| Other | 51 | 28 |
| Total non-operating income | 568 | 534 |
| Non-operating expenses | | |
| Interest expenses | 44 | 38 |
| Commission fee | 1 | 25 |
| Other | 28 | 28 |
| Total non-operating expenses | 74 | 92 |
| Ordinary loss | (1,222) | (901) |
| Extraordinary income | | |
| Subsidy income | - | 18 |
| Total extraordinary income | - | 18 |
| Extraordinary losses | | |
| Loss on sales and retirement of non-current assets | 0 | 3 |
| Loss on reduction of non-current assets | - | 18 |
| Impairment loss | - | 10 |
| Total extraordinary losses | 0 | 32 |
| Loss before income taxes | (1,223) | (915) |
| Income taxes | (496) | (336) |
| Loss | (726) | (578) |
| Profit (loss) attributable to non-controlling interests | 9 | (7) |
| Loss attributable to owners of parent | (735) | (570) |

(Quarterly Consolidated Statement of Comprehensive Income)**(For the Three-month Period)**

(Millions of yen)

| | 1Q 2016 (Jan. 1, 2016 – Mar. 31, 2016) | 1Q 2017 (Jan. 1, 2017 – Mar. 31, 2017) |
|--|---|---|
| Loss | (726) | (578) |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (245) | (96) |
| Deferred gains or losses on hedges | (1,771) | (304) |
| Revaluation reserve for land | 18 | - |
| Foreign currency translation adjustment | (25) | (9) |
| Share of other comprehensive income of entities accounted for using equity method | (39) | 190 |
| Total other comprehensive income | (2,063) | (220) |
| Comprehensive income | (2,790) | (798) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | (2,799) | (790) |
| Comprehensive income attributable to non-controlling interests | 9 | (7) |

(3) Notes to Quarterly Consolidated Financial Statements**(Going Concern Assumption)**

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)

(Calculation of tax expense)

The tax expenses are calculated by first reasonably estimating the effective tax rate after the application of tax effect accounting with respect to profit before income taxes for the fiscal year in which the quarter under review falls, and multiplying that rate by the profit before income taxes for the quarter under review. However, the Company uses legally stipulated effective tax rates to calculate tax expenses for cases in which using estimated tax rates gives a noticeably irrational result.

(Segment and Other Information)

I 1Q 2016 (Jan. 1, 2016 – Mar. 31, 2016)

1. Information related to sales and profit or loss for each reportable segment

(Millions of yen)

| | Reportable segment | | | | Others (Note 1) | Total | Adjustment (Note 2) | Amounts shown on quarterly consolidated statement of income (Note 3) |
|-------------------------------------|------------------------|--------------------|------------------------|-----------|--------------------|---------|------------------------|---|
| | Mail-order business | Bridal business | Corporates business | Sub-total | | | | |
| Net sales | | | | | | | | |
| Sales to customers | 26,391 | 2,869 | 1,147 | 30,409 | 190 | 30,599 | - | 30,599 |
| Inter-segment sales or transfers | 190 | - | 29 | 220 | 0 | 220 | (220) | - |
| Total | 26,581 | 2,869 | 1,177 | 30,629 | 190 | 30,819 | (220) | 30,599 |
| Segment profit (loss) | (1,179) | (672) | 159 | (1,691) | (25) | (1,716) | 0 | (1,716) |

Notes: 1. Others represent the businesses which are not included in any of the three reportable segments and consist of the services business primarily offering insurance and credit card services, and childcare business.

2. The 0 million yen adjustment to segment profit (loss) comprises elimination for inter-segment transactions.

3. Segment profit (loss) is adjusted to be consistent with operating loss shown on the quarterly consolidated statement of income.

2. Information related to impairment of non-current assets, goodwill, etc. for each reportable segment

No major events or changes occurred.

II 1Q 2017 (Jan. 1, 2017 – Mar. 31, 2017)

1. Information related to sales and profit or loss for each reportable segment

(Millions of yen)

| | Reportable segment | | | | Others (Note 1) | Total | Adjustment (Note 2) | Amounts shown on quarterly consolidated statement of income (Note 3) |
|-------------------------------------|------------------------|--------------------|------------------------|-----------|--------------------|---------|------------------------|---|
| | Mail-order business | Bridal business | Corporates business | Sub-total | | | | |
| Net sales | | | | | | | | |
| Sales to customers | 24,196 | 3,533 | 1,021 | 28,751 | 240 | 28,992 | - | 28,992 |
| Inter-segment sales or transfers | 217 | 0 | 37 | 254 | 0 | 254 | (254) | - |
| Total | 24,413 | 3,533 | 1,058 | 29,006 | 240 | 29,247 | (254) | 28,992 |
| Segment profit (loss) | (1,275) | (178) | 133 | (1,320) | (22) | (1,343) | 0 | (1,343) |

Notes: 1. Others represent the businesses which are not included in any of the three reportable segments and consist of the services business primarily offering insurance and credit card services, and childcare business.

2. The 0 million yen adjustment to segment profit (loss) comprises elimination for inter-segment transactions.

3. Segment profit (loss) is adjusted to be consistent with operating loss shown on the quarterly consolidated statement of income.

2. Information related to impairment of non-current assets, goodwill, etc. for each reportable segment

No major events or changes occurred.

(Subsequent Events)

On April 21, 2017, Senshukai has conducted partial early redemption of the Japanese Yen Convertible Notes with Stock Acquisition Rights Maturing in 2019, which were issued on April 23, 2014.

| | |
|-------------------------------------|--|
| 1. Notes for early redemption | SENSHUKAI CO.,LTD. Japanese Yen Convertible Notes with Stock Acquisition Rights Maturing in 2019 |
| 2. Date of early redemption | April 21, 2017 (Swiss time) |
| 3. Total amount of early redemption | 2,000 million yen |
| 4. Amount of early redemption | 100% of the principal amount of the notes |
| 5. Reason for early redemption | Request by holders of the notes for early redemption in accordance with the provisions of the Terms and Conditions of Issuance |
| 6. Conversion price | 1,048 yen |
| 7. Impact on financial results | No effect on Senshukai's financial results. |
| 8. Source of funds for redemption | Own funds |

** This financial report is solely a translation of summary of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*