

# Summary of Financial Results for the Second Quarter of Fiscal Year 2018 (Six Months Ended June 30, 2018)

[Japanese GAAP]

July 26, 2018

Company name: **SENSHUKAI CO.,LTD.** Stock exchange: Tokyo Stock Exchange, First Section  
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Scheduled date of filing of Quarterly Report: August 9, 2018

Scheduled date of payment of dividend: -

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

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

## 1. Consolidated Financial Results for the 2nd Quarter of 2018 (January 1, 2018 – June 30, 2018)

### (1) Consolidated operating results (cumulative)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2Q 2018	57,199	(9.5)	(1,138)	-	(993)	-	(1,153)	-
2Q 2017	63,186	(4.1)	(1,248)	-	(849)	-	(6,208)	-

Note: Comprehensive income (millions of yen) 2Q 2018: (1,588) (-%) 2Q 2017: (6,213) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
2Q 2018	(25.08)	-
2Q 2017	(119.34)	-

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
2Q 2018	81,549	40,175	49.2	822.34
Fiscal Year 2017	90,441	41,548	45.9	797.13

Reference: Shareholders' equity (millions of yen) 2Q 2018: 40,099 Fiscal Year 2017: 41,473

## 2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2017	-	0.00	-	0.00	0.00
Fiscal Year 2018	-	0.00	-	-	-
Fiscal Year 2018 (forecasts)	-	-	-	-	-

Notes: 1. Revision to the most recently announced dividend forecast: None

2. Dividend forecast for the Fiscal Year 2018 has not been determined at this time.

3. The dividend figures above show dividends for common shares. Please refer to "Dividends of classified stock" (after-mentioned) for information on dividends for shares whose rights are different from those of the Senshukai common shares.

## 3. Consolidated Outlook for Fiscal Year 2018 (January 1, 2018 – December 31, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full Year 2018	119,000	(5.6)	300	-	400	-	200	-	1.09

Note: Revision to the most recently announced consolidated outlook: Yes

For more information, please refer to "Notice of Revisions to Consolidated Outlook" (Japanese version only) that was announced today (July 26, 2018).

**\* 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, (4) Notes to Quarterly Consolidated Financial Statements (Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)” on page 9 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)

2Q 2018:	52,230,393 shares	Fiscal Year 2017:	52,230,393 shares
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2) Number of treasury shares at the end of the period

2Q 2018:	12,042,598 shares	Fiscal Year 2017:	201,588 shares
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3) Average number of shares outstanding during the period

2Q 2018:	48,038,135 shares	2Q 2017:	52,027,261 shares
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Note: The Senshukai shares held by the trust that is recorded as treasury shares under shareholders' equity is included in the number of treasury shares, and is deducted from the number of shares that is used to calculate the average number of shares outstanding.

\* This quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

\* Cautionary statement with respect to forward-looking statements

Cautionary statement with respect to forecasts

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.”

How to view supplementary information at the financial results meeting

Senshukai plans to hold a financial results meeting for institutional investors and analysts on July 27, 2018. Materials to be distributed at the meeting will be disclosed, using the Timely Disclosure network (TDnet), and available on the Senshukai's website.

(Reference) Dividends of classified stock

Breakdown of dividend per share for classified stock whose rights are different from those of common shares are shown below.

Class A preferred stock	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2017	-	-	-	-	-
Fiscal Year 2018	-	15,178,083.00-			
Fiscal Year 2018 (forecasts)			-	15,178,083.00	30,356,166.00

Note: Five shares of the Class A preferred stock were issued on March 30, 2018.

Class B preferred stock	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2017	-	-	-	-	-
Fiscal Year 2018	-	-			
Fiscal Year 2018 (forecasts)			-	-	-

Notes: 1. Nine shares of Class B preferred stock were issued on March 30, 2018.

2. There are no dividends for Class B preferred stock even when there is a dividend of surplus.

## Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Notes	4
(1) Quarterly Consolidated Balance Sheet	4
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	6
Quarterly Consolidated Statement of Income	
(For the Six-month Period)	6
Quarterly Consolidated Statement of Comprehensive Income	
(For the Six-month Period)	7
(3) Quarterly Consolidated Statement of Cash Flows	8
(4) Notes to Quarterly Consolidated Financial Statements	9
(Going Concern Assumption)	9
(Significant Changes in Shareholders' Equity)	9
(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)	9
(Segment Information)	9
3. Other	10
Important Information about Going Concern Assumption	10

## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Explanation of Results of Operations

In the cumulative second quarter (January 1 to June 30) of 2018, the Japanese economy recovered slowly with the support of improvements in the employment situation, personal income and corporate earnings. However, the outlook remains uncertain in part because of concerns about how increasing trade friction will affect the global economy.

In Japan's retail industry, consumer sentiment is weak as people continue to be budget-minded and to seek low prices. In addition, the market for used merchandise is growing, including the C-to-C sector of this market. As a result, there is increasingly heated competition in the retail industry that includes competition with companies in other industries.

Net sales in the cumulative second quarter decreased 9.5% year-over-year to 57,199 million yen because sales in the mail-order business have been sluggish.

There was an operating loss of 1,138 million yen compared with a loss of 1,248 million yen in the same period of 2017. There were measures to lower all categories of selling, general and administrative expenses, but the cost of sales ratio increased due to a decrease in the gross profit caused by lower sales and to sales of merchandise at reduced prices. There was an ordinary loss of 993 million yen compared with a loss of 849 million yen in the same period of 2017. The loss attributable to owners of parent was 1,153 million yen compared with a loss of 6,208 million yen in the same period of 2017.

#### Overview by segment

##### (Mail-order Business)

Consolidated sales in the mail-order business, centered on the catalog and the Internet businesses, decreased 14.1% year-over-year to 44,779 million yen in the cumulative second quarter. There was an operating loss of 1,626 million yen compared with a loss of 1,610 million yen in the same period of 2017.

##### (Bridal Business)

Consolidated sales in the bridal business, centered on the house wedding business, increased 8.3% year-over-year to 8,880 million yen. Operating profit increased 138.0% year-over-year to 312 million yen.

##### (Corporates Business)

Consolidated sales in the corporates business, which provides products and services to corporations, increased 8.5% year-over-year to 2,463 million yen, and operating profit decreased 26.1% year-over-year to 164 million yen.

##### (Others)

Consolidated sales in other businesses, which consist of services (primarily childcare support, insurance and credit card services), increased 88.8% year-over-year to 1,075 million yen because of the July 2017 acquisition of Huit Laboratories, Inc. which manufactures and sells cosmetics. Operating profit increased 40.4% year-over-year to 10 million yen.

**(2) Explanation of Financial Position**

(Balance sheet position)

Assets totaled 81,549 million yen at the end of the second quarter of 2018, a decrease of 8,891 million yen from the end of 2017.

Current assets decreased 8,071 million yen to 40,782 million yen. The main factors were decreases of 3,923 million yen in cash and deposits, 1,780 million yen in accounts receivable-other and 1,211 million yen in merchandise and finished goods. Non-current assets decreased 819 million yen to 40,766 million yen. The factors include decreases of 330 million yen in property, plant and equipment, 36 million yen in intangible assets, and 452 million yen in investments and other assets.

Current liabilities decreased 1,654 million yen to 28,412 million yen. The main factors were decreases of 3,624 million yen in other, 1,629 million yen in accounts payable-trade, and 1,296 million yen in electronically recorded obligations-operating, while there was an increase of 5,000 million yen in current portion of bonds with share acquisition rights. Non-current liabilities decreased 5,863 million yen to 12,962 million yen. The main factor was a decrease of 5,000 million yen in bonds with share acquisition rights.

Net assets decreased 1,373 million yen to 40,175 million yen. The main factors was an increase of 6,784 million yen in treasury shares as a result of the share repurchase through off-auction own share repurchase trading system (ToSTNeT-3), while there was an increase of 5,995 million yen in retained earnings. Capital stock and legal capital surplus increased by 3,500 million yen each because of the March 2018 sale of newly issued preferred stock through a third-party allotment to Regional Economy Vitalization Corporation of Japan (REVIC), which is managed by REVIC Partners Co., Ltd. as the unlimited liability partner. Based on the Article 447, Clause 1 and Article 448, Clause 1 of the Companies Act, Senshukai reduced capital stock and legal capital surplus by 3,500 million yen each, and transferred these amount to other capital surplus on April 2018. Furthermore, in accordance with the provisions of Article 452 of the Companies Act, to eliminate the retained earnings deficit, the capital surplus decreased by 7,071 million yen and retained earnings were increased by the same amount. As a result, the equity ratio was 49.2%.

(Cash flow position)

The balance of cash and cash equivalents at the end of the second quarter of 2018 was 13,400 million yen, a decrease of 3,923 million yen from the end of 2017.

Operating activities used net cash of 3,322 million yen (net cash provided of 1,296 million yen in the same period of 2017). The main cash inflows were a decrease in other current assets of 2,037 million yen and a decrease in inventories of 1,207 million yen. The main cash outflows include a decrease in notes and accounts payable-trade of 2,728 million yen, a decrease in other current liabilities of 1,972 million yen and payments for business structure reform expenses of 1,902 million yen.

Investing activities used net cash of 29 million yen (net cash used of 761 million yen in the same period of 2017). The main cash inflows include other proceeds of 474 million yen. The main cash outflows include 582 million yen for the purchase of property, plant and equipment.

Financing activities used net cash of 493 million yen (net cash used of 387 million yen in the same period of 2017). The main cash inflows include the proceeds from issuance of common shares of 6,975 million yen. The main cash outflows were 6,784 million yen for the purchase of treasury shares and 616 million yen for the repayments of long-term loans payable.

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

Senshukai has revised its consolidated outlook that was released on February 8, 2018. For more information, please refer to “Notice of Revisions to Consolidated Outlook” (Japanese version only) that was announced today (July 26, 2018).

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

(Millions of yen)

	Fiscal Year 2017 (As of Dec. 31, 2017)	2Q 2018 (As of Jun. 30, 2018)
Assets		
Current assets		
Cash and deposits	17,328	13,404
Notes and accounts receivable-trade	5,481	4,821
Merchandise and finished goods	16,561	15,350
Accounts receivable-other	7,216	5,436
Other	2,413	1,902
Allowance for doubtful accounts	(147)	(131)
Total current assets	48,854	40,782
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,716	13,296
Land	10,451	10,338
Other, net	848	1,050
Total property, plant and equipment	25,016	24,686
Intangible assets		
Goodwill	1,992	1,864
Other	715	807
Total intangible assets	2,708	2,672
Investments and other assets		
Investment securities	7,630	7,393
Other	6,497	6,234
Allowance for doubtful accounts	(265)	(218)
Total investments and other assets	13,861	13,408
Total non-current assets	41,586	40,766
Total assets	90,441	81,549

	(Millions of yen)	
	Fiscal Year 2017 (As of Dec. 31, 2017)	2Q 2018 (As of Jun. 30, 2018)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Electronically recorded obligations-operating	9,406	8,109
Accounts payable-trade	6,123	4,493
Short-term loans payable	1,416	1,494
Current portion of bonds with share acquisition rights	-	5,000
Income taxes payable	222	243
Provision for sales promotion expenses	408	349
Provision for bonuses	581	437
Other	11,907	8,283
<b>Total current liabilities</b>	<b>30,066</b>	<b>28,412</b>
<b>Non-current liabilities</b>		
Bonds with share acquisition rights	5,000	-
Long-term loans payable	10,613	9,909
Net defined benefit liability	81	88
Provision for management board incentive plan trust	7	7
Other	3,124	2,957
<b>Total non-current liabilities</b>	<b>18,826</b>	<b>12,962</b>
<b>Total liabilities</b>	<b>48,892</b>	<b>41,374</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	22,304	22,304
Capital surplus	23,860	23,788
Retained earnings	(4,859)	1,135
Treasury shares	(149)	(6,934)
<b>Total shareholders' equity</b>	<b>41,155</b>	<b>40,294</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	1,216	1,031
Deferred gains or losses on hedges	219	19
Revaluation reserve for land	(1,056)	(1,134)
Foreign currency translation adjustment	(40)	(62)
Remeasurements of defined benefit plans	(19)	(49)
<b>Total accumulated other comprehensive income</b>	<b>318</b>	<b>(195)</b>
<b>Non-controlling interests</b>	<b>74</b>	<b>76</b>
<b>Total net assets</b>	<b>41,548</b>	<b>40,175</b>
<b>Total liabilities and net assets</b>	<b>90,441</b>	<b>81,549</b>

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

(Millions of yen)

	2Q 2017 (Jan. 1, 2017 – Jun. 30, 2017)	2Q 2018 (Jan. 1, 2018 – Jun. 30, 2018)
Net sales	63,186	57,199
Cost of sales	34,212	31,357
Gross profit	28,973	25,842
Selling, general and administrative expenses	30,222	26,981
Operating loss	(1,248)	(1,138)
Non-operating income		
Interest income	12	15
Dividend income	70	41
Share of profit of entities accounted for using equity method	249	144
Gain on adjustment of account payable	145	130
Other	65	215
Total non-operating income	543	547
Non-operating expenses		
Interest expenses	77	76
Commission fee	31	265
Other	35	59
Total non-operating expenses	143	401
Ordinary loss	(849)	(993)
Extraordinary income		
Gain on sales of non-current assets	-	0
Gain on sales of investment securities	290	171
Subsidy income	210	46
Total extraordinary income	500	218
Extraordinary losses		
Loss on sales and retirement of non-current assets	6	0
Loss on reduction of non-current assets	198	46
Impairment loss	4,442	157
Other	-	27
Total extraordinary losses	4,647	231
Loss before income taxes	(4,997)	(1,006)
Income taxes	1,217	145
Loss	(6,214)	(1,152)
Profit (loss) attributable to non-controlling interests	(5)	1
Loss attributable to owners of parent	(6,208)	(1,153)

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

(Millions of yen)

	2Q 2017 (Jan. 1, 2017 – Jun. 30, 2017)	2Q 2018 (Jan. 1, 2018 – Jun. 30, 2018)
Loss	(6,214)	(1,152)
Other comprehensive income		
Valuation difference on available-for-sale securities	20	(184)
Deferred gains or losses on hedges	(273)	(182)
Foreign currency translation adjustment	(8)	(9)
Share of other comprehensive income of entities accounted for using equity method	261	(59)
Total other comprehensive income	0	(436)
Comprehensive income	(6,213)	(1,588)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(6,208)	(1,589)
Comprehensive income attributable to non-controlling interests	(5)	1

**(3) Quarterly Consolidated Statement of Cash Flows**

(Millions of yen)

	2Q 2017 (Jan. 1, 2017 – Jun. 30, 2017)	2Q 2018 (Jan. 1, 2018 – Jun. 30, 2018)
Cash flows from operating activities		
Loss before income taxes	(4,997)	(1,006)
Depreciation	1,245	899
Impairment loss	4,442	157
Increase (decrease) in allowance for doubtful accounts	(15)	(62)
Increase (decrease) in provision for bonuses	-	(144)
Increase (decrease) in provision for sales promotion expenses	19	(58)
Interest and dividend income	(83)	(56)
Interest expenses	77	76
Share of (profit) loss of entities accounted for using equity method	(249)	(144)
Loss (gain) on sales and retirement of non-current assets	6	0
Loss on reduction of non-current assets	198	46
Loss (gain) on sales of investment securities	(290)	(171)
Subsidy income	(210)	(46)
Decrease (increase) in notes and accounts receivable-trade	(250)	657
Decrease (increase) in inventories	1,621	1,207
Decrease (increase) in other current assets	2,827	2,037
Increase (decrease) in notes and accounts payable-trade	(1,224)	(2,728)
Increase (decrease) in other current liabilities	(1,467)	(1,972)
Other, net	(53)	(20)
Subtotal	1,597	(1,331)
Interest and dividend income received	100	73
Interest expenses paid	(77)	(73)
Income taxes paid	(323)	(88)
Payments for business structure reform expenses	-	(1,902)
Net cash provided by (used in) operating activities	1,296	(3,322)
Cash flows from investing activities		
Purchase of property, plant and equipment	(505)	(582)
Proceeds from sales of property, plant and equipment	-	0
Purchase of intangible assets	(456)	(191)
Proceeds from subsidy income	210	46
Purchase of investment securities	(100)	(98)
Proceeds from sales of investment securities	765	321
Other, net	(674)	474
Net cash provided by (used in) investing activities	(761)	(29)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	40	(10)
Proceeds from long-term loans payable	2,800	-
Repayments of long-term loans payable	(956)	(616)
Payment for redemption of bonds with share acquisition rights	(2,000)	-
Proceeds from issuance of common shares	-	6,975
Purchase of treasury shares	-	(6,784)
Cash dividends paid	(208)	(1)
Other, net	(61)	(56)
Net cash provided by (used in) financing activities	(387)	(493)
Effect of exchange rate change on cash and cash equivalents	(5)	(78)
Net increase (decrease) in cash and cash equivalents	143	(3,923)
Cash and cash equivalents at beginning of period	16,600	17,323
Cash and cash equivalents at end of period	16,743	13,400

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

Not applicable.

**(Significant Changes in Shareholders' Equity)**

At the annual general meeting of shareholders on March 29, 2018, shareholders approved a resolution to eliminate the retained earnings deficit. This was accomplished by first reducing the legal capital surplus by 14,809 million yen and transferring this amount to other capital surplus, in accordance with Article 448, Clause 1 of the Companies Act. Next, in accordance with Article 452 of the Companies Act, other capital surplus was decreased by 7,071 million yen and this amount was transferred to retained earnings brought forward. This process decreased the capital surplus by 7,071 million yen and increased the retained earnings by 7,071 million yen in the cumulative second quarter of 2018.

At the same meeting, shareholders approved a resolution to issue preferred stock (Class A and Class B) for sale through a third-party allotment and transfer the amount credited to capital stock and capital surplus for these preferred stock to other capital surplus. Senshukai subsequently issued five shares of Class A preferred stock and nine shares of Class B preferred stock with a payment date of March 30, 2018. The issuance of this preferred stock resulted in increases of 3,500 million yen each in capital stock and legal capital surplus. Based on Article 447, Clause 1 and Article 448, Clause 1 of the Companies Act, Senshukai then reduced capital stock and legal capital surplus by 3,500 million yen each and transferred these amounts to other capital surplus on April 13, 2018. Consequently, the capital surplus increased 7,000 million yen in the cumulative second quarter of 2018.

On April 27, 2018, the Board of Directors approved a resolution to terminate the equity and business alliance with J.FRONT RETAILING Co., Ltd. and to purchase treasury shares in accordance with Article 156 of the Companies Act as applied based on Article 165, Clause 3 of this act. Based on this authorization, Senshukai repurchased 11,840,800 shares of its stock on May 1, 2018, resulting in an increase of 6,784 million yen in treasury shares during the cumulative second quarter of 2018. The result of all these measures was capital stock of 22,304 million yen, legal capital surplus of 23,788 million yen, retained earnings of 1,135 million yen and treasury shares of 6,934 million yen at the end of the second quarter of 2018.

**(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, Senshukai uses legally stipulated effective tax rates to calculate tax expenses for cases in which using estimated tax rates gives a noticeably irrational result.

**(Segment Information)**

I 2Q 2017 (Jan. 1, 2017 – Jun. 30, 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	52,145	8,201	2,270	62,616	569	63,186	-	63,186
Inter-segment sales or transfers	475	0	61	537	16	554	(554)	-
Total	52,620	8,202	2,331	63,154	586	63,740	(554)	63,186
Segment profit (loss)	(1,610)	131	222	(1,256)	7	(1,249)	0	(1,248)

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

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

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

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

In the mail-order business, an asset impairment loss was recorded to write down the book value of some assets to the amount that can be recovered in order because the performance of this segment has been well below the plan. This impairment loss was 4,441 million yen in 2Q 2017.

II 2Q 2018 (Jan. 1, 2018 – Jun. 30, 2018)

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	44,779	8,880	2,463	56,124	1,075	57,199	-	57,199
Inter-segment sales or transfers	462	0	87	550	34	584	(584)	-
Total	45,241	8,880	2,551	56,674	1,109	57,783	(584)	57,199
Segment profit (loss)	(1,626)	312	164	(1,148)	10	(1,138)	0	(1,138)

Notes: 1. Others represent the businesses which are not included in any of the three reportable segments and consist of the childcare support business, services business and manufacturing and sales of cosmetics.

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

3. Segment profit (loss) is adjusted to be consistent with the operating loss 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.

### 3. Other

#### Important Information about Going Concern Assumption

In 2017, the Senshukai Group had an operating loss of 4,287 million yen and a loss attributable to owners of parent of 11,090 million yen. This performance creates significant doubts about the going concern assumption. To eliminate these doubts and quickly improve results of operations, Senshukai has implemented a medium-term management plan for 2018 to 2020, which was announced on October 27, 2017. In addition, there were structural reforms during 2017 that included a voluntary retirement program and adjusting the size of core subsidiaries in order to streamline business operations. There will be even more activities to restore profitability and build a stronger foundation for business operations. One goal is improving mail-order business profitability by downsizing unprofitable product categories. We are also reexamining the procurement strategy, implementing timely discounts and taking other steps to increase the gross profit margin. In addition, we are working on lowering catalog and sales promotion expenses and using these expenditures more efficiently. To do this, we are conducting a complete reexamination of our strategies for distributing catalogs and for price discounts and points awarded for purchases.

There are no significant concerns at this time about cash flows because cash and deposits were 13,404 million yen in the cumulative second quarter and working capital is sufficient to support business operations for the time being.

For these reasons, we believe there are no significant uncertainties regarding the going concern assumption.

\* 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.