Summary of Financial Results for the Third Quarter of Fiscal Year 2018
(Nine Months Ended September 30, 2018)

[Japanese GAAP]

October 26, 2018

Company name: **SENSHUKAI CO.,LTD.** Stock exchange: Tokyo Stock Exchange, First Section
Stock code: 8165 URL: https://www.senshukai.co.jp
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Scheduled date of filing of Quarterly Report: November 13, 2018
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 3rd Quarter of 2018 (January 1, 2018 – September 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	%
3Q 2018	81,025	(10.3)	(4,476)	-	(4,232)	-	(4,623)	-
3Q 2017	90,330	(2.9)	(2,777)	-	(2,254)	-	(7,786)	-

Note: Comprehensive income (millions of yen) 3Q 2018: (4,896) (-%) 3Q 2017: (7,771) (- %)

	Net income per share	Diluted net income per share
	Yen	Yen
3Q 2018	(101.85)	-
3Q 2017	(149.66)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
3Q 2018	76,680	36,791	47.9	738.02
Fiscal Year 2017	90,441	41,548	45.9	797.13

Reference: Shareholders' equity (millions of yen) 3Q 2018: 36,709 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)				0.00	0.00

Notes: 1. Revision to the most recently announced dividend forecast: Yes
For more information, please refer to "Notice of Revisions to Medium-term Management Plan, Start of Voluntary Retirement Program, and Revisions to Consolidated Outlook and Dividend Forecast (Dividend Suspension)" (Japanese version only) that was announced today (October 26, 2018).
2. 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	112,500	(10.7)	(7,000)–(6,000)	-	(7,500)–(6,000)	-	(10,300)–(9,000)	-	(233.66)–(204.17)

Notes: 1. Revision to the most recently announced consolidated outlook: Yes
For more information, please refer to "Notice of Revisions to Medium-term Management Plan, Start of Voluntary Retirement Program, and Revisions to Consolidated Outlook and Dividend Forecast (Dividend Suspension)" (Japanese version only) that was announced today (October 26, 2018).
2. Figures for the consolidated outlook for fiscal year 2018 are presented in the form of a range.

*** 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)

3Q 2018:	52,230,393 shares	Fiscal Year 2017:	52,230,393 shares

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

3Q 2018:	12,042,745 shares	Fiscal Year 2017:	201,588 shares

3) Average number of shares outstanding during the period

3Q 2018:	45,392,565 shares	3Q 2017:	52,027,864 shares

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

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.”

(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)				-	-

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

(Reference) Breakdown of dividends paid from the capital surplus

Of the 2Q-end dividends for the fiscal year 2018, breakdown of dividends paid from the capital surplus are shown below.

Record date	2Q-end
Dividend per share (Yen)	15,178,083.00
Total dividends (Millions of yen)	75

Note: Reduction rate in net assets due to the dividends paid from net assets is 0.002.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the cumulative third quarter (January 1 to September 30) of 2018, the Japanese economy recovered slowly with the support of improvements in corporate earnings, employment situation and other economic indicators. However, the outlook remains uncertain in part because of concerns about how trade friction, which started with a shift in U.S. trade policies, and volatility in financial markets will affect the Japanese economy.

In Japan's retail industry, the operating environment continued to be challenging. One reason is that people are very budget-minded. In addition, unusual weather had a negative impact on consumer sentiment. There was record-setting heat in July along with heavy rain and other natural disasters. This was followed by powerful typhoons in August and September.

Net sales in the cumulative third quarter decreased 10.3% year-over-year to 81,025 million yen because sales in the mail-order business have been sluggish.

There was an operating loss of 4,476 million yen compared with a loss of 2,777 million yen in the same period of 2017. This loss was attributable to a decrease in the gross profit due to lower sales and to higher cost of sales ratio due to an increase in valuation losses on goods. There was a big reduction in inventories during the cumulative third quarter in order to reduce the volume of merchandise as the size of the mail-order business is adjusted to the proper level for current market conditions. There was an ordinary loss of 4,232 million yen compared with a loss of 2,254 million yen in the same period of 2017. The loss attributable to owners of parent was 4,623 million yen compared with a loss of 7,786 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 15.2% year-over-year to 62,092 million yen in the cumulative third quarter. There was an operating loss of 5,285 million yen compared with a loss of 3,318 million yen in the same period of 2017.

(Bridal Business)

Consolidated sales in the bridal business, centered on the house wedding business, increased 8.4% year-over-year to 13,417 million yen. Operating profit increased 125.9% year-over-year to 505 million yen.

(Corporates Business)

Consolidated sales in the corporates business, which provides products and services to corporations, increased 6.9% year-over-year to 3,856 million yen, and operating profit decreased 22.1% year-over-year to 236 million yen.

(Others)

Consolidated sales in other businesses, which consist of services (primarily childcare support, insurance and credit card services), increased 50.7% year-over-year to 1,659 million yen because of the July 2017 acquisition of Huit Laboratories, Inc. which manufactures and sells cosmetics. Operating profit increased 416.9% year-over-year to 65 million yen.

(2) Explanation of Financial Position

(Balance sheet position)

Assets totaled 76,680 million yen at the end of the third quarter of 2018, a decrease of 13,760 million yen from the end of 2017.

Current assets decreased 10,569 million yen to 38,285 million yen. The main factors were decreases of 5,570 million yen in cash and deposits, 2,958 million yen in merchandise and finished goods and 2,010 million yen in accounts receivable-other. Non-current assets decreased 3,191 million yen to 38,395 million yen. The factors included decreases of 2,727 million yen in property, plant and equipment, 199 million yen in intangible assets, and 264 million yen in investments and other assets.

Current liabilities decreased 2,697 million yen to 27,369 million yen. The main factors were decreases of 3,950 million yen in electronically recorded obligations-operating and 3,422 million yen in other, while there was an increase of 5,000 million yen in current portion of bonds with share acquisition rights. Non-current liabilities decreased 6,306 million yen to 12,519 million yen. The main factors were decreases of 5,000 million yen in bonds with share acquisition rights and 1,009 million yen in long-term loans payable.

Net assets decreased 4,757 million yen to 36,791 million yen. The main factor 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 2,738 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 amounts 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 47.9%.

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

Senshukai has revised its consolidated outlook for fiscal year 2018 (January 1, 2018 to December 31, 2018) that was released on July 26, 2018. For more information, please refer to “Notice of Revisions to Medium-term Management Plan, Start of Voluntary Early Retirement Program, and Revisions to Consolidated Outlook and Dividend Forecast (Dividend Suspension)” (Japanese version only) that was announced today (October 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)	3Q 2018 (As of Sep. 30, 2018)
Assets		
Current assets		
Cash and deposits	17,328	11,757
Notes and accounts receivable-trade	5,481	5,491
Merchandise and finished goods	16,561	13,602
Accounts receivable-other	7,216	5,206
Other	2,413	2,359
Allowance for doubtful accounts	(147)	(133)
Total current assets	48,854	38,285
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,716	12,416
Land	10,451	8,477
Other, net	848	1,395
Total property, plant and equipment	25,016	22,289
Intangible assets		
Goodwill	1,992	1,800
Other	715	708
Total intangible assets	2,708	2,508
Investments and other assets		
Investment securities	7,630	7,620
Other	6,497	6,195
Allowance for doubtful accounts	(265)	(218)
Total investments and other assets	13,861	13,597
Total non-current assets	41,586	38,395
Total assets	90,441	76,680

(Millions of yen)

	Fiscal Year 2017 (As of Dec. 31, 2017)	3Q 2018 (As of Sep. 30, 2018)
Liabilities		
Current liabilities		
Electronically recorded obligations-operating	9,406	5,455
Accounts payable-trade	6,123	5,745
Short-term loans payable	1,416	1,477
Current portion of bonds with share acquisition rights	-	5,000
Income taxes payable	222	153
Provision for sales promotion expenses	408	329
Provision for bonuses	581	721
Other	11,907	8,485
Total current liabilities	30,066	27,369
Non-current liabilities		
Bonds with share acquisition rights	5,000	-
Long-term loans payable	10,613	9,603
Net defined benefit liability	81	90
Provision for management board incentive plan trust	7	7
Other	3,124	2,818
Total non-current liabilities	18,826	12,519
Total liabilities	48,892	39,889
Net assets		
Shareholders’ equity		
Capital stock	22,304	22,304
Capital surplus	23,860	23,712
Retained earnings	(4,859)	(2,121)
Treasury shares	(149)	(6,934)
Total shareholders’ equity	41,155	36,961
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,216	1,144
Deferred gains or losses on hedges	219	65
Revaluation reserve for land	(1,056)	(1,346)
Foreign currency translation adjustment	(40)	(66)
Remeasurements of defined benefit plans	(19)	(48)
Total accumulated other comprehensive income	318	(251)
Non-controlling interests	74	81
Total net assets	41,548	36,791
Total liabilities and net assets	90,441	76,680

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

(Quarterly Consolidated Statement of Income)

(For the Nine-month Period)

(Millions of yen)

	3Q 2017 (Jan. 1, 2017 – Sep. 30, 2017)	3Q 2018 (Jan. 1, 2018 – Sep. 30, 2018)
Net sales	90,330	81,025
Cost of sales	49,717	46,942
Gross profit	40,613	34,083
Selling, general and administrative expenses	43,391	38,560
Operating loss	(2,777)	(4,476)
Non-operating income		
Interest income	20	23
Dividend income	70	43
Share of profit of entities accounted for using equity method	346	233
Gain on adjustment of account payable	179	211
Other	131	196
Total non-operating income	748	708
Non-operating expenses		
Interest expenses	116	112
Commission fee	34	268
Other	73	83
Total non-operating expenses	224	464
Ordinary loss	(2,254)	(4,232)
Extraordinary income		
Gain on sales of non-current assets	3	25
Gain on sales of investment securities	607	209
Subsidy income	210	46
Total extraordinary income	820	281
Extraordinary losses		
Loss on sales and retirement of non-current assets	7	0
Loss on reduction of non-current assets	198	46
Impairment loss	4,698	438
Other	170	89
Total extraordinary losses	5,075	575
Loss before income taxes	(6,508)	(4,526)
Income taxes	1,278	89
Loss	(7,787)	(4,616)
Profit (loss) attributable to non-controlling interests	(1)	6
Loss attributable to owners of parent	(7,786)	(4,623)

(Quarterly Consolidated Statement of Comprehensive Income)

(For the Nine-month Period)

(Millions of yen)

	3Q 2017 (Jan. 1, 2017 – Sep. 30, 2017)	3Q 2018 (Jan. 1, 2018 – Sep. 30, 2018)
Loss	(7,787)	(4,616)
Other comprehensive income		
Valuation difference on available-for-sale securities	(174)	(71)
Deferred gains or losses on hedges	(61)	(156)
Foreign currency translation adjustment	7	(9)
Share of other comprehensive income of entities accounted for using equity method	245	(42)
Total other comprehensive income	16	(280)
Comprehensive income	(7,771)	(4,896)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(7,770)	(4,903)
Comprehensive income attributable to non-controlling interests	(1)	6

(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 third 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 third 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 third quarter of 2018. The result of all these measures was capital stock of 22,304 million yen, legal capital surplus of 23,712 million yen, retained earnings of minus 2,121 million yen and treasury shares of 6,934 million yen at the end of the third 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 3Q 2017 (Jan. 1, 2017 – Sep. 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	73,249	12,374	3,605	89,229	1,100	90,330	-	90,330
Inter-segment sales or transfers	722	1	106	829	16	846	(846)	-
Total	73,972	12,375	3,712	90,059	1,117	91,177	(846)	90,330
Segment profit (loss)	(3,318)	223	303	(2,790)	12	(2,778)	0	(2,777)

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 initial plan. This impairment loss was 4,695 million yen in 3Q 2017.

II 3Q 2018 (Jan. 1, 2018 – Sep. 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	62,092	13,417	3,856	79,366	1,659	81,025	-	81,025
Inter-segment sales or transfers	712	0	126	839	42	881	(881)	-
Total	62,805	13,417	3,982	80,205	1,701	81,906	(881)	81,025
Segment profit (loss)	(5,285)	505	236	(4,542)	65	(4,477)	0	(4,476)

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

(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 business assets to the amount that can be recovered. These business assets include the business assets of Senshukai and its consolidated subsidiaries for which the recovery of the original investments is unlikely due to a decline in profitability and business assets that Senshukai has decided to sell. This impairment loss was 430 million yen in 3Q 2018.

(Significant Subsequent Events)

(Sale of part of subsidiary's shares and third-party allotment of shares by a subsidiary resulting in a change in the scope of consolidation)

On October 12, 2018, the Board of Directors of Senshukai approved a resolution for an agreement between Belle Neige Direct Co., Ltd. ("BND"), which is a consolidated subsidiary, and Megmilk Snow Brand Co., Ltd. ("MSB") for the sale of part of BND shares held by Senshukai to MSB and to use a third-party allotment to sell newly issued BND shares to MSB.
After this sale and the third-party allotment, Senshukai will have a 33.4% equity interest in BND and this company will become an equity-method affiliate of Senshukai.

1. Reason for sale part of BND shares and third-party allotment

BND operates a mail-order business for the sale of functional food products, gifts for family members and family events, and other merchandise. Sales have been firm, but functional food products have increased significantly as a share of total sales during the past several years. MSB has been building a framework for the growth of its own functional food business. As part of measures to establish this business model, MSB decided to purchase additional BND shares in order to make this company a subsidiary.

Following this change in the ownership structure of BND, Senshukai believes that this company can continue to consistently capitalize on business opportunities by combining its own expertise with the knowledge and resources of Senshukai and MSB.

2. Name of transferee

MEGMILK SNOW BRAND Co., Ltd.

3. Schedule

Conclusion of share sale agreement:	Late December 2018
Sale of shares:	Early January 2019
BND third-party allotment:	Early January 2019

4. Outline of the subsidiary

Name:	Belle Neige Direct Co.,Ltd.
Business:	Mail-order business and associated subcontracting, food sales operations, household product sales operations and other activities
Relationship with Senshukai:	Some Senshukai directors are concurrently BND directors and Senshukai guarantees the debt of BND.

5. Change in ownership of BND

(1) Senshukai will sell 3,324 shares of BND shares to MSB.
(2) MSB will also purchase 3,324 shares of BND shares through a third-party allotment by BND.
(3) The ownership of BND will change as follows due to these two sales of BND shares.

	Before change	After change
Senshukai	8,895 shares (66.6%)	5,571 shares (33.4%)
MSB	4,460 shares (33.4%)	11,108 shares (66.6%)
Total	13,355 shares	16,679 shares

* The share of voting rights held is in parentheses.
* The amount paid for BND shares is not disclosed due to an agreement with MSB.

6. Outlook

This matter will have only a negligible effect on consolidated financial results at this point.

(Absorption and merger of consolidated subsidiaries, merger of two consolidated subsidiaries and liquidation of a consolidated subsidiary)

On October 26, 2018, the Board of Directors of Senshukai approved resolutions to absorb and merge with consolidated subsidiaries Senshukai General Services Co., Ltd. and Senshukai Business Services Co., Ltd., to merge consolidated subsidiaries Senshukai Call Center Co., Ltd. and Senshukai Service Hanbai Co., Ltd., and to liquidate consolidated subsidiary Feel Life Inc.

For more information, please refer to “Notice of Absorption and Merger of Consolidated Subsidiaries (Simple Merger), Merger of Consolidated Subsidiaries, and Liquidation of Consolidated Subsidiary” that was announced today (October 26, 2018).

(Voluntary early retirement program)

On October 26, 2018, the Board of Directors of Senshukai approved a resolution to start accepting applications for participation in a voluntary early retirement program.

For more information, please refer to “Notice of Revisions to Medium-term Management Plan, Start of Voluntary Retirement Program, and Revisions to Consolidated Outlook and Dividend Forecast (Dividend Suspension)” (Japanese version only) that was announced today (October 26, 2018).

(Revision in financial covenants for a committed credit line)

On October 26, 2018, the Board of Directors of Senshukai approved an agreement with financial institutions for the partial revision of the terms of a committed credit line contract with the total amount of 10 billion yen. Following this revision, if Senshukai violates either of the following financial covenants, Senshukai may be required to repay immediately the entire amount borrowed using this credit line.

Revised financial covenants

(1) Operating profit and ordinary profit in the consolidated statement of income for fiscal year 2019 and every subsequent consolidated fiscal year must not be below the amounts in the business plan that was submitted.

(2) Net assets in the consolidated balance sheet at the end of every consolidated fiscal year must be at least 26,650 million yen.

3. Other

(1) Important Information about Going Concern Assumption

In 2017, Senshukai had a consolidated operating loss of 4,287 million yen and a consolidated loss attributable to owners of parent of 11,090 million yen. In the cumulative third quarter of 2018, there was an operating loss of 4,476 million yen and a loss attributable to owners of parent of 4,623 million yen. These losses create significant doubts about the going concern assumption.

On October 27, 2017, the Senshukai Group announced a medium-term management plan covering the three-year period from 2018 to 2020 with the goal of shifting from a general mail-order retailer to a specialty retail company. However, progress has been slower than planned because of the complexity of the structure of the group's business operations. The performance of the mail-order business continued to decline as a result. Senshukai has responded by revising the medium-term management plan and plans to take the following actions for improving operations in order to stop the decline of the mail-order business. (1) Reduce the mail-order business to the proper size by cutting the number of sizes and models of merchandise sold, lowering inventories and taking other actions. (2) Improve operations by shortening lead times for producing merchandise, performing effective market monitoring surveys to forecast merchandise orders more accurately, and taking other actions. (3) Rebuild the model for attracting customers, centered on catalogs, by establishing a model for attracting customers that combines analog and digital elements, reexamine the media plan and catalog distribution method, improve the quality of customer interactions by upgrading digital marketing and Internet customer contact, and taking other actions. (4) Reexamine the group's organizational structure and human resource systems by making changes to senior management, combining and eliminating organizational units, using voluntary retirement program to reduce the workforce, and taking other actions. (5) Cut costs and reduce assets by selling the Osaka head office building, centralizing activities at the new headquarters, and taking other actions. (6) Reorganize the Senshukai Group by merging subsidiaries that perform functions, liquidating consolidated subsidiary Feel Life Inc., and taking other actions. We are determined to use these forceful measures and other initiatives in order to achieve a quick recovery in sales and earnings and stabilize the group's performance.

At the end of September 2018, cash and deposits were 11,757 million yen. There is also a committed credit line with the total amount of 10 billion yen with financial institutions. An agreement was reached with these financial institutions to partially revise the financial covenants and other terms of this credit line contract. Consequently, we believe there are no concerns about our liquidity because we have a sufficient amount of working capital.

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

(2) Changes in Directors

For information about changes in directors, please refer to "Notice of Changes in Representative Director, Reduction of Compensation of Directors, Personnel Changes and Director Resignations" (Japanese version only) that was announced today (October 26, 2018).

** 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.*