

Summary of Financial Results for the First Quarter of Fiscal Year 2020 (Three Months Ended March 31, 2020)

[Japanese GAAP]

May 1, 2020

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: May 14, 2020

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 2020 (January 1, 2020 – March 31, 2020)

(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	%
1Q 2020	19,850	(5.3)	(1,001)	-	(1,782)	-	(1,722)	-
1Q 2019	20,952	(21.4)	(395)	-	141	-	6,974	-

Note: Comprehensive income (millions of yen) 1Q 2020: (1,907) (-%) 1Q 2019: 6,561 (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
1Q 2020	(44.09)	-
1Q 2019	173.55	121.87

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
1Q 2020	69,270	40,402	58.3	829.85
Fiscal Year 2019	73,664	42,490	57.7	880.56

Reference: Shareholders' equity (millions of yen) 1Q 2020: 40,402 Fiscal Year 2019: 42,490

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2019	-	0.00	-	2.00	2.00
Fiscal Year 2020	-	-	-	-	-
Fiscal Year 2020 (forecasts)	-	0.00	-	-	-

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

2. Dividend forecast for the Fiscal Year 2020 has not been determined at this time. For more information, please refer to "Notice of Revisions to Consolidated Outlook and Dividend Forecast" (Japanese version only) that was announced on April 27, 2020.

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 2020 (January 1, 2020 – December 31, 2020)

(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 2020	-	-	-	-	-	-	-	-	-

Notes: 1. Revision to the most recently announced consolidated outlook: None

2. The consolidated outlook for the Fiscal Year 2020 has not been determined because it is not possible to establish a reliable forecast at this time. For more information, please refer to "Notice of Revisions to Consolidated Outlook and Dividend Forecast" (Japanese version only) that was announced on April 27, 2020.

*** 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 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)

1Q 2020:	52,056,993 shares	Fiscal Year 2019:	52,056,993 shares
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2) Number of treasury shares at the end of the period

1Q 2020:	11,865,448 shares	Fiscal Year 2019:	11,865,448 shares
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3) Average number of shares outstanding during the period

1Q 2020:	40,191,545 shares	1Q 2019:	40,190,286 shares
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Note: The Senshukai shares held by the trust that are recorded as treasury shares under shareholders' equity in 1Q 2019 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. On April 19, 2019, the Board of Directors approved a resolution to terminate the stock compensation plan that is linked to results of operations. As a result, 173,400 shares of Senshukai stock that were held by the trust were cancelled on June 21, 2019.

* 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 4, “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
Fiscal Year 2019	Yen -	Yen 20,000,000.00	Yen -	Yen 20,000,000.00	Yen 40,000,000.00
Fiscal Year 2020	-				
Fiscal Year 2020 (forecasts)		20,000,000.00	-	20,000,000.00	40,000,000.00

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
Fiscal Year 2019	Yen -	Yen -	Yen -	Yen -	Yen -
Fiscal Year 2020	-				
Fiscal Year 2020 (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 dividends for the Fiscal Year 2019, breakdown of dividends paid from the capital surplus is shown below.

Record date	2Q-end
Dividend per share (Yen)	20,000,000.00
Total dividends (Millions of yen)	100

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

2Q-end: 0.003

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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 2020, the Japanese economy recovered slowly with the support of strong corporate earnings. However, the outlook is unclear because of concerns about the impact of the downturn in economic activity caused by the COVID-19 pandemic on the Japanese and global economies.

In Japan's retail industry, consumer spending was lackluster because of the October 2019 consumption tax rate hike and warm winter weather. In addition, the rapid spread of COVID-19 during the first quarter has caused concerns about a drop in consumer spending as people nationwide stay home and become increasingly uncertain about the economic outlook. Furthermore, COVID-19 is creating problems involving the production and procurement of merchandise in China and many other countries. As a result, there are major difficulties concerning the supply of merchandise across the entire retail sector. Although there are no serious production or delivery delays at this time at Senshukai, there is a risk of problems later in 2020.

In the bridal business, the business climate was extremely challenging because the rapid spread of COVID-19 made couples delay weddings, forced cancellations of marketing events for weddings, and created other problems.

Net sales in the first quarter were down 5.3% year-over-year to 19,850 million yen. This decrease was attributable primarily to the exclusion from consolidation of Mobacolle Co., Ltd. in the mail-order business. There is steady progress with structural reforms in the mail-order business in accordance with the medium-term management plan. During the first quarter, there were measures to strengthen the catalog-based model for attracting more customers and other activities. Due to these actions, signs are emerging of an end to the decline in the number of people who purchase merchandise in the core Belle Maison business.

There was an operating loss of 1,001 million yen compared with a 395 million yen loss in the first quarter of 2019. This was attributable to an increase in sales promotion expenses because of substantial investments for promotions aimed at increasing the number of customers in the mail-order business. Ordinary loss was 1,782 million yen compared with a profit of 141 million yen in the first quarter of 2019 due to the share of loss of entities accounted for using equity method. The loss attributable to owners of parent was 1,722 million yen compared with a profit of 6,974 million yen in the first quarter of 2019, which includes extraordinary income for a gain on sales of non-current assets, a gain on sales of investment securities and other items.

Business segment performance was as follows.

In previous years, the insurance and credit card business was included in Others. Due to its increasing importance, this business became a separate reportable segment beginning with the second quarter of 2019. Prior-year segment information has been revised to incorporate this new segment to permit comparisons.

(Mail-order Business)

Consolidated sales in the mail-order business, which is primarily the catalog and the Internet businesses, decreased 4.7% year-over-year to 14,568 million yen in the first quarter. There was an operating loss of 639 million yen compared with a loss of 265 million yen in the first quarter of 2019.

The decrease in sales was attributable mainly to the exclusion from consolidation of Mobacolle Co., Ltd. in March 2019. This business focused on rebuild its membership base, such as by actively contacting customers who have not made a purchase for a certain length of time. These activities have produced some benefits, including an increase from one year earlier in the number of customers making purchases in the core Belle Maison business.

(Bridal Business)

Consolidated sales in the bridal business, centered on the house wedding business, decreased 11.7% year-over-year to 3,562 million yen. There was an operating loss of 505 million yen compared with a loss of 234 million yen in the first quarter of 2019.

First quarter performance was supported by new locations that opened in 2019 and the completion of renovations at other locations. However, sales and earnings were lower than one year earlier because of wedding postponements and other effects of COVID-19 late in the first quarter. The business climate for this business is likely to remain challenging because of wedding postponements, the cancelation of events to attract customers and other effects of COVID-19 until this crisis comes to an end.

(Corporates Business)

Consolidated sales in the corporates business, which provides products and services to corporations, increased 7.1% year-over-year to 1,183 million yen. Operating profit increased 52.0% year-over-year to 110 million yen.

During the first quarter, this business strengthened sales capabilities in order to add new customers and increase sales to current customers. Higher sales in the sampling business, which provides services such as attaching direct mail marketing messages to packages used to deliver products, made a big contribution to the sales growth of this business.

(Insurance and Credit Card Business)

This business provides information mainly to Belle Maison members about insurance policies and credit cards with the best reward points. Consolidated sales decreased 23.4% year-over-year to 90 million yen and operating profit decreased 42.5% to 27 million yen.

In the insurance business, we reviewed our routes for sales activities and started adopting new sales methods, such as coordination with the bridal business and activities targeting families raising children. However, we are not conducting sales activities due to the spread of COVID-19, and are still under an unpredictable situation until this crisis comes to an end.

(Others)

Consolidated sales in other businesses, which include childcare support business and manufacturing and sales of cosmetics, increased 9.7% year-over-year to 445 million yen. There was an operating profit of 5 million yen compared with a loss of 16 million yen in the first quarter of 2019.

In the childcare support business, two nursery schools that opened in April 2019 as well as the after school child care business, which was started as a peripheral business for more added value, are all performing well.

(2) Explanation of Financial Position

(Balance sheet position)

Assets totaled 69,270 million yen at the end of the first quarter of 2020, a decrease of 4,393 million yen from the end of 2019.

Current assets decreased 3,083 million yen to 39,210 million yen. The main factor was a decrease of 3,216 million yen in cash and deposits. Non-current assets decreased 1,309 million yen to 30,060 million yen. The factors included decreases of 275 million yen in property, plant and equipment and 1,117 million yen in investments and other assets, while there was an increase of 83 million yen in intangible assets.

Current liabilities decreased 1,871 million yen to 18,222 million yen. The main factors were decreases of 1,572 million yen in other and 758 million yen in electronically recorded obligations-operating, while there was an increase of 399 million yen in accounts payable-trade. Non-current liabilities decreased 433 million yen to 10,645 million yen. The main factor was decreases of 316 million yen in long-term borrowing and 119 million yen in other.

Net assets decreased 2,088 million yen to 40,402 million yen mainly due to booking of loss attributable to owners of parent of 1,722 million yen. As a result, the equity ratio was 58.3%.

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

Structural reforms for business operations will continue in accordance with the medium-term management plan. However, due to the COVID-19 pandemic, the Japanese government declared a state of emergency on April 7 and local governments nationwide are asking people to stay home. In the bridal business, the number of wedding postponements is increasing as a result. As one aspect of our social responsibility to support responses to this crisis, we will not charge any fees for wedding postponements, as a rule, and will do our best to meet customers' needs. Furthermore, in all businesses, there will be no marketing events to attract new customers or any other significant sales activities. Due to this situation, the number of weddings in the bridal business in the second quarter of 2020 is currently expected to be 20% below the initially expected level. Determining a forecast for the performance of all businesses involving weddings, including equity-method affiliates, is not possible because the length of this crisis cannot be predicted. Consequently, we have canceled the 2020 forecast that was announced on February 13, 2020 and are unable to determine a revised forecast at this time.

In the core mail-order business, we forecast sales and earnings in 2020 that are generally in line with the initial outlook. This forecast is based on the increasing importance of this business as a social infrastructure during the COVID-19 crisis. We remain firmly dedicated to contributing to society by fulfilling our duty as a retail company that provides support to consumers by supplying merchandise and new ideas that match the needs of our customers.

For more information, please refer to "Notice of Revisions to Consolidated Outlook and Dividend Forecast" (Japanese version only) that was announced on April 27, 2020. We will monitor upcoming events involving COVID-19 and make an announcement when it becomes possible to determine a revised forecast for 2020.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	Fiscal Year 2019 (As of Dec. 31, 2019)	1Q 2020 (As of Mar. 31, 2020)
Assets		
Current assets		
Cash and deposits	22,713	19,496
Notes and accounts receivable-trade	3,854	3,994
Merchandise and finished goods	8,641	8,322
Accounts receivable-other	5,285	5,135
Other	1,947	2,373
Allowance for doubtful accounts	(148)	(113)
Total current assets	42,293	39,210
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	11,703	11,449
Land	6,809	6,809
Other, net	833	811
Total property, plant and equipment	19,346	19,070
Intangible assets		
Goodwill	1,483	1,428
Other	944	1,082
Total intangible assets	2,427	2,510
Investments and other assets		
Investment securities	6,046	4,874
Other	3,694	3,725
Allowance for doubtful accounts	(143)	(120)
Total investments and other assets	9,596	8,479
Total non-current assets	31,370	30,060
Total assets	73,664	69,270

(Millions of yen)

	Fiscal Year 2019 (As of Dec. 31, 2019)	1Q 2020 (As of Mar. 31, 2020)
Liabilities		
Current liabilities		
Electronically recorded obligations-operating	6,523	5,764
Accounts payable-trade	3,495	3,895
Short-term borrowings	1,240	1,225
Income taxes payable	107	18
Provision for sales promotion expenses	225	210
Provision for bonuses for directors (and other officers)	23	-
Provision for bonuses	233	436
Other	8,244	6,671
Total current liabilities	20,094	18,222
Non-current liabilities		
Long-term borrowings	8,558	8,242
Retirement benefit liability	3	3
Asset retirement obligations	851	853
Other	1,665	1,545
Total non-current liabilities	11,078	10,645
Total liabilities	31,173	28,867
Net assets		
Shareholders' equity		
Share capital	100	100
Capital surplus	39,544	39,544
Retained earnings	10,891	8,989
Treasury shares	(6,800)	(6,800)
Total shareholders' equity	43,736	41,833
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	366	195
Deferred gains or losses on hedges	49	27
Revaluation reserve for land	(1,516)	(1,516)
Foreign currency translation adjustment	(120)	(136)
Remeasurements of defined benefit plans	(24)	-
Total accumulated other comprehensive income	(1,245)	(1,430)
Total net assets	42,490	40,402
Total liabilities and net assets	73,664	69,270

(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 2019 (Jan. 1, 2019 – Mar. 31, 2019)	1Q 2020 (Jan. 1, 2020 – Mar. 31, 2020)
Net sales	20,952	19,850
Cost of sales	10,903	10,092
Gross profit	10,049	9,758
Selling, general and administrative expenses	10,445	10,759
Operating loss	(395)	(1,001)
Non-operating income		
Interest income	6	5
Dividend income	7	9
Share of profit of entities accounted for using equity method	476	-
Gain on adjustment of account payable	73	56
Reversal of allowance for doubtful accounts	0	58
Other	38	26
Total non-operating income	601	157
Non-operating expenses		
Interest expenses	33	29
Share of loss of entities accounted for using equity method	-	841
Commission expenses	7	7
Other	22	60
Total non-operating expenses	64	938
Ordinary profit (loss)	141	(1,782)
Extraordinary income		
Gain on sales of non-current assets	5,617	-
Gain on sales of investment securities	926	-
Gain on sales of shares of subsidiaries and associates	336	-
Subsidy income	4	18
Total extraordinary income	6,885	18
Extraordinary losses		
Loss on sales and retirement of non-current assets	16	2
Loss on reduction of non-current assets	4	18
Impairment loss	1	0
Loss on sales of shares of subsidiaries and associates	4	-
Business structure reform expenses	18	-
Loss on disaster	0	16
Other	1	-
Total extraordinary losses	46	39
Profit (loss) before income taxes	6,980	(1,802)
Income taxes	5	(80)
Profit (loss)	6,974	(1,722)
Profit (loss) attributable to owners of parent	6,974	(1,722)

(Quarterly Consolidated Statement of Comprehensive Income)

(For the Three-month Period)

(Millions of yen)

	1Q 2019 (Jan. 1, 2019 – Mar. 31, 2019)	1Q 2020 (Jan. 1, 2020 – Mar. 31, 2020)
Profit (loss)	6,974	(1,722)
Other comprehensive income		
Valuation difference on available-for-sale securities	(356)	(168)
Deferred gains or losses on hedges	(30)	(18)
Foreign currency translation adjustment	(2)	4
Share of other comprehensive income of entities accounted for using equity method	(24)	(2)
Total other comprehensive income	(413)	(185)
Comprehensive income	6,561	(1,907)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,561	(1,907)

(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, 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 1Q 2019 (Jan. 1, 2019 – Mar. 31, 2019)

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

(Millions of yen)

	Reportable segment					Others (Note 1)	Total	Adjustment	Amounts shown on quarterly consolidated statement of income (Note 2)
	Mail-order business	Bridal business	Corporates business	Insurance and credit card business	Sub-total				
Net sales									
Sales to customers	15,288	4,034	1,105	117	20,546	406	20,952	-	20,952
Inter-segment sales or transfers	226	0	0	-	227	0	227	(227)	-
Total	15,515	4,034	1,106	117	20,773	406	21,180	(227)	20,952
Segment profit (loss)	(265)	(234)	72	47	(379)	(16)	(395)	-	(395)

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

2. Segment profit (loss) is 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.

II 1Q 2020 (Jan. 1, 2020 – Mar. 31, 2020)

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	Insurance and credit card business	Sub-total				
Net sales									
Sales to customers	14,568	3,562	1,183	90	19,405	445	19,850	-	19,850
Inter-segment sales or transfers	88	2	29	-	120	-	120	(120)	-
Total	14,657	3,564	1,213	90	19,525	445	19,971	(120)	19,850
Segment profit (loss)	(639)	(505)	110	27	(1,006)	5	(1,001)	0	(1,001)

Notes: 1. Others represent the businesses which are not included in any of the four reportable segments and consist of the childcare support 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 revisions for reportable segments

In previous fiscal years, the insurance and credit card business was included in Others. Due to its increasing importance, this business became a separate reportable segment beginning with the second quarter of 2019.

The segment information for 1Q 2019 is prepared and disclosed based on the reportable segment classification after the change.

3. 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 2019, there was an operating profit of 772 million yen and a profit attributable to owners of parent of 8,182 million yen. In 2017 and 2018, there was an operating loss and a loss attributable to owners of parent. These losses create significant doubts about the going concern assumption.

To eliminate these doubts and deal with other issues, business structural reforms centered on the mail-order business are under way in accordance with a medium-term management plan that started in 2019 and will end in 2021.

In 2019, the first year of this plan, activities were focused on achieving the optimal size of business operations and on operational reforms, mainly in the mail-order business. These activities improved the gross profit margin by reducing merchandise valuation losses that have been a structural component of business operations. Reforms have also lowered fixed expenses. Due to these improvements, the consolidated operating profit in 2019 was higher than our forecast.

In 2020, the second year of the plan, we are continuing to implement operational reforms. We are also strengthening the catalog-based model for attracting customers and rebuilding the membership base. In the first quarter of 2020, the number of customers making purchases in the core Belle Maison business was higher than one year earlier, indicating that the downturn in this number has ended.

We will continue to implement numerous measures to make improvements in order to build a solid base for earnings and return to growth backed by a recovery and stability in the performance of the Senshukai Group.

At the end of the first quarter of 2020, cash and deposits were 19,496 million yen. Senshukai also has a committed credit line with the total amount of 10 billion yen with financial institutions. Consequently, we believe there are no concerns about 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.

We forecast a downturn in the performance of the bridal business because of the spread of COVID-19 but are unable to determine a specific monetary impact of the crisis at this time. We will continue to monitor upcoming events involving this crisis and take actions that comply with the requests of the Japanese government and local governments. In addition, we are making preparations for growth, such as by reexamining the strategy for the bridal business and studying the feasibility of starting new services in this business, following the end of the COVID-19 crisis.

** 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.*