

Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2019
(Three Months Ended June 30, 2018)

[Japanese GAAP]

Company name: SEIGAKUSHA CO.,LTD.

Listing: Tokyo Stock Exchange (JASDAQ)

Stock code: 2179

URL: <http://www.kaisei-group.co.jp/>

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Scheduled date of filing of Quarterly Report:

August 9, 2018

Scheduled date of payment of dividend:

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Preparation of supplementary materials for quarterly financial results:

None

Holding of quarterly financial results meeting:

None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months Ended June 30, 2018 (April 1, 2018 – June 30, 2018)

(1) Consolidated operating results

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended Jun. 30, 2018	2,102	8.2	(531)	-	(506)	-	(357)	-
Three months ended Jun. 30, 2017	1,942	1.6	(621)	-	(625)	-	(446)	-

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2018: (358) (-%)

Three months ended Jun. 30, 2017: (444) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Jun. 30, 2018	(64.73)	-
Three months ended Jun. 30, 2017	(80.76)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2018	7,383	1,947	26.4
As of Mar. 31, 2018	7,988	2,334	29.2

Reference: Shareholders' equity (million yen) As of Jun. 30, 2018: 1,947 As of Mar. 31, 2018: 2,334

Note: Starting with the beginning of the first quarter of the current fiscal year, SEIGAKUSHA is applying "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018). Prior-year figures have been adjusted retroactively to conform with this accounting standard.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY3/18	-	5.20	-	5.20	10.40
FY3/19	-	-	-	-	-
FY3/19 (forecasts)	-	5.35	-	5.35	10.70

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

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	5,426	7.4	(291)	-	(23)	-	(29)	-	(5.28)
Full year	12,027	7.0	60	194.6	321	1.3	166	63.3	30.21

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

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

Newly added: - Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(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 issued shares (common stock)

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

As of Jun. 30, 2018:	5,876,000 shares	As of Mar. 31, 2018:	5,876,000 shares
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2) Number of treasury shares at the end of period

As of Jun. 30, 2018:	350,260 shares	As of Mar. 31, 2018:	350,260 shares
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3) Average number of shares during the period

Three months ended Jun. 30, 2018:	5,525,740 shares	Three months ended Jun. 30, 2017:	5,525,740 shares
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* The current quarterly summary report is not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Forecasts of future performance in this report are based on assumptions judged to be valid and information available to the SEIGAKUSHA's management at the time the materials were prepared. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 3 for forecast assumptions and notes of caution for usage.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

The SEIGAKUSHA Group meets a broad array of education and child care needs as an education organization centered on education and child care services extending from pre-school children to adults. The Group operates the FreeStep Individual Tutoring Institute and Kaisei Education Seminar entrance exam preparation schools, Kaisei Nursery School certified nursery schools, and Kaisei Academy Japanese Language School for foreign students in Japan.

Consolidated net sales in the first quarter were 2,102 million yen, 8.2% higher than in the same period of the previous fiscal year, operating loss was 531 million yen (compared with operating loss of 621 million yen for the same period of the previous fiscal year), ordinary loss was 506 million yen (compared with ordinary loss of 625 million yen in the same period of the previous fiscal year) and loss attributable to owners of parent was 357 million yen (compared with loss attributable to owners of parent of 446 million yen in the same period of the previous fiscal year).

There is usually an operating loss in the first quarter of each fiscal year. The main reasons are that the first quarter has a small number of entrance exam preparation students, which are a key source of earnings, and no seminars and special classes, which have a high profit margin. Although there was an operating loss in the first quarter of this fiscal year, results of operations in the first quarter were generally consistent with the fiscal year plan.

Business segment performance was as follows.

1) Education Services

In the individual tutoring category, the number of students and sales were firm at FreeStep Individual Tutoring Institute, the primary brand, as this business emphasized its skill in the university entrance exam sector and ability to raise students' examination scores. At Kaisei Education Yozemi Sateline Exam Preparation School, the number of students and sales were higher than one year earlier because this school's classes are now also accessible to students at all FreeStep locations. In the franchise business, the number of new franchising contracts continues to increase because of the strength of the FreeStep brand.

In the classroom tutoring category, the number of students continues to decline in part because this entire market sector in Japan is shrinking. Sales were lower than one year earlier because of the smaller number of students and activities to attract younger students, a category with relatively low tuition.

In the nursery school category, three certified Kaisei Nursery Schools and one Kaisei Puchi Nursery School, a small certified nursery school, started operating in April 2018. As a result, the number of children and sales were higher than one year earlier.

In the other education services category, the number of students increased at Kaisei Academy Japanese Language School, which started operating in the previous fiscal year. Advertising sales to private schools and other organizations and the provision of language teachers to these schools also contributed to the performance of this category. As a result, sales were higher than one year earlier.

First quarter sales in this segment were 2,067 million yen, 8.6% higher than one year earlier. The operating loss decreased from 614 million yen to 519 million yen because the first quarter of the previous fiscal year included up-front investments for opening certified nursery schools, launching a new brand and other activities.

2) Real Estate Leasing

There were no significant changes during the first quarter in the amount of space available for leasing or the occupancy rate. First quarter sales increased 2.5% from one year earlier to 9 million yen and operating profit increased 1.3% to 7 million yen.

3) Restaurant Operations

The business climate for restaurants continues to be challenging because of Japan's sluggish consumer spending. This business revised menus, reexamined how people are used and took other actions to improve profitability. Despite these measures, sales were down 12.7% from one year earlier to 25 million yen and the operating loss increased from 1 million yen to 5 million yen.

(2) Explanation of Financial Position

Starting with the beginning of the first quarter of the current fiscal year, SEIGAKUSHA is applying "Partial Amendments to Accounting Standard for Tax Effect Accounting" ASBJ Statement No. 28, February 16, 2018). Prior-year figures have been adjusted retroactively to conform with this accounting standard in order to facilitate comparisons and analysis.

Total assets at the end of the first quarter of the current fiscal year decreased by 605 million yen, or 7.6%, from the end of the previous fiscal year to 7,383 million yen. Current assets decreased by 722 million yen, or 26.6%, from the end of the previous fiscal year to 1,994 million yen. This was attributable mainly to decreases of 349 million yen in operating accounts receivable and 334 million yen in accounts receivable-other included in other current assets. Non-current assets increased by 116 million yen, or 2.2%, from the end of the previous fiscal year to 5,388 million yen. This was mainly attributable to increases of 25 million yen in property, plant and equipment and 93 million yen in investments and other assets.

Total liabilities decreased by 218 million yen, or 3.9%, from the end of the previous fiscal year to 5,435 million yen. Current liabilities decreased by 190 million yen, or 5.1%, from the end of the previous fiscal year to 3,503 million yen. This was attributable mainly to increases of 271 million yen in short-term loans payable and 144 million yen in accounts payable-personnel expenses included in other current liabilities, and decreases of 131 million yen in accounts payable-trade and 412 million yen in accounts payable-other included in other current liabilities. Non-current liabilities decreased by 28 million yen, or 1.4%, from the end of the previous fiscal year to 1,932 million yen. This was attributable mainly to a decrease of 26 million yen in long-term loans payable.

Net assets decreased by 387 million yen, or 16.6%, from the end of the previous fiscal year to 1,947 million yen. This was attributable mainly to a decrease of 386 million yen in retained earnings.

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

At this point, we maintain the full-year consolidated forecasts for the fiscal year ending March 31, 2019 that we announced on May 15, 2018.

Forecasts are based on all the information currently available, and the actual results may differ due to various factors.

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

	(Thousands of yen)	
	FY3/18 (As of Mar. 31, 2018)	First quarter of FY3/19 (As of Jun. 30, 2018)
Assets		
Current assets		
Cash and deposits	1,028,544	994,574
Operating accounts receivable	1,021,220	671,299
Merchandise	66,856	53,264
Supplies	12,407	19,072
Other	608,556	275,849
Allowance for doubtful accounts	(20,763)	(19,289)
Total current assets	2,716,822	1,994,769
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,562,186	3,630,915
Accumulated depreciation	(1,204,608)	(1,251,869)
Buildings and structures, net	2,357,577	2,379,045
Land	1,107,742	1,107,774
Other	950,316	978,841
Accumulated depreciation	(602,384)	(627,401)
Other, net	347,932	351,440
Total property, plant and equipment	3,813,251	3,838,260
Intangible assets		
Goodwill	8,322	7,317
Other	133,096	132,755
Total intangible assets	141,419	140,073
Investments and other assets		
Guarantee deposits	915,748	908,708
Other	401,049	501,309
Total investments and other assets	1,316,798	1,410,017
Total non-current assets	5,271,469	5,388,352
Total assets	7,988,291	7,383,121

(Thousands of yen)

	FY3/18 (As of Mar. 31, 2018)	First quarter of FY3/19 (As of Jun. 30, 2018)
Liabilities		
Current liabilities		
Accounts payable-trade	183,544	52,123
Short-term loans payable	953,668	1,225,000
Current portion of long-term loans payable	484,063	479,847
Income taxes payable	52,202	15,933
Advances received	683,079	725,690
Provision for bonuses	130,703	40,485
Other	1,205,837	963,981
Total current liabilities	3,693,099	3,503,062
Non-current liabilities		
Long-term loans payable	1,434,868	1,408,845
Provision for directors' retirement benefits	3,570	-
Net defined benefit liability	6,825	6,679
Asset retirement obligations	423,563	429,836
Other	91,873	87,294
Total non-current liabilities	1,960,700	1,932,656
Total liabilities	5,653,800	5,435,718
Net assets		
Shareholders' equity		
Capital stock	235,108	235,108
Capital surplus	175,108	175,108
Retained earnings	2,205,527	1,819,104
Treasury shares	(288,452)	(288,452)
Total shareholders' equity	2,327,291	1,940,868
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,625	5,942
Foreign currency translation adjustment	1,574	591
Total accumulated other comprehensive income	7,199	6,534
Total net assets	2,334,491	1,947,402
Total liabilities and net assets	7,988,291	7,383,121

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

(Thousands of yen)

	First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)	First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)
Net sales	1,942,997	2,102,544
Cost of sales	2,117,320	2,186,077
Gross loss	(174,323)	(83,532)
Selling, general and administrative expenses	447,371	447,487
Operating loss	(621,694)	(531,020)
Non-operating income		
Interest income	234	371
Dividend income	346	381
Insurance premiums refunded cancellation	-	25,226
Other	2,754	5,087
Total non-operating income	3,335	31,067
Non-operating expenses		
Interest expenses	5,276	6,438
Foreign exchange losses	1,653	-
Other	609	505
Total non-operating expenses	7,539	6,944
Ordinary loss	(625,899)	(506,897)
Extraordinary income		
Reversal of provision for directors' retirement benefits	-	1,378
Gain on transfer of business	-	5,500
Total extraordinary income	-	6,878
Loss before income taxes	(625,899)	(500,018)
Income taxes-current	6,215	6,183
Income taxes-deferred	(185,875)	(148,512)
Total income taxes	(179,659)	(142,329)
Loss	(446,239)	(357,689)
Loss attributable to owners of parent	(446,239)	(357,689)

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

(Thousands of yen)

	First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)	First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)
Loss	(446,239)	(357,689)
Other comprehensive income		
Valuation difference on available-for-sale securities	1,246	317
Foreign currency translation adjustment	262	(982)
Total other comprehensive income	1,509	(664)
Comprehensive income	(444,729)	(358,354)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(444,729)	(358,354)
Comprehensive income attributable to non-controlling interests	-	-

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

Segment information

I. First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)**1. Information related to net sales, profit or loss for each reportable segment** (Thousands of yen)

	Reportable segment				Adjustment (Note 1)	Amounts recorded in quarterly consolidated statement of income (Note 2)
	Education Services	Real Estate Leasing	Restaurant Operations	Total		
Net sales						
External sales	1,904,779	8,847	29,371	1,942,997	-	1,942,997
Inter-segment sales and transfers	-	6,580	-	6,580	(6,580)	-
Total	1,904,779	15,427	29,371	1,949,577	(6,580)	1,942,997
Segment profit (loss)	(614,216)	7,789	(1,941)	(608,368)	(13,326)	(621,694)

Notes: 1. The minus 13 million yen adjustment to segment profit (loss) includes 13 million yen in corporate expenses that cannot be allocated to any of the reportable segments. These corporate expenses mainly include general and administration expenses that cannot be attributed to any of the reportable segments.

2. Segment profit (loss) is adjusted with operating loss on the quarterly consolidated statement of income.

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

Not applicable.

II. First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)**1. Information related to net sales, profit or loss for each reportable segment** (Thousands of yen)

	Reportable segment				Adjustment (Note 1)	Amounts recorded in quarterly consolidated statement of income (Note 2)
	Education Services	Real Estate Leasing	Restaurant Operations	Total		
Net sales						
External sales	2,067,837	9,068	25,638	2,102,544	-	2,102,544
Inter-segment sales and transfers	-	6,580	-	6,580	(6,580)	-
Total	2,067,837	15,648	25,638	2,109,124	(6,580)	2,102,544
Segment profit (loss)	(519,926)	7,892	(5,442)	(517,477)	(13,543)	(531,020)

Notes: 1. The minus 13 million yen adjustment to segment profit (loss) includes 13 million yen in corporate expenses that cannot be allocated to any of the reportable segments. These corporate expenses mainly include general and administration expenses that cannot be attributed to any of the reportable segments.

2. Segment profit (loss) is adjusted with operating loss on the quarterly consolidated statement of income.

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

Not applicable.

Additional Information

First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)
Starting with the beginning of the first quarter of the current fiscal year, SEIGAKUSHA is applying “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018). Accordingly, deferred tax assets and deferred tax liabilities have been presented in the investments and other assets section and the non-current liabilities section of the balance sheet, respectively.

This financial report is solely a translation of SEIGAKUSHA's Kessan Tanshin (including attachments) in Japanese, 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.