Summary of Financial Results for the Fiscal Year 2018 (Ended December 31, 2018)

[Japanese GAAP]

February 8, 2019

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 annual general meeting of shareholders: March 28, 2019
Scheduled date of payment of dividend: -
Scheduled date of filing of Annual Security Report: March 29, 2019
Preparation of supplementary materials for financial results: Yes
Holding of financial results meeting: None

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

1. Consolidated Financial Results for the Fiscal Year 2018 (January 1, 2018 – December 31, 2018)

(1) Consolidated operating results

(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	%
Fiscal Year 2018	113,344	(10.0)	(4,063)	-	(4,277)	-	(6,027)	-
Fiscal Year 2017	125,999	(2.4)	(4,287)	-	(4,206)	-	(11,090)	-

Note: Comprehensive income (millions of yen) Fiscal Year 2018: (6,836) (-%) Fiscal Year 2017: (10,797) (- %)

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal Year 2018	(136.75)	-	(15.8)	(5.1)	(3.6)
Fiscal Year 2017	(213.16)	-	(23.6)	(4.4)	(3.4)

Reference: Equity in earnings (losses) of affiliates (millions of yen) Fiscal Year 2018: (27) Fiscal Year 2017: 238

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Fiscal Year 2018	75,949	34,853	45.8	689.05
Fiscal Year 2017	90,441	41,548	45.9	797.13

Reference: Shareholders' equity (millions of yen) Fiscal Year 2018: 34,768 Fiscal Year 2017: 41,473

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal Year 2018	(1,950)	3,196	(1,414)	17,147
Fiscal Year 2017	1,952	(397)	(1,148)	17,323

2. Dividends

	Dividend per share					Total dividends (total)	Payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal Year 2017	-	0.00	-	0.00	0.00	-	-	-
Fiscal Year 2018	-	0.00	-	0.00	0.00	-	-	-
Fiscal Year 2019 (forecasts)	-	0.00	-	-	-		-	

Notes: 1. Dividend forecast for the Fiscal Year 2019 has not been determined at this time.
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 2019 (January 1, 2019 – December 31, 2019)

(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 2019	94,000	(17.1)	(700)	-	(1,100)	-	4,300	-	106.99

*** Notes**

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

Newly added: - Excluded: -

(2) 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

(3) Number of shares outstanding (common shares)

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

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

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

Fiscal Year 2018: 12,040,107 shares Fiscal Year 2017: 201,588 shares

3) Average number of shares outstanding during the period

Fiscal Year 2018: 44,080,710 shares Fiscal Year 2017: 52,028,126 shares

Note: The Senshukai shares held by the trust that are recorded as treasury shares under shareholders' equity are 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.

(Reference) Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for Fiscal Year 2018 (January 1, 2018 – December 31, 2018)

(1) Non-consolidated operating results

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

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year 2018	74,406	(16.5)	(5,211)	-	(4,706)	-	(6,355)	-
Fiscal Year 2017	89,145	(12.4)	(5,952)	-	(5,565)	-	(10,819)	-

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal Year 2018	(144.18)	-
Fiscal Year 2017	(207.95)	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Fiscal Year 2018	59,327	32,321	54.5	628.14
Fiscal Year 2017	73,864	39,318	53.2	755.70

Reference: Shareholders' equity (millions of yen) Fiscal Year 2018: 32,321 Fiscal Year 2017: 39,318

* This financial report is not subject to audit 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 4.

How to view supplementary information at the financial results meeting

Supplementary materials for financial results 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	-	15,178,083.00	30,356,166.00
Fiscal Year 2019 (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
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2017	-	-	-	-	-
Fiscal Year 2018	-	-	-	-	-
Fiscal Year 2019 (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 2018, breakdown of dividends paid from the capital surplus are shown below.

Record date	2Q-end	Year-end	Total
Dividend per share (Yen)	15,178,083.00	15,178,083.00	30,356,166.00
Total dividends (Millions of yen)	75	75	151

Note: Reduction rate in net assets due to the dividends paid from net assets 2Q-end: 0.002 Year-end: 0.002

Contents of Attachments

1. Overview of Results of Operations

(1) Results of Operations

Overview

In 2018, the Japanese economy recovered slowly as corporate earnings, the employment situation and personal income continued to improve. However, the outlook remained uncertain because of concerns about the U.S.-China trade issues, political and economic events in emerging countries, and other reasons. In Japan's retail industry, the operating environment for the Senshukai Group continued to be challenging. The growth of real income is sluggish because of the slow pace of wage increases and rising prices of consumer goods. As a result, consumers are taking a defensive stance toward spending. Retail companies need to adapt to budget-minded consumer spending and the increasingly diversified values of consumers. Rising rates for transporting merchandise and more competition from companies outside the retail sector are other sources of challenges.

There was a reexamination of the sales channel strategy and marketing policies in the mail-order business, revisions to merchandising activities, and other actions during 2018. Despite these measures, sales decreased 10.0% to 113,344 million yen because the complexity of the Senshukai Group's business structure slowed down the pace of progress.

In the mail-order business, the gross profit margin was down significantly due to actions for lowering inventories to the proper level. These actions included posting a loss on the removal of inventories, a valuation loss on inventories scheduled for disposal, and the sale of merchandise at reduced prices. As a result, there was an operating loss of 4,063 million yen compared with a 4,287 million yen loss in 2017 and an ordinary loss of 4,277 million yen compared with a loss of 4,206 million yen in 2017. The loss attributable to owners of parent was 6,027 million yen compared with a loss of 11,090 million yen in 2017. This loss was mainly the result of special retirement payments for a voluntary retirement program.

Overview by segment

(Mail-order Business)

Consolidated sales in the mail-order business, centered on the catalog and the Internet businesses, decreased 14.6% year-over-year to 86,452 million yen in 2018. There was an operating loss of 5,633 million yen compared with a loss of 5,707 million yen in 2017.

(Bridal Business)

Consolidated sales in the bridal business, centered on the house wedding business, increased 6.9% year-over-year to 19,386 million yen. Operating profit increased 4.3% year-over-year to 1,004 million yen.

(Corporates Business)

Consolidated sales in the corporates business, which provides products and services to corporations, increased 6.8% year-over-year to 5,161 million yen, and operating profit decreased 9.5% year-over-year to 339 million yen.

(Others)

Consolidated sales in other businesses, which consist of services (primarily childcare support, insurance and credit card services), increased 33.7% year-over-year to 2,343 million yen because of the July 2017 acquisition of Huit Laboratories, Inc. which manufactures and sells cosmetics. Operating profit increased 178.3% year-over-year to 225 million yen.

(2) Financial Position

Assets totaled 75,949 million yen at the end of 2018, a decrease of 14,491 million yen from the end of 2017.

Current assets decreased 8,447 million yen to 40,406 million yen. The main factors were decreases of 6,828 million yen in merchandise and finished goods and 1,106 million yen in accounts receivable-other. Non-current assets decreased 6,044 million yen to 35,542 million yen. The factors included decreases of 1,953 million yen in property, plant and equipment, 242 million yen in intangible assets, and 3,848 million yen in investments and other assets.

Current liabilities decreased 1,296 million yen to 28,770 million yen. The main factors were decreases of 2,774 million yen in electronically recorded obligations-operating, 1,286 million yen in accounts payable-trade and 370 million yen in other, while there was an increase of 4,340 million yen in current portion of bonds with share acquisition rights. Non-current liabilities decreased 6,500 million yen to 12,326 million yen. The main factors were decreases of 5,000 million yen in bonds with share acquisition rights and 813 million yen in long-term loans payable.

Net assets decreased 6,695 million yen to 34,853 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 1,333 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 45.8%.

(3) Cash Flows

The balance of cash and cash equivalents at the end of 2018 was 17,147 million yen, a decrease of 176 million yen from the end of 2017.

Operating activities used net cash of 1,950 million yen (net cash provided of 1,952 million yen in 2017). The main cash inflows were a decrease in inventories of 6,778 million yen and depreciation of 1,807 million yen. The main cash outflows include a loss before income taxes of 6,016 million yen, a decrease in notes and accounts payable-trade of 3,588 million yen and payments for business structure reform expenses of 1,960 million yen.

Investing activities provided net cash of 3,196 million yen (net cash used of 397 million yen in 2017). The main cash inflows include proceeds from sales of property, plant and equipment of 2,527 million yen and proceeds from withdrawal of time deposits of 2,226 million yen. The main cash outflows include 1,997 million yen for the purchase of property, plant and equipment.

Financing activities used net cash of 1,414 million yen (net cash used of 1,148 million yen in 2017). The main cash inflows include the proceeds from issuance of common shares of 6,975 million yen. The main cash outflows were 6,785 million yen for the purchase of treasury shares and 1,371 million yen for the repayments of long-term loans payable.

Cash flow indices

	Fiscal Year 2016 (As of Dec. 31, 2016)	Fiscal Year 2017 (As of Dec. 31, 2017)	Fiscal Year 2018 (As of Dec. 31, 2018)
Equity ratio (%)	51.5	45.9	45.8
Equity ratio based on fair value (%)	36.1	37.3	13.7
Ratio of interest-bearing debt to cash flows (years)	5.0	9.3	-
Interest coverage ratio (times)	23.7	12.6	-

Notes: 1. Cash flow indices are calculated, using consolidated financial figures, as follows:
The equity ratio is shareholders' equity divided by total assets.
The equity ratio based on fair value is market capitalization divided by total assets.
The ratio of interest-bearing debt to cash flows is interest-bearing debt divided by the quantity of operating cash flows.
The interest coverage ratio is operating cash flows divided by interest payments.
2. Market capitalization is calculated by multiplying the closing share price at the end of the period by the number of shares issued and outstanding at the end of the period, excluding treasury shares.
3. Interest-bearing debt includes short-term loans payable, bonds with subscription rights to shares including current portion, long-term loans payable, and lease obligations shown on the consolidated balance sheet.
4. Operating cash flows and interest payments represent net cash provided by (used in) operating activities and interest expenses paid, respectively, on the consolidated statement of cash flows.
5. Ratio of interest-bearing debt to cash flows and interest coverage ratio are not shown for Fiscal Year 2018 because operating cash flows were negative.

(4) Basic Policy Regarding Distribution of Earnings and Dividends in the Current and Next Fiscal Years

The Group's basic policy is to strengthen the business foundation while maintaining stable dividends, taking into consideration the payout ratio, and ensuring a fair distribution of earnings to shareholders that reflects its business performance.

Specifically, the Group's policy regarding the distribution of earnings to shareholders is to strive continuously for a payout ratio of 30% on a consolidated basis. However, because of a net loss in 2018, we plan to pay no dividend for 2018. We also plan to pay no interim dividend in 2019 and have not made a decision about the year-end dividend. Our highest priorities are the implementation of our medium-term management plan and the growth of shareholders' equity from the standpoint of the stability and safety of business operations.

(5) Outlook

Consolidated (Millions of yen)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Fiscal Year 2019 (forecast)	94,000	(700)	(1,100)	4,300
Fiscal Year 2018 (results)	113,344	(4,063)	(4,277)	(6,027)
Change (%)	(17.1)	-	-	-

We forecast a 17.1% decrease in net sales because of the challenging operating environment for the Senshukai Group and the negative impact of ongoing measures to achieve the proper size of the mail-order business, such as by reducing the number of sizes and models of merchandise.

We forecast much smaller losses in 2019 and a profit attributable to owners of parent. We expect the higher cost of logistics and other factors to exert downward pressure on profitability. However, we foresee benefits in the mail-order business from measures in 2018 to reduce inventories and adjust personnel expenses to the proper level and make other improvements. In addition, we believe that the performance of the bridal and other businesses will be about the same as in 2018. There will be more business structural reforms in 2019 and the benefits of some of these initiatives, including the operation reform, will probably not start appearing until 2020. Based on this outlook, we forecast operating and ordinary losses but a profit attributable to owners of parent because of expected gain on the sale of non-current assets. Due to benefits from the business structural reforms, most of which will be completed in 2020, we expect to become profitable in 2020.

* The above projections are based on information available at the time of release of this report. Actual results could differ from projections due to a variety of factors.

(6) Important Information about Going Concern Assumption

In 2017, Senshukai Group 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 2018, there was an operating loss of 4,063 million yen and a loss attributable to owners of parent of 6,027 million yen. These losses create significant doubts about the going concern assumption. To eliminate these doubts and improve results of operations, 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.

This plan include following initiatives:

(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, selling a higher percentage of merchandise at list prices, holding down the occurrence of surplus inventories, increasing joint activities with suppliers 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, reexamining the media plan and catalog distribution method, improving 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 combining and eliminating organizational units, using voluntary retirement program, and taking other actions.

(5) Cut costs and reduce assets, centralizing activities at each department, selling Osaka head office, and taking other actions.

(6) Reorganize the Senshukai Group by merging subsidiaries that perform functions, and taking other actions.

Some initiatives in the mail-order business have already been completed, such as reductions in inventories and adjustment of personnel expenses to proper level. We expect the benefits of these actions to start to emerge in 2019. Furthermore, we plan to use a new marketing strategy for strengthening sales capabilities in order to start growing again. We are determined to use these measures to construct a solid earnings foundation and renewed growth in order to achieve a recovery in sales and earnings and stabilize the performance of the Senshukai Group.

At the end of 2018, cash and deposits were 17,150 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 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. Basic Approach for the Selection of Accounting Standards

The Senshukai Group has a policy of preparing its consolidated financial statements using Japanese GAAP for the time being to facilitate comparisons with prior-year performance and the performance of other companies in Japan.

We will take suitable actions with regard to the application of the International Financial Reporting Standards (IFRS) by taking into account trends in our industry peers in Japan and associated factors in Japan and other countries.

3. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	Fiscal Year 2017 (As of Dec. 31, 2017)	Fiscal Year 2018 (As of Dec. 31, 2018)
Assets		
Current assets		
Cash and deposits	17,328	17,150
Notes and accounts receivable-trade	5,481	5,532
Merchandise and finished goods	16,561	9,732
Raw materials and supplies	171	186
Accounts receivable-other	7,216	6,110
Other	2,242	1,828
Allowance for doubtful accounts	(147)	(133)
Total current assets	48,854	40,406
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	40,439	37,935
Accumulated depreciation	(26,722)	(24,329)
Buildings and structures, net	13,716	13,606
Machinery, equipment and vehicles	8,522	6,691
Accumulated depreciation	(8,309)	(6,400)
Machinery, equipment and vehicles, net	213	290
Tools, furniture and fixtures	2,493	2,351
Accumulated depreciation	(2,188)	(2,036)
Tools, furniture and fixtures, net	305	314
Land	10,451	8,477
Leased assets	741	652
Accumulated depreciation	(419)	(373)
Leased assets, net	321	279
Construction in progress	8	95
Total property, plant and equipment	25,016	23,063
Intangible assets		
Goodwill	1,992	1,736
Other	715	729
Total intangible assets	2,708	2,466
Investments and other assets		
Investment securities	7,630	6,458
Long-term loans receivable	770	692
Lease and guarantee deposits	1,942	1,888
Other	3,784	1,154
Allowance for doubtful accounts	(265)	(180)
Total investments and other assets	13,861	10,012
Total non-current assets	41,586	35,542
Total assets	90,441	75,949

(Millions of yen)

	Fiscal Year 2017 (As of Dec. 31, 2017)	Fiscal Year 2018 (As of Dec. 31, 2018)
Liabilities		
Current liabilities		
Electronically recorded obligations-operating	9,406	6,631
Accounts payable-trade	6,123	4,836
Short-term loans payable	1,416	1,468
Current portion of bonds with share acquisition rights	-	4,340
Lease obligations	112	112
Accounts payable-other	7,066	6,708
Accrued expenses	1,452	1,200
Income taxes payable	222	318
Accrued consumption taxes	416	66
Provision for sales promotion expenses	408	305
Provision for bonuses	581	291
Other	2,860	2,489
Total current liabilities	30,066	28,770
Non-current liabilities		
Bonds with share acquisition rights	5,000	-
Long-term loans payable	10,613	9,799
Lease obligations	1,031	918
Deferred tax liabilities	943	529
Deferred tax liabilities for land revaluation	202	74
Net defined benefit liability	81	69
Provision for management board incentive plan trust	7	2
Asset retirement obligations	735	778
Other	212	153
Total non-current liabilities	18,826	12,326
Total liabilities	48,892	41,096
Net assets		
Shareholders' equity		
Capital stock	22,304	22,304
Capital surplus	23,860	23,712
Retained earnings	(4,859)	(3,526)
Treasury shares	(149)	(6,932)
Total shareholders' equity	41,155	35,558
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,216	605
Deferred gains or losses on hedges	219	60
Revaluation reserve for land	(1,056)	(1,346)
Foreign currency translation adjustment	(40)	(61)
Remeasurements of defined benefit plans	(19)	(47)
Total accumulated other comprehensive income	318	(789)
Non-controlling interests	74	84
Total net assets	41,548	34,853
Total liabilities and net assets	90,441	75,949

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

(Consolidated Statement of Income)

(Millions of yen)

	Fiscal Year 2017 (Jan. 1, 2017 – Dec. 31, 2017)	Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)
Net sales	125,999	113,344
Cost of sales	71,437	65,019
Gross profit	54,561	48,325
Selling, general and administrative expenses		
Freightage and packing expenses	6,771	6,179
Promotion expenses	14,149	11,283
Provision for allowance for sales promotion expenses	408	305
Provision of allowance for doubtful accounts	146	117
Bad debts expenses	18	-
Directors' compensations	357	317
Salaries and allowances	10,531	8,515
Bonuses	910	494
Provision for bonuses	571	553
Depreciation	2,154	1,758
Other	22,830	22,862
Total selling, general and administrative expenses	58,848	52,388
Operating loss	(4,287)	(4,063)
Non-operating income		
Interest income	27	29
Dividend income	87	60
Share of profit of entities accounted for using equity method	238	-
Gain on adjustment of account payable	191	271
Miscellaneous income	175	220
Total non-operating income	720	582
Non-operating expenses		
Interest expenses	155	145
Share of loss of entities accounted for using equity method	-	27
Commission fee	316	518
Miscellaneous loss	167	105
Total non-operating expenses	639	796
Ordinary loss	(4,206)	(4,277)
Extraordinary income		
Gain on sales of non-current assets	4	25
Gain on sales of investment securities	715	517
Subsidy income	210	46
Other	4	-
Total extraordinary income	935	590
Extraordinary losses		
Loss on sales and retirement of non-current assets	55	36
Loss on reduction of non-current assets	198	46
Impairment loss	5,473	489
Business structure reform expenses	1,902	1,459
Loss on liquidation of termination of deposit account	-	273
Other	0	22
Total extraordinary losses	7,629	2,329
Loss before income taxes	(10,899)	(6,016)
Income taxes-current	175	256
Income taxes-deferred	4	(255)
Total income taxes	179	1
Loss	(11,079)	(6,018)
Profit attributable to non-controlling interests	10	9
Loss attributable to owners of parent	(11,090)	(6,027)

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

	Fiscal Year 2017 (Jan. 1, 2017 – Dec. 31, 2017)	Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)
Loss	(11,079)	(6,018)
Other comprehensive income		
Valuation difference on available-for-sale securities	(66)	(611)
Deferred gains or losses on hedges	97	(171)
Foreign currency translation adjustment	13	(13)
Share of other comprehensive income of entities accounted for using equity method	238	(22)
Total other comprehensive income	282	(818)
Comprehensive income	(10,797)	(6,836)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(10,807)	(6,846)
Comprehensive income attributable to non-controlling interests	10	9

(3) Consolidated Statement of Changes in Equity

Fiscal Year 2017 (Jan. 1, 2017 – Dec. 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	22,304	23,860	12,385	(151)	58,399
Changes of items during period					
Dividend of surplus			(208)		(208)
Loss attributable to owners of parent			(11,090)		(11,090)
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		0		1	1
Reversal of revaluation reserve for land			(5,927)		(5,927)
Change of scope of consolidation			(20)		(20)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	0	(17,245)	1	(17,243)
Balance at end of current period	22,304	23,860	(4,859)	(149)	41,155

(Millions of yen)

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	1,271	(11)	(6,983)	(143)	(23)	(5,890)	64	52,572
Changes of items during period								
Dividend of surplus								(208)
Loss attributable to owners of parent								(11,090)
Purchase of treasury shares								(0)
Disposal of treasury shares								1
Reversal of revaluation reserve for land								(5,927)
Change of scope of consolidation								(20)
Net changes of items other than shareholders' equity	(55)	230	5,927	103	3	6,209	10	6,219
Total changes of items during period	(55)	230	5,927	103	3	6,209	10	(11,024)
Balance at end of current period	1,216	219	(1,056)	(40)	(19)	318	74	41,548

Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	22,304	23,860	(4,859)	(149)	41,155
Changes of items during period					
Issuance of new shares	3,500	3,500			7,000
Dividends of surplus-other capital surplus		(75)			(75)
Transfer to other capital surplus from capital stock	(3,500)	3,500			-
Loss attributable to owners of parent			(6,027)		(6,027)
Deficit disposition		(7,071)	7,071		-
Purchase of treasury shares				(6,785)	(6,785)
Disposal of treasury shares		0		2	2
Reversal of revaluation reserve for land			289		289
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(147)	1,333	(6,782)	(5,596)
Balance at end of current period	22,304	23,712	(3,526)	(6,932)	35,558

(Millions of yen)

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	1,216	219	(1,056)	(40)	(19)	318	74	41,548
Changes of items during period								
Issuance of new shares								7,000
Dividends of surplus-other capital surplus								(75)
Transfer to other capital surplus from capital stock								-
Loss attributable to owners of parent								(6,027)
Deficit disposition								-
Purchase of treasury shares								(6,785)
Disposal of treasury shares								2
Reversal of revaluation reserve for land								289
Net changes of items other than shareholders' equity	(610)	(158)	(289)	(20)	(28)	(1,108)	9	(1,098)
Total changes of items during period	(610)	(158)	(289)	(20)	(28)	(1,108)	9	(6,695)
Balance at end of current period	605	60	(1,346)	(61)	(47)	(789)	84	34,853

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal Year 2017 (Jan. 1, 2017 – Dec. 31, 2017)	Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)
Cash flows from operating activities		
Loss before income taxes	(10,899)	(6,016)
Depreciation	2,196	1,807
Impairment loss	5,473	489
Increase (decrease) in allowance for doubtful accounts	(5)	(98)
Increase (decrease) in provision for sales promotion expenses	(29)	(102)
Increase (decrease) in provision for bonuses	581	(290)
Interest and dividend income	(114)	(90)
Interest expenses	155	145
Share of (profit) loss of entities accounted for using equity method	(238)	27
Loss (gain) on sales of investment securities	(715)	(516)
Loss (gain) on sales and retirement of non-current assets	50	10
Loss on reduction of non-current assets	198	46
Subsidy income	(210)	(46)
Payments for business structure reform expenses	1,902	1,459
Loss on liquidation of termination of deposit account	-	273
Decrease (increase) in notes and accounts receivable-trade	(1,503)	(100)
Decrease (increase) in inventories	4,454	6,778
Decrease (increase) in other current assets	2,086	1,334
Increase (decrease) in notes and accounts payable-trade	(302)	(3,588)
Increase (decrease) in other current liabilities	(858)	(1,333)
Other, net	183	29
Subtotal	2,403	219
Interest and dividend income received	132	107
Interest expenses paid	(154)	(145)
Income taxes (paid) refund	(428)	(172)
Payments for business structure reform expenses	-	(1,960)
Net cash provided by (used in) operating activities	1,952	(1,950)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,165)	(1,997)
Proceeds from sales of property, plant and equipment	5	2,527
Purchase of intangible assets	(529)	(570)
Proceeds from subsidy income	309	46
Proceeds from withdrawal of time deposits	-	2,226
Purchase of investment securities	(150)	(138)
Proceeds from sales of investment securities	1,754	849
Purchase of shares of subsidiaries	(835)	-
Proceeds from capital reduction with compensation of subsidiaries and affiliates	450	-
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(302)	-
Other, net	65	252
Net cash provided by (used in) investing activities	(397)	3,196
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	40	10
Proceeds from long-term loans payable	2,800	600
Repayments of long-term loans payable	(1,656)	(1,371)
Payment for redemption of bonds with share acquisition rights	(2,000)	(653)
Proceeds from issuance of common shares	-	6,975
Purchase of treasury shares	(0)	(6,785)
Cash dividends paid	(209)	(77)
Other, net	(122)	(112)
Net cash provided by (used in) financing activities	(1,148)	(1,414)
Effect of exchange rate change on cash and cash equivalents	(39)	(8)
Net increase (decrease) in cash and cash equivalents	366	(176)
Cash and cash equivalents at beginning of period	16,600	17,323
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	357	-
Cash and cash equivalents at end of period	17,323	17,147

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Additional Information

Liquidation of a Consolidated Subsidiary

On October 26, 2018, the Board of Directors of Senshukai approved a resolution to liquidate consolidated subsidiary Feel Life Inc.

1. Reason for liquidation

Feel Life Inc. was established in 2017 for the purpose of creating a stronger framework in the mail-order business for selling merchandise to the senior age segment. All business operations of JFR Online Co. Ltd. were transferred to Feel Life on March 1, 2017. Although the goal was to achieve growth by operating this senior age segment business as a separate company, progress toward this goal has been slower than expected. Performance has been held back by the cost of the infrastructure that is required for a comprehensive mail-order and e-commerce business, the difficulty of capturing synergies with Belle Maison, and the difficulty of retaining the loyalty of customers in this age segment.

Another problem was the big downturn in the mail-order business of Senshukai that created an urgent need to focus resources on decisive business structural reforms. In response to this situation, we reassessed the profitability and growth prospects of Feel Life as well as the similarities between its operations and the businesses of Senshukai. This process led to the conclusion that the best course of action is to unify activities concerning the loyalty of customer segments at Senshukai and use a single infrastructure for the business operations of the Feel Like and Senshukai. Therefore, the decision was made to transfer customer information and other resources at Feel Life to Senshukai for centralized operations and liquidate Feel Life.

Feel Life will continue to operate until May 31, 2019, after which part of its business operations will be transferred to Senshukai and the company will be liquidated.

2. Outline of the subsidiary

(1) Name:	Feel Life Inc.
(2) Business:	Mail-order business
(3) Investment ratio:	Wholly owned by Senshukai

3. Schedule

・Resolution of the Senshukai Board of Directors:	October 26, 2018
・Extraordinary general meeting of shareholders (Senshukai and Feel Life):	June 30, 2019 (tentative)
・Completion of liquidation:	September 2019 (tentative)

4. Financial position of Feel Life

Net assets:	97 million yen
Total assets:	1,536 million yen
Total liabilities:	1,439 million yen

5. Estimated loss on liquidation

Business structure reform expenses of 69 million yen were recorded as extraordinary losses in 2018.

6. Significant effects of the liquidation on business activities

Senshukai believes that the liquidation of Feel Life will have only a negligible effect on business activities of the Group.

Segment Information

1. Overview of reportable segment

Segments used for financial reporting are Senshukai's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

The Senshukai Group primarily operates the mail-order business, bridal business, and corporates business, and Senshukai and its group companies manage each of these businesses according to these classifications.

Therefore the Group, comprised of these different business segments, has three reportable segments: the mail-order business, bridal business, and corporates business.

The mail-order business is engaged in mail-order sales via a variety of media centered on catalogs and the Internet. The bridal business provides mostly house wedding services. The corporates business uses Senshukai's infrastructure to provide solutions services and promotional services targeting mail-order companies and e-commerce businesses.

2. Calculation methods for sales, profit or loss, assets, and other items for each reportable segment

The accounting methods for reportable segments are the same as those used for preparing the consolidated financial statements.

Profits (loss) for reportable segments are generally operating profit (loss) figures.

Inter-segment sales or transfers are based on market prices.

3. Information related to sales and profit or loss, assets, and other items for each reportable segment

Fiscal Year 2017 (Jan. 1, 2017 – Dec. 31, 2017) (Millions of yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated financial statements (Note 3)
	Mail-order business	Bridal business	Corporates business	Sub-total				
Net sales								
Sales to customers	101,279	18,132	4,833	124,245	1,753	125,999	-	125,999
Inter-segment sales or transfers	1,016	1	160	1,178	33	1,212	(1,212)	-
Total	102,295	18,134	4,994	125,424	1,787	127,211	(1,212)	125,999
Segment profit (loss)	(5,707)	963	375	(4,368)	80	(4,287)	0	(4,287)
Segment assets	68,155	20,220	868	89,244	2,142	91,386	(945)	90,441
Other items								
Depreciation	1,117	1,025	25	2,168	28	2,196	-	2,196
Amortization of goodwill	-	216	-	216	20	236	-	236
Investment in equity-method affiliates	547	3,358	-	3,905	-	3,905	-	3,905
Increase in property, plant and equipment and intangible assets	1,063	414	0	1,478	69	1,548	-	1,548

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. Adjustments are as follows.
   (1) The 0 million yen adjustment to segment profit (loss) is an elimination for inter-segment transactions.
   (2) The (945) million yen adjustment to segment assets is an elimination for inter-segment transactions.
3. Segment profit (loss) is adjusted to be consistent with the operating loss on the consolidated statement of income.

Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018) (Millions of yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated financial statements (Note 3)
	Mail-order business	Bridal business	Corporates business	Sub-total				
Net sales								
Sales to customers	86,452	19,386	5,161	111,001	2,343	113,344	-	113,344
Inter-segment sales or transfers	1,015	0	168	1,184	52	1,236	(1,236)	-
Total	87,468	19,386	5,330	112,185	2,395	114,581	(1,236)	113,344
Segment profit (loss)	(5,633)	1,004	339	(4,288)	225	(4,063)	0	(4,063)
Segment assets	53,006	21,192	872	75,071	2,183	77,254	(1,305)	75,949
Other items								
Depreciation	771	966	21	1,758	49	1,807	-	1,807
Amortization of goodwill	-	216	-	216	40	256	-	256
Investment in equity-method affiliates	610	3,265	-	3,876	-	3,876	-	3,876
Increase in property, plant and equipment and intangible assets	916	1,894	10	2,821	241	3,062	-	3,062

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. Adjustments are as follows.
(1) The 0 million yen adjustment to segment profit (loss) is an elimination for inter-segment transactions.
(2) The (1,305) million yen adjustment to segment assets is an elimination for inter-segment transactions.
3. Segment profit (loss) is adjusted to be consistent with the operating loss on the consolidated statement of income.

4. Information related to impairment of non-current assets for each reportable segment

Fiscal Year 2017 (Jan. 1, 2017 – Dec. 31, 2017) (Millions of yen)

	Mail-order business	Bridal business	Corporates business	Others	Elimination or corporate	Total
Impairment loss	4,877	550	-	44	-	5,473

Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018) (Millions of yen)

	Mail-order business	Bridal business	Corporates business	Others	Elimination or corporate	Total
Impairment loss	476	10	-	3	-	489

Per Share Information

(Yen)

	Fiscal Year 2017 (Jan. 1, 2017 – Dec. 31, 2017)	Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)
Net assets per share	797.13	689.05
Net loss per share	(213.16)	(136.75)

Notes: 1. Diluted net income per share is not presented since Senshukai has outstanding dilutive securities, though posted a net loss.
2. Senshukai's stock held by the executive stock compensation trust is included in treasury shares, which are deducted from the number of shares outstanding at the end of the period for the calculation of net assets per share (deduction of 177,000 shares in Fiscal Year 2017 and 174,000 shares in Fiscal Year 2018). In addition, this trust stock is included in treasury shares, which are deducted from the average number of shares outstanding during the period for the calculation of net loss per share (deduction of 178,000 shares in Fiscal Year 2017 and 177,000 shares in Fiscal Year 2018).
3. Basis for calculation of net loss per share is as follows.

(Millions of yen)

	Fiscal Year 2017 (Jan. 1, 2017 – Dec. 31, 2017)	Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)
Net loss per share		
Loss attributable to owners of parent	(11,090)	(6,027)
Amounts unavailable to common shareholders	-	-
[Including: dividends for Class A preferred stock]	[-]	[-]
Loss attributable to owners of parent	(11,090)	(6,027)
Average number of shares outstanding during the period (thousand shares)	52,028	44,080
Number of residual securities with no dilution excluded from calculation of diluted net income per share	-	-

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 consolidated subsidiary Belle Neige Direct Co., Ltd. ("BND") and Megmilk Snow Brand Co., Ltd. ("MSB") for the sale of part of the shares of BND held by Senshukai to MSB and the use of a third-party allotment to sell newly issued BND shares to MSB. The agreement was conducted on January 9, 2019.

After this sale and the third-party allotment, Senshukai's equity interest in BND is 33.4% and this company has become an equity-method affiliate of Senshukai.

1. Reason for the sale of 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 company purchasing BND shares

MEGMILK SNOW BRAND Co., Ltd.

3. Schedule

- Conclusion of share sale agreement: December 19, 2018
- Sale of shares: January 9, 2019
- BND third-party allotment: January 9, 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 sold 3,324 shares of BND to MSB.

(2) MSB also purchased 3,324 shares of BND shares through a third-party allotment by BND.

(3) The ownership of BND changed 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, and merger of two consolidated subsidiaries)

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., and to merge consolidated subsidiaries Senshukai Call Center Co., Ltd. and Senshukai Service Hanbai Co., Ltd. The mergers were conducted on January 1, 2019.

I. Absorption and merger of consolidated subsidiaries

1. Purpose of merger

Senshukai General Services provides insurance and credit card services and Senshukai Business Services performs administrative services for Senshukai. These subsidiaries have merged with Senshukai for the purpose of using the Senshukai Group’s resources more effectively and efficiently.

2. Summary of merger

(1) Name and business activities of merging companies

Surviving company
Name: SENSHUKAI CO.,LTD.
Business: Mail-order business, bridal business, corporates business and other businesses

Dissolved company 1
Name: Senshukai General Services Co., Ltd.
Business: Services business

Dissolved company 2
Name: Senshukai Business Services Co., Ltd.
Business: Services business

(2) Date of merger

January 1, 2019

(3) Method of merger

An absorption-type merger between Senshukai, which will be the surviving company, and Senshukai General Services and Senshukai Business Services, which are liquidated.

(4) Company's name after merger

SENSHUKAI CO.,LTD.

3. Summary of accounting methods applied

Accounting methods used for this merger as a transaction under common control are based on "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

II. Merger of two consolidated subsidiaries

1. Purpose of merger

Senshukai Call Center operates a telemarketing business and Senshukai Service Hanbai performs sales promotion and new customer acquisition activities in the mail-order business. These companies have merged for the purpose of using the Senshukai Group's resources more effectively and efficiently.

2. Summary of merger

(1) Name and business activities of merging companies

Surviving company

Name:	Senshukai Call Center Co., Ltd.
Business:	Telemarketing business

Dissolved company

Name:	Senshukai Service Hanbai Co., Ltd.
Business:	Sales promotion and new customer acquisition activities

(2) Date of merger

January 1, 2019

(3) Method of merger

An absorption-type merger between Senshukai Call Center, which will be the surviving company, and Senshukai Service Hanbai, which is liquidated.

(4) Company's name after acquisition

Senshukai Call Center Co., Ltd.

3. Summary of accounting methods applied

Accounting methods used for this merger as a transaction under common control are based on "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

(Sale of significant assets)

On January 25, 2019, the Board of Directors of Senshukai approved a resolution to sell non-current assets as follows.

1. Reason for sale

The decision was made to sell the following non-current assets as part of activities to locate all business departments and group companies in a single location. Centralizing these activities is expected to increase the efficiency of asset utilization and business operations as well as to improve earnings.

2. Assets to be sold and purchasers

Description and location	Gain on sale (estimate)	Category
Land and buildings 1-8-9 Doshin, Kita-ku, Osaka, othres	5,537 million yen	Osaka head office

Note: The purchaser, selling price and book value are not disclosed due to the wishes of the purchaser.
Senshukai has no financial, personnel or business relationships with the purchaser. The purchaser is not a related-party of Senshukai.

3. Schedule

- Contract signing: January 25, 2019
- Closing date: March 29, 2019

4. Effect on earnings

Due to this sale, the gain on sales of non-current assets of 5,537 million yen will be recorded as extraordinary income in the first quarter of 2019.

** 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.*