

Summary of Financial Results for the Fiscal Year 2021 (Ended December 31, 2021)

[Japanese GAAP]

February 10, 2022

Company name: **SENSHUKAI CO.,LTD.** Stock exchange: Tokyo Stock Exchange, First Section
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Scheduled date of annual general meeting of shareholders: March 30, 2022

Scheduled date of payment of dividend: March 31, 2022

Scheduled date of filing of Annual Security Report: March 31, 2022

Preparation of supplementary materials for financial results: Yes

Holding of financial results meeting: Yes (Only a webcast is planned to prevent the spread of COVID-19)

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

1. Consolidated Financial Results for the Fiscal Year 2021 (January 1, 2021 – December 31, 2021)

(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 2021 | 73,149 | (12.2) | 349 | - | 520 | - | 308 | - |
| Fiscal Year 2020 | 83,286 | (6.6) | (389) | - | (3,800) | - | (3,946) | - |

Note: Comprehensive income (millions of yen) Fiscal Year 2021: 736 (-%) Fiscal Year 2020: (4,219) (-%)

| | 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 2021 | 6.64 | - | 0.9 | 0.9 | 0.5 |
| Fiscal Year 2020 | (95.23) | - | (10.6) | (5.5) | (0.5) |

Reference: Equity in earnings (losses) of affiliates (millions of yen) Fiscal Year 2021: 77 Fiscal Year 2020: (3,515)

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|------------------|-----------------|-----------------|--------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| Fiscal Year 2021 | 52,476 | 33,202 | 63.3 | 708.09 |
| Fiscal Year 2020 | 63,933 | 32,088 | 50.2 | 699.01 |

Reference: Shareholders' equity (millions of yen) Fiscal Year 2021: 33,202 Fiscal Year 2020: 32,088

(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 2021 | (317) | (603) | (3,066) | 15,665 |
| Fiscal Year 2020 | 2,428 | (1,557) | (3,995) | 19,592 |

2. Dividends

| | Dividend per share | | | | | Total dividends (total) | Payout ratio (consolidated) | Dividend on equity (consolidated) |
|------------------------------|--------------------|----------|--------|----------|----------|-------------------------|-----------------------------|-----------------------------------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total | | | |
| Fiscal Year 2020 | Yen - | Yen 0.00 | Yen - | Yen 0.00 | Yen 0.00 | Millions of yen - | % - | % - |
| Fiscal Year 2021 | - | 3.00 | - | 4.00 | 7.00 | 328 | 105.4 | 1.0 |
| Fiscal Year 2022 (forecasts) | - | 3.00 | - | 4.00 | 7.00 | | 93.8 | |

3. Consolidated Outlook for Fiscal Year 2022 (January 1, 2022 – December 31, 2022)

(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 2022 | 76,000 | - | 200 | - | 300 | - | 350 | - | 7.46 |

Note: Beginning with the fiscal year 2022, Senshukai will apply Accounting Standard for Revenue Recognition ((Accounting Standards Board of Japan (ASBJ) Statement No. 29). The above forecasts incorporate this accounting standard and comparisons with the previous fiscal year are omitted.

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Excluded: 3 (Dears Brain Inc., PLANETWORK CO., LTD., WONDERSTAGE Co., Ltd.)

Note: Please refer to “3. Consolidated Financial Statements and Notes, (5) Notes to Consolidated Financial Statements (Changes in Significant Subsidiaries during the Period)” on page 14 for further information.

(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 2021: 52,056,993 shares Fiscal Year 2020: 52,056,993 shares

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

Fiscal Year 2021: 5,167,335 shares Fiscal Year 2020: 6,151,627 shares

3) Average number of shares outstanding during the period

Fiscal Year 2021: 46,444,898 shares Fiscal Year 2020: 41,440,388 shares

(Reference) Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for Fiscal Year 2021 (January 1, 2021 – December 31, 2021)

(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 2021 | 67,190 | (5.6) | 1,005 | (65.1) | 1,304 | (53.9) | (2,939) | - |
| Fiscal Year 2020 | 71,157 | 11.2 | 2,883 | - | 2,827 | - | 1,803 | (75.8) |

| | Net income per share | Diluted net income per share |
|------------------|----------------------|------------------------------|
| | Yen | Yen |
| Fiscal Year 2021 | (63.28) | - |
| Fiscal Year 2020 | 43.53 | - |

(2) Non-consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|------------------|-----------------|-----------------|--------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| Fiscal Year 2021 | 50,763 | 32,264 | 63.6 | 688.09 |
| Fiscal Year 2020 | 56,257 | 34,694 | 61.7 | 755.79 |

Reference: Shareholders' equity (millions of yen) Fiscal Year 2021: 32,264 Fiscal Year 2020: 34,694

* 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

There will be no meeting for the presentation of financial results for 2021 because of the COVID-19 pandemic. A video of this presentation is planned to be posted on the Senshukai website soon. In addition, materials used for this presentation will be disclosed using the Timely Disclosure network (TDnet) and will be posted on the Senshukai website.

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1. Overview of Results of Operations

(1) Results of Operations

Overview

In 2021, the business environment remained difficult due to repeated declarations of a state of emergency following the resurgence of COVID-19 and to restrictions on economic activity. During the second half of 2021, although restrictions on economic activity were gradually reduced as more people received vaccinations, the outlook for the economy remains uncertain because of a rapid increase in COVID-19 caused by the Omicron variant.

In Japan's retail industry, store sales continue to face challenges due to restrictions on going out and reduced opening hours. Mail-order and online shopping sales are growing steadily because these are firmly established as shopping channels among consumers. The growth of e-commerce is attracting a growing number of new competitors, resulting in even more heated competition. Furthermore, a full-scale recovery of Japan's retail sector is unlikely to happen soon because of the decline in demand linked to staying home for safety during the pandemic and the low level of consumer motivation to make purchases.

In this business environment, sales were firm in the mail-order and online shopping business compared with 2019 pre-pandemic levels. However, sales in this business decreased because the upturn in demand associated with stay-at-home consumption caused by the pandemic settled down compared to the 2020 level. Beginning with the second quarter of 2021, the bridal business was no longer included in the consolidated financial statements because of the sale of shares of three subsidiaries at the end of the first quarter as part of activities involving a reexamination of the Senshukai Group's business portfolio. As a result, net sales in 2021 were down 12.2% to 73,149 million yen. For the same reasons, the mail-order and online shopping businesses reported a decline in earnings, but the bridal business reported fewer losses. As a result, there was an operating profit of 349 million yen compared with a loss of 389 million yen in 2020. Ordinary profit was 520 million yen compared with a loss of 3,800 million yen in 2020. Profit attributable to owners of parent was 308 million yen compared with a loss of 3,946 million yen in 2020.

Business segment performance was as follows.

Beginning with the first quarter of 2021, the credit card business, which was formerly included in the insurance and credit card business segment, has been reclassified and included in the mail-order and online shopping business segment for better coordination to the membership measures in this business. Due to this change, the insurance and credit card business segment has been renamed as the "insurance business" segment. Prior-year segment information has been revised to incorporate this new segment to permit comparisons.

(Mail-order and Online Shopping Business)

Consolidated sales in the mail-order and online shopping business, which is primarily the catalog and the Internet businesses, decreased 4.7% year-over-year to 64,325 million yen in 2021. Operating profit decreased 66.1% to 894 million yen.

Although the number of members making purchases increased steadily by comparison to the prepandemic 2019, the level of special demand for stay-at-home consumption eased from the level recorded in 2020. Other reasons for the decrease in sales and earnings included the strengthening of the framework for the implementation of the medium-term management plan announced in July 2021, and the increase in fees and personnel expenses incurred to get ready for the 2022 renewal of the core IT system, which is an essential premise for our business reform using digital technologies.

(Bridal Business)

Consolidated subsidiaries Dears Brain Inc. and PLANETWORK CO., LTD., and WONDERSTAGE Co., Ltd., a wholly owned subsidiary of Dears Brain and a sub-subsubsidiary of Senshukai, were excluded from the scope of consolidation following the sales of all shares of Dears Brain and PLANETWORK on March 31, 2021. In 2021, when the Group had withdrawn from these businesses, consolidated sales in the bridal business decreased 79.4% year-over-year to 1,733 million yen and there was an operating loss of 1,045 million yen compared with a loss of 3,728 million yen in 2020.

(Corporates Business)

Consolidated sales in the corporates business, which provides products and services to corporations, decreased 7.1% year-over-year to 4,732 million yen. Operating profit decreased 34.8% to 302 million yen.

Although orders for outsourced logistics and call center services increased due to the expansion of mail-order sales to corporate clients, both sales and earnings decreased because of a downturn in the demand for products used for protection against becoming infected during the pandemic.

(Insurance Business)

This business provides support, mainly to Belle Maison members, for choosing the most suitable insurance policies. Consolidated sales increased 4.7% year-over-year to 420 million yen and operating profit decreased 1.7% to 189 million yen.

(Others)

Consolidated sales in other businesses, which include childcare support business and manufacturing and sales of cosmetics, increased 3.0% year-over-year to 1,938 million yen. Operating profit decreased 80.5% year-over-year to 7 million yen.

In the childcare support business, earnings decreased because of higher expenses for recruiting activities and for fees and other expenses required for opening new childcare facilities.

(2) Financial Position

Consolidated subsidiaries Dears Brain Inc. and PLANETWORK CO., LTD., and WONDERSTAGE Co., Ltd., a wholly owned subsidiary of Dears Brain and a sub-subsidiary of Senshukai, were excluded from the scope of consolidation following the sales of all shares of Dears Brain and PLANETWORK in 2021.

Main reason for the following decreases in property, plant and equipment, goodwill and long-term borrowings is the effect of the exclusion of these companies from the consolidation.

Assets totaled 52,476 million yen at the end of 2021, a decrease of 11,457 million yen from the end of 2020.

Current assets decreased 3,149 million yen to 34,463 million yen. The factors included a decrease of 3,927 million yen in cash and deposits. Non-current assets decreased 8,307 million yen to 18,013 million yen. The factors included decreases of 8,196 million yen in property, plant and equipment, 1,203 million yen in goodwill and 1,157 million yen in investments and other assets. There was an increase of 2,249 million yen in intangible assets excluding goodwill because of ongoing activities for the replacement of the main IT system.

Current liabilities decreased 5,363 million yen to 15,966 million yen. The factors included decreases of 2,713 million yen in short-term borrowings, 858 million yen in accounts payable-trade and 742 million yen in accounts payable-other. Non-current liabilities decreased 7,207 million yen to 3,307 million yen. The main factors were decreases of 5,840 million yen in long-term borrowings and 712 million yen in asset retirement obligations.

Net assets increased 1,113 million yen to 33,202 million yen. The factors included booking of profit attributable to owners of parent of 308 million yen, and a decrease of 572 million yen in treasury shares due to disposal of treasury shares for restricted stock compensation. As a result, the equity ratio was 63.3%.

(3) Cash Flows

The balance of cash and cash equivalents at the end of 2021 was 15,665 million yen, a decrease of 3,927 million yen from the end of 2020.

Operating activities used net cash of 317 million yen (net cash provided of 2,428 million yen in 2020). The main cash inflows were depreciation of 981 million yen, an increase in trade payables of 567 million yen and profit before income taxes of 399 million yen. The main cash outflows include an increase in inventories of 2,069 million yen.

Investing activities used net cash of 603 million yen (net cash used of 1,557 million yen in 2020). The main cash inflows include proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation of 2,773 million yen. The main cash outflows include 3,025 million yen for the purchase of intangible assets and 458 million yen for the purchase of property, plant and equipment.

Financing activities used net cash of 3,066 million yen (net cash used of 3,995 million yen in 2020). The main cash outflows were a decrease in short-term borrowings of 2,100 million yen and repayments of long-term borrowings of 774 million yen.

Cash flow indices

| | Fiscal Year 2019 (As of Dec. 31, 2019) | Fiscal Year 2020 (As of Dec. 31, 2020) | Fiscal Year 2021 (As of Dec. 31, 2021) |
|--|---|---|---|
| Equity ratio (%) | 57.7 | 50.2 | 63.3 |
| Equity ratio based on fair value (%) | 28.6 | 23.3 | 34.8 |
| Ratio of interest-bearing debt to cash flows (years) | 3.7 | 5.3 | - |
| Interest coverage ratio (times) | 23.1 | 17.3 | - |

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.

- 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.
- Interest-bearing debt includes short-term borrowings, long-term borrowings, and lease obligations shown on the consolidated balance sheet.
- 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.
- Ratio of interest-bearing debt to cash flows and interest coverage ratio are not shown for Fiscal Year 2021 because operating cash flows were negative.

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

The Senshukai Group's policy regarding dividends is to distribute earnings to shareholders in a manner that reflects its performance. Furthermore, the policy is to pay stable dividends that take into account the payout ratio of 30% on a consolidated basis while reflecting the need to use retained earnings to strengthen the company's foundation for business operations. Senshukai has a shareholder benefit program that distributes to shareholders twice every year gift certificates based on the number of shares and the number of years the shares have been held. This program is also a way to give shareholders a better understanding of Senshukai by using the company's products and services.

We plan a total annual dividend of 7 yen per share, comprised of a year-end dividend of 4 yen per share, and an interim dividend of 3 yen per share, in line with the initial forecast.

For 2022, based on the outlook for results of operations, medium- to long-term financial condition and other items, we plan to pay an interim dividend of 3 yen and a year-end dividend of 4 yen for a total of 7 yen. We are determined to make substantial distributions to shareholders, including through the shareholder benefit program, as we achieve growth of corporate value.

(5) Outlook

Consolidated

(Millions of yen)

| | Net sales | Operating profit | Ordinary profit | Profit attributable to owners of parent |
|-----------------------------|-----------|------------------|-----------------|---|
| Fiscal Year 2022 (forecast) | 76,000 | 200 | 300 | 350 |
| Fiscal Year 2021 (results) | 73,149 | 349 | 520 | 308 |
| Change (%) | - | - | - | - |

Note: Beginning with the fiscal year 2022, Senshukai will apply Accounting Standard for Revenue Recognition (ASBJ Statement No. 29). The above forecasts incorporate this accounting standard and comparisons with the previous fiscal year are omitted.

In 2022, which is the second year of the current medium-term management plan covering the period from 2021 to 2025, there will be numerous reforms and innovations with the goal of rebuilding the business model for the mail-order and online shopping business. Maximizing the utilization value of Senshukai products and services is the primary goal of the management plan. To accomplish this goal, we plan to use our equity and business alliance with

East Japan Railway Company (JR East), which we established in September 2020, and our partnerships with other companies to strengthen our lineup of merchandise and launch new services. To build a stronger customer base, we will use many initiatives involving catalogs, digital communication channels, and e-commerce sales promotions that target chiefly mobile links. These measures are aimed at adding new members and retaining current members. In addition, we will replace the core IT system that will be the main infrastructure for all these business process reengineering activities. We forecast a decline in operating profit because expenditures for these activities with the goal of achieving medium-term growth.

The Senshukai Group started a five-year medium-term management plan in July 2021 that will end in 2025. By building an innovative co-creation model centered on the mail-order and online shopping business, we are aiming to raise sales to 90,000 million yen, operating profit to 4,000 million yen and the return on equity to at least 8% in 2025.

The Three Main Goals of the Medium-term Management Plan

- (1) Be a source of unique products and services that can be integral elements of our customers' lives by reflecting in our products and services a broad range of values and lifestyles and an accurate understanding of customers' lifestyles.
- (2) Use close ties with customers to supply more products that are environmentally responsible, can be used with confidence, and make customers excited to purchase and use. Increase measures for the recycling and reuse of merchandise (maximize utilization value*) for contributing to a sustainable society where all products are used as much as possible.
- (3) Play a role in the establishing of a co-creation society that brings together people and companies that share the same values and encompasses many types of lifestyles.

* Utilization value is the sum of the value of goods and services (quality, price, accuracy of meeting needs, attractive and practical designs, materials/ideas for products people like and use a long time, and other attributes) and the value of those goods and services during and after their use.

* These forecasts are based on assumptions using information available when this report was released. Actual results of operations may differ from these forecasts for a variety of reasons, including the negative effects of the resurgence of COVID-19.

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 2020 (As of Dec. 31, 2020) | Fiscal Year 2021 (As of Dec. 31, 2021) |
|--|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 19,592 | 15,665 |
| Notes and accounts receivable-trade | 3,695 | 2,235 |
| Merchandise and finished goods | 7,173 | 9,123 |
| Raw materials and supplies | 265 | 154 |
| Accounts receivable-other | 5,529 | 5,654 |
| Other | 1,484 | 1,756 |
| Allowance for doubtful accounts | (129) | (126) |
| Total current assets | 37,612 | 34,463 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 35,045 | 20,745 |
| Accumulated depreciation | (24,403) | (16,669) |
| Buildings and structures, net | 10,641 | 4,076 |
| Machinery, equipment and vehicles | 6,735 | 6,688 |
| Accumulated depreciation | (6,518) | (6,499) |
| Machinery, equipment and vehicles, net | 217 | 188 |
| Tools, furniture and fixtures | 2,324 | 1,115 |
| Accumulated depreciation | (2,082) | (984) |
| Tools, furniture and fixtures, net | 242 | 130 |
| Land | 6,809 | 5,524 |
| Leased assets | 629 | 15 |
| Accumulated depreciation | (421) | (15) |
| Leased assets, net | 207 | - |
| Construction in progress | 58 | 60 |
| Total property, plant and equipment | 18,176 | 9,980 |
| Intangible assets | | |
| Goodwill | 1,203 | - |
| Intangible assets in progress | 1,480 | 2,683 |
| Other | 474 | 1,521 |
| Total intangible assets | 3,158 | 4,204 |
| Investments and other assets | | |
| Investment securities | 2,102 | 2,493 |
| Leasehold and guarantee deposits | 1,551 | 497 |
| Deferred tax assets | 282 | 16 |
| Other | 1,170 | 912 |
| Allowance for doubtful accounts | (120) | (90) |
| Total investments and other assets | 4,986 | 3,828 |
| Total non-current assets | 26,321 | 18,013 |
| Total assets | 63,933 | 52,476 |

| | (Millions of yen) | |
|--|---|---|
| | Fiscal Year 2020 (As of Dec. 31, 2020) | Fiscal Year 2021 (As of Dec. 31, 2021) |
| Liabilities | | |
| Current liabilities | | |
| Electronically recorded obligations-operating | 6,185 | 6,612 |
| Accounts payable-trade | 3,620 | 2,761 |
| Short-term borrowings | 3,263 | 550 |
| Lease obligations | 122 | 29 |
| Accounts payable-other | 4,721 | 3,979 |
| Accrued expenses | 890 | 649 |
| Income taxes payable | 52 | 22 |
| Accrued consumption taxes | 418 | 44 |
| Provision for sales promotion expenses | 216 | 258 |
| Provision for bonuses for directors (and other officers) | - | 6 |
| Provision for bonuses | 194 | 33 |
| Other | 1,644 | 1,018 |
| Total current liabilities | 21,330 | 15,966 |
| Non-current liabilities | | |
| Long-term borrowings | 8,845 | 3,005 |
| Lease obligations | 683 | 44 |
| Deferred tax liabilities | 14 | 60 |
| Retirement benefit liability | 5 | 6 |
| Asset retirement obligations | 857 | 145 |
| Other | 108 | 45 |
| Total non-current liabilities | 10,514 | 3,307 |
| Total liabilities | 31,845 | 19,274 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 100 | 100 |
| Capital surplus | 30,264 | 30,084 |
| Retained earnings | 6,768 | 7,061 |
| Treasury shares | (3,525) | (2,953) |
| Total shareholders' equity | 33,606 | 34,291 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 195 | 267 |
| Deferred gains or losses on hedges | (78) | 119 |
| Revaluation reserve for land | (1,516) | (1,516) |
| Foreign currency translation adjustment | (118) | 38 |
| Total accumulated other comprehensive income | (1,518) | (1,089) |
| Total net assets | 32,088 | 33,202 |
| Total liabilities and net assets | 63,933 | 52,476 |

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

(Millions of yen)

| | Fiscal Year 2020 (Jan. 1, 2020 – Dec. 31, 2020) | Fiscal Year 2021 (Jan. 1, 2021 – Dec. 31, 2021) |
|---|--|--|
| Net sales | 83,286 | 73,149 |
| Cost of sales | 40,973 | 36,457 |
| Gross profit | 42,313 | 36,692 |
| Selling, general and administrative expenses | | |
| Freight and packing costs | 5,023 | 4,821 |
| Promotion expenses | 10,150 | 8,836 |
| Provision for allowance for sales promotion expenses | 216 | 258 |
| Provision of allowance for doubtful accounts | 120 | 76 |
| Bad debt expenses | 3 | - |
| Remuneration for directors (and other officers) | 209 | 214 |
| Salaries and allowances | 6,067 | 4,588 |
| Bonuses | 615 | 756 |
| Provision for bonuses for directors (and other officers) | - | 6 |
| Provision for bonuses | 189 | 104 |
| Depreciation | 1,751 | 915 |
| Other | 18,353 | 15,763 |
| Total selling, general and administrative expenses | 42,702 | 36,342 |
| Operating profit (loss) | (389) | 349 |
| Non-operating income | | |
| Interest income | 21 | 10 |
| Dividend income | 41 | 31 |
| Share of profit of entities accounted for using equity method | - | 77 |
| Gain on adjustment of account payable | 166 | 115 |
| Foreign exchange gains | - | 72 |
| Subsidy income | 423 | 165 |
| Miscellaneous income | 177 | 144 |
| Total non-operating income | 831 | 617 |
| Non-operating expenses | | |
| Interest expenses | 141 | 77 |
| Share of loss of entities accounted for using equity method | 3,515 | - |
| Rental expenses on real estate | - | 50 |
| Commission expenses | 414 | 248 |
| Miscellaneous losses | 170 | 70 |
| Total non-operating expenses | 4,242 | 446 |
| Ordinary profit (loss) | (3,800) | 520 |

(Millions of yen)

| | Fiscal Year 2020 (Jan. 1, 2020 – Dec. 31, 2020) | Fiscal Year 2021 (Jan. 1, 2021 – Dec. 31, 2021) |
|---|--|--|
| Extraordinary income | | |
| Subsidy income | 18 | 162 |
| Other | 13 | 0 |
| Total extraordinary income | 32 | 163 |
| Extraordinary losses | | |
| Loss on sale and retirement of non-current assets | 20 | 10 |
| Loss on tax purpose reduction entry of non-current assets | 18 | 151 |
| Impairment losses | 141 | - |
| Loss on valuation of investment securities | 40 | - |
| Loss on sale of shares of subsidiaries and associates | - | 11 |
| Loss on disaster | 14 | - |
| Loss on change in equity | - | 110 |
| Total extraordinary losses | 235 | 284 |
| Profit (loss) before income taxes | (4,002) | 399 |
| Income taxes-current | 60 | 45 |
| Income taxes-deferred | (117) | 45 |
| Total income taxes | (56) | 90 |
| Profit (loss) | (3,946) | 308 |
| Profit (loss) attributable to owners of parent | (3,946) | 308 |

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

| | Fiscal Year 2020 (Jan. 1, 2020 – Dec. 31, 2020) | Fiscal Year 2021 (Jan. 1, 2021 – Dec. 31, 2021) |
|--|--|--|
| Profit (loss) | (3,946) | 308 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (169) | 73 |
| Deferred gains or losses on hedges | (101) | 184 |
| Foreign currency translation adjustment | (3) | (16) |
| Share of other comprehensive income of entities accounted for using equity method | 1 | 187 |
| Total other comprehensive income | (272) | 428 |
| Comprehensive income | (4,219) | 736 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | (4,219) | 736 |
| Comprehensive income attributable to non-controlling interests | - | - |

(3) Consolidated Statement of Changes in Equity

Fiscal Year 2020 (Jan. 1, 2020 – Dec. 31, 2020)

(Millions of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 100 | 39,544 | 10,891 | (6,800) | 43,736 |
| Changes during period | | | | | |
| Dividends of surplus | | | (180) | | (180) |
| Loss attributable to owners of parent | | | (3,946) | | (3,946) |
| Purchase of treasury shares | | | | (8,005) | (8,005) |
| Disposal of treasury shares | | (1,275) | | 3,275 | 1,999 |
| Cancellation of treasury shares | | (8,005) | | 8,005 | - |
| Change in scope of equity method | | | 2 | | 2 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | - | (9,280) | (4,123) | 3,274 | (10,129) |
| Balance at end of period | 100 | 30,264 | 6,768 | (3,525) | 33,606 |

(Millions of yen)

| | Accumulated other comprehensive income | | | | | | 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 period | 366 | 49 | (1,516) | (120) | (24) | (1,245) | 42,490 |
| Changes during period | | | | | | | |
| Dividends of surplus | | | | | | | (180) |
| Loss attributable to owners of parent | | | | | | | (3,946) |
| Purchase of treasury shares | | | | | | | (8,005) |
| Disposal of treasury shares | | | | | | | 1,999 |
| Cancellation of treasury shares | | | | | | | - |
| Change in scope of equity method | | | | | | | 2 |
| Net changes in items other than shareholders' equity | (171) | (127) | (0) | 1 | 24 | (272) | (272) |
| Total changes during period | (171) | (127) | (0) | 1 | 24 | (272) | (10,402) |
| Balance at end of period | 195 | (78) | (1,516) | (118) | - | (1,518) | 32,088 |

Fiscal Year 2021 (Jan. 1, 2021– Dec. 31, 2021)

(Millions of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 100 | 30,264 | 6,768 | (3,525) | 33,606 |
| Changes during period | | | | | |
| Dividends of surplus | | | (140) | | (140) |
| Profit attributable to owners of parent | | | 308 | | 308 |
| Purchase of treasury shares | | | | (0) | (0) |
| Disposal of treasury shares | | (179) | | 572 | 392 |
| Change in scope of equity method | | | 125 | | 125 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | - | (179) | 293 | 572 | 685 |
| Balance at end of period | 100 | 30,084 | 7,061 | (2,953) | 34,291 |

(Millions of yen)

| | Accumulated other comprehensive income | | | | | Total net assets |
|--|---|------------------------------------|------------------------------|---|--|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Foreign currency translation adjustment | Total accumulated other comprehensive income | |
| Balance at beginning of period | 195 | (78) | (1,516) | (118) | (1,518) | 32,088 |
| Changes during period | | | | | | |
| Dividends of surplus | | | | | | (140) |
| Profit attributable to owners of parent | | | | | | 308 |
| Purchase of treasury shares | | | | | | (0) |
| Disposal of treasury shares | | | | | | 392 |
| Change in scope of equity method | | | | | | 125 |
| Net changes in items other than shareholders' equity | 72 | 198 | - | 157 | 428 | 428 |
| Total changes during period | 72 | 198 | - | 157 | 428 | 1,113 |
| Balance at end of period | 267 | 119 | (1,516) | 38 | (1,089) | 33,202 |

(4) Consolidated Statement of Cash Flows

(Millions of yen)

| | Fiscal Year 2020 (Jan. 1, 2020 – Dec. 31, 2020) | Fiscal Year 2021 (Jan. 1, 2021 – Dec. 31, 2021) |
|--|--|--|
| Cash flows from operating activities | | |
| Profit (loss) before income taxes | (4,002) | 399 |
| Depreciation | 1,813 | 981 |
| Impairment losses | 141 | - |
| Increase (decrease) in allowance for doubtful accounts | (42) | (15) |
| Increase (decrease) in provision for sales promotion expenses | (9) | 41 |
| Increase (decrease) in provision for bonuses | (39) | 71 |
| Interest and dividend income | (63) | (41) |
| Interest expenses | 141 | 77 |
| Share of loss (profit) of entities accounted for using equity method | 3,515 | (77) |
| Loss (gain) on sale of shares of subsidiaries and associates | - | 11 |
| Loss (gain) on valuation of investment securities | 40 | - |
| Loss (gain) on sale and retirement of non-current assets | 20 | 10 |
| Loss on tax purpose reduction entry of non-current assets | 18 | 151 |
| Subsidy income | (18) | (162) |
| Subsidy income | (423) | (165) |
| Loss (gain) on change in equity | (13) | 110 |
| Decrease (increase) in trade receivables | 180 | 233 |
| Decrease (increase) in inventories | 1,399 | (2,069) |
| Decrease (increase) in other current assets | (167) | 114 |
| Increase (decrease) in trade payables | (119) | 567 |
| Increase (decrease) in other current liabilities | (736) | (194) |
| Other, net | 388 | (396) |
| Subtotal | 2,023 | (352) |
| Interest and dividends received | 160 | 171 |
| Interest paid | (139) | (80) |
| Income taxes refund (paid) | (26) | (222) |
| Subsidies received | 423 | 165 |
| Payments for business structure reform expenses | (13) | - |
| Net cash provided by (used in) operating activities | 2,428 | (317) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (644) | (458) |
| Purchase of intangible assets | (1,213) | (3,025) |
| Subsidies received | 18 | 162 |
| Purchase of investment securities | (15) | (295) |
| Proceeds from sale of investment securities | - | 103 |
| Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation | - | 2,773 |
| Other, net | 296 | 136 |
| Net cash provided by (used in) investing activities | (1,557) | (603) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | 2,100 | (2,100) |
| Proceeds from long-term borrowings | 1,450 | - |
| Repayments of long-term borrowings | (1,240) | (774) |
| Purchase of treasury shares | (8,005) | (0) |
| Proceeds from disposal of treasury shares | 1,999 | - |
| Dividends paid | (179) | (139) |
| Other, net | (118) | (51) |
| Net cash provided by (used in) financing activities | (3,995) | (3,066) |
| Effect of exchange rate change on cash and cash equivalents | 3 | 60 |
| Net increase (decrease) in cash and cash equivalents | (3,120) | (3,927) |
| Cash and cash equivalents at beginning of period | 22,713 | 19,592 |
| Cash and cash equivalents at end of period | 19,592 | 15,665 |

(5) Notes to Consolidated Financial Statements**(Going Concern Assumption)**

Not applicable.

(Changes in Significant Subsidiaries during the Period)

Specified subsidiaries Dears Brain Inc. and PLANETWORK CO., LTD., and WONDERSTAGE Co., Ltd., a wholly owned subsidiary of Dears Brain and a sub-subsidiary of Senshukai, were excluded from the scope of consolidation following the sales of all shares of Dears Brain and PLANETWORK in 2021.

(Important Changes in the Scope of Application of the Equity Method)

During 2021, equity-method affiliate Watabe Wedding Corporation sold newly issued stock by using a third-party allotment. Due to the resulting reduction in Senshukai's ownership of this company, Watanabe Wedding and one other company are no longer equity-method affiliates.

(Additional Information)

(Application of tax effect accounting associated with the transition from the consolidated taxation system to the group tax sharing system)

Senshukai and its consolidated subsidiaries are transitioning to the group tax sharing system that was created by the Act on Partial Amendments to the Income Tax Act, etc. (Act No. 8 of 2020) and, in conjunction with this transition, has reexamined items concerning the non-consolidated taxation system. With respect to this transition and reexamination, Senshukai and its consolidated subsidiaries have not used the provisions of Paragraph 44 of Implementation Guidance on Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) in accordance with the treatment in Paragraph 3 of Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (ASBJ Practical Issues Task Force (PITF) No. 39, March 31, 2020). As a result, deferred tax assets and deferred tax liabilities are based on the tax law prior to these amendments.

(Uncertainty of accounting estimates)

Due to the emergence of the Omicron variant late in 2021, the number of COVID-19 cases increased rapidly in January and February 2022. Due to this outbreak, market conditions remain challenging because of restrictions on various activities and a decline in consumer spending. The outlook continues to be uncertain, but Senshukai believes that this situation will have only a negligible effect on business activities of the Senshukai Group. We are using the best possible estimates in accordance with information that is currently available. However, if some upcoming event alters the impact of this crisis on business operations, there may be an effect on the Senshukai Group's financial soundness, results of operations and cash flows.

(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 and online shopping business, bridal business, corporates business and insurance 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 four reportable segments: the mail-order and online shopping business, bridal business, corporates business and insurance business.

The mail-order and online shopping 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. However, consolidated subsidiaries Dears Brain Inc. and PLANETWORK CO., LTD., and WONDERSTAGE Co., Ltd., a wholly owned subsidiary of Dears Brain and a sub-subsidiary of Senshukai, were excluded from the scope of consolidation following the sales of all shares of Dears Brain and PLANETWORK on March 31, 2021. As a result, the Group had withdrawn from these businesses. The corporates business uses Senshukai's infrastructure to provide solutions services and promotional services targeting mail-order companies and e-commerce businesses. The insurance business provides insurance primarily to Belle Maison members.

Beginning with the first quarter of 2021, the credit card business, which was formerly included in the insurance and credit card business segment, has been reclassified and included in the mail-order and online shopping business segment for better coordination to the membership measures in this business. Due to this change, the insurance and credit card business segment has been renamed as the "insurance business" segment.

Prior-year segment information has been revised to incorporate this new segment to permit comparisons.

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 2020 (Jan. 1, 2020 – Dec. 31, 2020)

(Millions of yen)

| | Reportable segment | | | | | Others (Note 1) | Total | Adjustment (Note 2) | Amounts shown on consolidated financial statements (Note 3) |
|--|--|--------------------|------------------------|-----------------------|-----------|--------------------|---------|------------------------|--|
| | Mail- order and online shopping business | Bridal business | Corporates business | Insurance business | Sub-total | | | | |
| Net sales | | | | | | | | | |
| Sales to customers | 67,510 | 8,400 | 5,092 | 401 | 81,405 | 1,881 | 83,286 | - | 83,286 |
| Inter-segment sales or transfers | 308 | 14 | 54 | - | 378 | 0 | 378 | (378) | - |
| Total | 67,819 | 8,414 | 5,147 | 401 | 81,783 | 1,881 | 83,664 | (378) | 83,286 |
| Segment profit (loss) | 2,638 | (3,728) | 464 | 192 | (432) | 40 | (391) | 2 | (389) |
| Segment assets | 49,097 | 14,911 | 1,602 | 47 | 65,657 | 1,761 | 67,419 | (3,485) | 63,933 |
| Other items | | | | | | | | | |
| Depreciation | 543 | 1,196 | 15 | - | 1,756 | 56 | 1,813 | - | 1,813 |
| Amortization of goodwill | - | 179 | - | - | 179 | 30 | 209 | - | 209 |
| Share of loss (profit) of entities accounted for using equity method | 162 | (3,677) | - | - | (3,515) | - | (3,515) | - | (3,515) |
| Investment in equity-method affiliates | 684 | - | - | - | 684 | - | 684 | - | 684 |
| Increase in property, plant and equipment and intangible assets | 1,328 | 379 | 30 | - | 1,738 | 54 | 1,792 | - | 1,792 |

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. Adjustments are as follows.

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

(2) The (3,485) 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 2021 (Jan. 1, 2021 – Dec. 31, 2021)

(Millions of yen)

| | Reportable segment | | | | | Others (Note 1) | Total | Adjustment (Note 2) | Amounts shown on consolidated financial statements (Note 3) |
|--|--|--------------------|------------------------|-----------------------|-----------|--------------------|--------|------------------------|--|
| | Mail- order and online shopping business | Bridal business | Corporates business | Insurance business | Sub-total | | | | |
| Net sales | | | | | | | | | |
| Sales to customers | 64,325 | 1,733 | 4,732 | 420 | 71,211 | 1,938 | 73,149 | - | 73,149 |
| Inter-segment sales or transfers | 281 | 5 | 36 | - | 323 | 0 | 324 | (324) | - |
| Total | 64,607 | 1,738 | 4,769 | 420 | 71,535 | 1,938 | 73,473 | (324) | 73,149 |
| Segment profit (loss) | 894 | (1,045) | 302 | 189 | 341 | 7 | 349 | 0 | 349 |
| Segment assets | 50,254 | - | 1,362 | 42 | 51,659 | 1,648 | 53,307 | (830) | 52,476 |
| Other items | | | | | | | | | |
| Depreciation | 630 | 282 | 13 | - | 926 | 54 | 981 | - | 981 |
| Amortization of goodwill | - | 44 | - | - | 44 | - | 44 | - | 44 |
| Share of loss (profit) of entities accounted for using equity method | 143 | (66) | - | - | 77 | - | 77 | - | 77 |
| Investment in equity-method affiliates | 641 | - | - | - | 641 | - | 641 | - | 641 |
| Increase in property, plant and equipment and intangible assets | 2,869 | 7 | 16 | - | 2,894 | 264 | 3,158 | - | 3,158 |

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. Adjustments are as follows.

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

(2) The (830) 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 profit on the consolidated statement of income.

Per Share Information

(Yen)

| | Fiscal Year 2020 (Jan. 1, 2020 – Dec. 31, 2020) | Fiscal Year 2021 (Jan. 1, 2021 – Dec. 31, 2021) |
|-----------------------------|--|--|
| Net assets per share | 699.01 | 708.09 |
| Net income (loss) per share | (95.23) | 6.64 |

Notes: 1. Diluted net income per share in Fiscal Year 2021 is not presented since Senshukai has no outstanding dilutive securities.

2. Diluted net income per share in Fiscal Year 2020 is not presented since Senshukai has no outstanding dilutive securities, and posted a net loss.

3. Basis for calculation of net income (loss) per share is as follows.

(Millions of yen)

| | Fiscal Year 2020 (Jan. 1, 2020 – Dec. 31, 2020) | Fiscal Year 2021 (Jan. 1, 2021 – Dec. 31, 2021) |
|--|--|--|
| Profit (loss) attributable to owners of parent | (3,946) | 308 |
| Amounts unavailable to common shareholders | - | - |
| Profit (loss) attributable to owners of parent related to common stock | (3,946) | 308 |
| Average number of shares outstanding during the period (thousand shares) | 41,440 | 46,444 |

Significant Subsequent Events

Not applicable.

** 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.*