

Summary of Financial Results for the Second Quarter of Fiscal Year 2022 (Six Months Ended June 30, 2022)

[Japanese GAAP]

August 10, 2022

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Scheduled date of filing of Quarterly Report: August 12, 2022

Scheduled date of payment of dividend: -

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly 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 2nd Quarter of 2022 (January 1, 2022 – June 30, 2022)

(1) Consolidated operating results (cumulative)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2Q 2022	28,389	-	(3,908)	-	(3,749)	-	(3,656)	-
2Q 2021	37,905	(10.2)	473	-	499	-	478	-

Note: Comprehensive income (millions of yen) 2Q 2022: (3,239) (-%) 2Q 2021: 911 (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
2Q 2022	(77.99)	-
2Q 2021	10.41	-

Note: Beginning with the first quarter of 2022, Senshukai has applied Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020). All figures for the second quarter of 2022 incorporate this accounting standard and comparisons with the second quarter of the previous fiscal year are omitted.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
2Q 2022	46,854	29,818	63.6	635.63
Fiscal Year 2021	52,476	33,202	63.3	708.09

Reference: Shareholders' equity (millions of yen) 2Q 2022: 29,787 Fiscal Year 2021: 33,202

Note: Beginning with the first quarter of 2022, Senshukai has applied Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). All figures for the second quarter of 2022 incorporate this accounting standard.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2021	-	3.00	-	4.00	7.00
Fiscal Year 2022	-	0.00	-	-	-
Fiscal Year 2022 (forecasts)	-	-	-	0.00	0.00

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

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	68,000	(7.0)	(4,200)	-	(4,100)	-	(4,000)	-	(85.31)

Note: Revision to the most recently announced consolidated outlook: None

*** Notes**

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

Newly added: 2 (Senshukai Make Co- Inc., WellServe Co., Ltd.) Excluded: 1 (Huit laboratories, Inc.)

Note: Please refer to “2. Quarterly Consolidated Financial Statements and Notes, (4) Notes to Quarterly Consolidated Financial Statements (Changes in Significant Subsidiaries during the Period)” on page 10 for further information.

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: Yes

Note: Please refer to “2. Quarterly Consolidated Financial Statements and Notes, (4) Notes to Quarterly Consolidated Financial Statements (Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)” on page 10 for further information.

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

Note: Please refer to “2. Quarterly Consolidated Financial Statements and Notes, (4) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies)” on page 10 for further information.

(4) Number of shares outstanding (common shares)

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

2Q 2022:	52,056,993 shares	Fiscal Year 2021:	52,056,993 shares
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2) Number of treasury shares at the end of the period

2Q 2022:	5,193,926 shares	Fiscal Year 2021:	5,167,335 shares
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3) Average number of shares outstanding during the period

2Q 2022:	46,878,733 shares	2Q 2021:	45,983,955 shares
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* This quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Cautionary statement with respect to forward-looking statements

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, “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecasts and Other Forward-looking Statements.”

How to view supplementary information at the financial results meeting

There will be no meeting for the presentation of the financial results for the second quarter of 2022 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. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

Beginning with the first quarter of 2022, Senshukai has applied Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). As a result, the explanation of results of operations for the first half of 2022 does not show the amount of increase or decrease compared with the same period of 2021.

In the first half (January 1 to June 30) of 2022, restrictions on various activities were eased in Japan as the severity of the pandemic declined. Despite this improvement, the outlook for the Japanese economy remains unclear because of increasing geopolitical risk caused by the Ukraine crisis and other events, rising U.S. interest rates, exchange rate volatility, and inflation that includes a sharp rise in the cost of raw materials.

In January 2022, the replacement of the core IT system was completed as planned. Replacement activities included revisions and business process reengineering for systems and business processes that had become complicated. The purpose is to better enable Senshukai to adapt to a variety of changes in the business climate. Although a long time and many measures were used to prepare for the new IT system, there were problems after the system became operational. For example, some orders were not properly received and some merchandise could not be delivered on schedule. Furthermore, the impact of these problems broadened for several reasons, including a large volume of calls at the call center, and it became difficult to conduct normal business operations. The new system is currently operating properly. However, sales at Belle Maison business in the core mail-order and online shopping business have been far below the level of the same period of 2021. Furthermore, first quarter sales in 2021 include sales of the bridal business, which was subsequently excluded from the consolidated financial statements. As a result, net sales in the first half of 2022 were 28,389 million yen (compared with 37,905 million yen in the first half of 2021), operating loss was 3,908 million yen (compared with a profit of 473 million yen in the first half of 2021), and ordinary loss was 3,749 million yen (compared with a profit of 499 million yen in the first half of 2021). Loss attributable to owners of parent was 3,656 million yen (compared with a profit of 478 million yen in the first half of 2021).

Business segment performance was as follows.

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 Senshukai Group no longer operates a bridal business. Consequently, there is no longer business segment information for the bridal business beginning with the first quarter of 2022.

(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, was 25,145 million yen in the first half of 2022 compared with 32,842 million yen in the first half of 2021. There was an operating loss of 4,042 million yen compared with a profit of 1,331 million yen in the first half of 2021.

There were problems involving the launch of the new core IT system following the completion of the replacement of the previous system in January 2022. To deal with these problems, marketing activities were suspended and the level of normal business activities was reduced in order to focus on handling inquiries from customers during the first half. For a recovery of sales, marketing activities resumed in March after IT system operations returned to normal. As sales activities increased, there were other measures for a recovery of the performance of this business. Despite these measures, more time will be needed for the number of members to return to the prior-year level and sales of Belle Maison, the core business of this segment, were far below sales one year earlier, resulting in lower segment sales and earnings.

(Corporates Business)

Consolidated sales in the corporates business, which provides products and services to corporations, were 2,217 million yen compared with 2,239 million yen in the first half of 2021. Operating profit was 107 million yen compared with a profit of 203 million yen in the first half of 2021.

Although the performance of the direct mail services category was strong, first half sales and earnings decreased because of lower than expected utilization of outsourced logistics and call center services.

(Insurance Business)

This business provides support, mainly to Belle Maison members, for choosing the most suitable insurance policies. Consolidated sales were 214 million yen compared with 174 million yen in the first half of 2021 and operating profit was 97 million yen compared with a profit of 59 million yen in the first half of 2021.

(Others)

Consolidated sales in other businesses, which include the childcare support business and manufacturing and sales of cosmetics, were 811 million yen compared with 916 million yen in the first half of 2021. Operating loss was 70 million yen compared with a loss of 77 million yen in the first half of 2021. The manufacturing and sales of cosmetics business was excluded from the scope of consolidation following the sales of all shares of Huit laboratories, Inc., which was a consolidated subsidiary of Senshukai, on April 1, 2022. For more information, refer to the “Notice of Change in Consolidated Subsidiaries (Transfer of Shares)” released on March 4, 2022 (Japanese version only).

(2) Explanation of Financial Position

(Balance sheet position)

Assets totaled 46,854 million yen at the end of the second quarter of 2022, a decrease of 5,622 million yen from the end of 2021.

Current assets decreased 5,305 million yen to 29,158 million yen. The factors included decreases of 3,787 million yen in cash and deposits and 1,471 million yen in accounts receivable-other. Non-current assets decreased 317 million yen to 17,696 million yen. The factors included decreases of 431 million yen in property, plant and equipment and 145 million yen in investments and other assets, while there was an increase of 259 million yen in intangible assets.

Current liabilities decreased 3,086 million yen to 12,880 million yen. The factors included decreases of 1,863 million yen in other and 1,253 million yen in electronically recorded obligations-operating. Non-current liabilities increased 847 million yen to 4,155 million yen. The main factors included increases of 590 million yen in long-term borrowings and 258 million yen in other.

Net assets decreased 3,383 million yen to 29,818 million yen. The factors included booking of loss attributable to owners of parent of 3,656 million yen. As a result, the equity ratio was 63.6%.

(Cash flow position)

The balance of cash and cash equivalents at the end of the second quarter of 2022 was 11,878 million yen, a decrease of 3,787 million yen from the end of 2021.

Operating activities used net cash of 4,079 million yen (net cash provided of 388 million yen in the same period of 2021). The main cash inflows were a decrease in other current assets of 1,837 million yen. The main cash outflows include loss before income taxes of 3,604 million yen, a decrease in other current liabilities of 1,914 million yen and a decrease in trade payables of 1,500 million yen.

Investing activities used net cash of 273 million yen (net cash provided of 1,486 million yen in the same period of 2021). The main cash inflows include proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation of 626 million yen. The main cash outflows include 1,166 million yen for the purchase of intangible assets.

Financing activities provided net cash of 482 million yen (net cash used of 2,672 million yen in the same period of 2021). The main cash inflows include proceeds from long-term borrowings of 1,000 million yen. The main cash outflows were repayments of long-term borrowings of 340 million yen and dividends paid of 186 million yen.

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

Senshukai currently maintains its consolidated forecasts for fiscal year 2022 (January 1, 2022 to December 31, 2022) that was released on May 13, 2022. In response to problems that began after the January 2022 completion of the replacement of the core IT system, Senshukai has suspended marketing activities and reduced the level of normal business activities in order to place priority on handling inquiries from customers. Currently, marketing activities have resumed, the volume of business activities is increasing and there are new actions for achieving a sales recovery. The entire Senshukai Group is firmly committed to restoring the trust of customers and achieving a recovery in the volume of orders. The forecast for 2022 reflects these issues and activities.

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

(Millions of yen)

	Fiscal Year 2021 (As of Dec. 31, 2021)	2Q 2022 (As of Jun. 30, 2022)
Assets		
Current assets		
Cash and deposits	15,665	11,878
Notes and accounts receivable-trade, and contract assets	2,235	2,316
Merchandise and finished goods	9,123	8,724
Accounts receivable-other	5,654	4,183
Other	1,911	2,158
Allowance for doubtful accounts	(126)	(102)
Total current assets	34,463	29,158
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,076	3,866
Land	5,524	5,402
Other, net	379	279
Total property, plant and equipment	9,980	9,548
Intangible assets		
Other	4,204	4,464
Total intangible assets	4,204	4,464
Investments and other assets		
Investment securities	2,493	2,478
Other	1,425	1,277
Allowance for doubtful accounts	(90)	(73)
Total investments and other assets	3,828	3,683
Total non-current assets	18,013	17,696
Total assets	52,476	46,854

	(Millions of yen)	
	Fiscal Year 2021 (As of Dec. 31, 2021)	2Q 2022 (As of Jun. 30, 2022)
Liabilities		
Current liabilities		
Electronically recorded obligations-operating	6,612	5,359
Accounts payable-trade	2,761	2,186
Short-term borrowings	550	620
Income taxes payable	22	24
Contract liabilities	-	771
Provision for bonuses for directors (and other officers)	6	-
Provision for sales promotion expenses	258	30
Provision for bonuses	33	30
Other	5,721	3,857
Total current liabilities	15,966	12,880
Non-current liabilities		
Long-term borrowings	3,005	3,595
Retirement benefit liability	6	6
Other	296	554
Total non-current liabilities	3,307	4,155
Total liabilities	19,274	17,035
Net assets		
Shareholders' equity		
Share capital	100	100
Capital surplus	30,084	30,084
Retained earnings	7,061	3,212
Treasury shares	(2,953)	(2,953)
Total shareholders' equity	34,291	30,442
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	267	283
Deferred gains or losses on hedges	119	511
Revaluation reserve for land	(1,516)	(1,516)
Foreign currency translation adjustment	38	67
Total accumulated other comprehensive income	(1,089)	(655)
Non-controlling interests	-	30
Total net assets	33,202	29,818
Total liabilities and net assets	52,476	46,854

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

(Millions of yen)

	2Q 2021 (Jan. 1, 2021 – Jun. 30, 2021)	2Q 2022 (Jan. 1, 2022 – Jun. 30, 2022)
Net sales	37,905	28,389
Cost of sales	18,463	14,400
Gross profit	19,442	13,989
Selling, general and administrative expenses	18,968	17,897
Operating profit (loss)	473	(3,908)
Non-operating income		
Interest and dividend income	24	21
Share of profit of entities accounted for using equity method	23	4
Foreign exchange gains	48	101
Gain on adjustment of account payable	42	89
Other	226	121
Total non-operating income	365	338
Non-operating expenses		
Interest expenses	54	23
Rental expenses on real estate	19	35
Commission expenses	231	98
Other	34	21
Total non-operating expenses	339	178
Ordinary profit (loss)	499	(3,749)
Extraordinary income		
Gain on sale of shares of subsidiaries and associates	-	134
Subsidy income	162	187
Total extraordinary income	162	321
Extraordinary losses		
Loss on sale and retirement of non-current assets	0	4
Loss on tax purpose reduction entry of non-current assets	151	172
Loss on sale of shares of subsidiaries and associates	9	-
Loss on change in equity	110	-
Total extraordinary losses	272	176
Profit (loss) before income taxes	388	(3,604)
Income taxes	(89)	52
Profit (loss)	478	(3,656)
Loss attributable to non-controlling interests	-	(0)
Profit (loss) attributable to owners of parent	478	(3,656)

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

(Millions of yen)

	2Q 2021 (Jan. 1, 2021 – Jun. 30, 2021)	2Q 2022 (Jan. 1, 2022 – Jun. 30, 2022)
Profit (loss)	478	(3,656)
Other comprehensive income		
Valuation difference on available-for-sale securities	55	15
Deferred gains or losses on hedges	204	391
Foreign currency translation adjustment	(10)	3
Share of other comprehensive income of entities accounted for using equity method	183	6
Total other comprehensive income	433	416
Comprehensive income	911	(3,239)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	911	(3,239)
Comprehensive income attributable to non-controlling interests	-	(0)

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	2Q 2021 (Jan. 1, 2021 – Jun. 30, 2021)	2Q 2022 (Jan. 1, 2022 – Jun. 30, 2022)
Cash flows from operating activities		
Profit (loss) before income taxes	388	(3,604)
Depreciation	620	730
Increase (decrease) in allowance for doubtful accounts	(10)	(41)
Increase (decrease) in provision for bonuses	95	17
Increase (decrease) in provision for sales promotion expenses	12	30
Interest and dividend income	(24)	(21)
Interest expenses	54	23
Share of loss (profit) of entities accounted for using equity method	(23)	(4)
Loss (gain) on sale and retirement of non-current assets	0	4
Loss on tax purpose reduction entry of non-current assets	151	172
Loss (gain) on sale of shares of subsidiaries and associates	9	(134)
Subsidy income	(162)	(187)
Loss (gain) on change in equity	110	-
Decrease (increase) in trade receivables	37	(170)
Decrease (increase) in inventories	(964)	267
Decrease (increase) in other current assets	713	1,837
Increase (decrease) in trade payables	882	(1,500)
Increase (decrease) in contract liabilities	-	104
Increase (decrease) in other current liabilities	(1,294)	(1,914)
Other, net	(138)	172
Subtotal	458	(4,218)
Interest and dividends received	97	50
Interest paid	(57)	(22)
Income taxes refund (paid)	(109)	111
Net cash provided by (used in) operating activities	388	(4,079)
Cash flows from investing activities		
Purchase of property, plant and equipment	(309)	(40)
Purchase of intangible assets	(894)	(1,166)
Subsidies received	162	187
Purchase of investment securities	(295)	(15)
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	2,773	626
Other, net	49	134
Net cash provided by (used in) investing activities	1,486	(273)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(2,100)	-
Proceeds from long-term borrowings	-	1,000
Repayments of long-term borrowings	(534)	(340)
Proceeds from share issuance to non-controlling shareholders	-	31
Dividends paid	(0)	(186)
Other, net	(37)	(22)
Net cash provided by (used in) financing activities	(2,672)	482
Effect of exchange rate change on cash and cash equivalents	34	82
Net increase (decrease) in cash and cash equivalents	(762)	(3,787)
Cash and cash equivalents at beginning of period	19,592	15,665
Cash and cash equivalents at end of period	18,830	11,878

(4) Notes to Quarterly Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Significant Subsidiaries during the Period)

Senshukai Make Co- Inc. and WellServe Co., Ltd.) were included in the scope of consolidation due to these establishments. These companies are specified subsidiaries of Senshukai.

Huit laboratories, Inc., a consolidated subsidiary of Senshukai, was excluded from the scope of consolidation following the sales of all shares of this company at the end of the second quarter of 2022.

(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)

(Calculation of tax expense)

Tax expenses are calculated by first determining a reasonable estimate of the effective tax rate after the application of tax effect accounting with respect to profit before income taxes for the fiscal year that includes the applicable quarter and multiplying the profit before income taxes for that quarter by that rate. However, Senshukai uses legally stipulated effective tax rates to calculate tax expenses when the use of estimated tax rates produces a clearly irrational result.

(Changes in Accounting Policies)

(Application of the Accounting Standards for Revenue Recognition)

Senshukai is applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of 2022. Based on these standards, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers.

The main changes resulting from the application of the Accounting Standard for Revenue Recognition are as follows:

(1) Revenue recognition concerning the Senshukai Point Program

In prior years, Senshukai maintained a provision for sales promotion expenses based on the expected future use of points that customers receive when they buy Senshukai merchandise in order to prepare for the use of these points. Additions to this allowance were classified as selling, general and administrative expenses. In accordance with the new revenue recognition standard, these points are now classified as a performance obligation and recognition of revenue is deferred.

(2) Revenue recognition concerning point programs of other companies

In prior years, an amount equivalent to the value of the points of point programs operated by other companies was classified as selling, general and administrative expenses. In accordance with the new revenue recognition standard, the calculation of transaction prices concerning merchandise sale performance obligations to customers now uses the method of recognizing revenue after deducting transaction prices as the amount recovered for third parties.

(3) Revenue recognition concerning shipping expenses paid by customers

In prior years, shipping expenses received from customers were deducted from selling, general and administrative expenses. In accordance with the new revenue recognition standard, payments from customers for shipping expenses are now recognized as revenue because the merchandise shipping service is included in the performance obligation involving the provision of merchandise to customers.

(4) Revenue recognition concerning sales of merchandise that may be returned

In prior years, for transactions of merchandise that may be returned, the value of merchandise returned by customers was deducted from sales when Senshukai confirmed the receipt of the merchandise. In accordance with the provision of the new revenue recognition standard concerning variable compensation, revenue for merchandise that is expected to be returned is not recognized when the merchandise is sold. Instead, a refund liability is now recognized that is equivalent to the payment that was or will be received for the applicable merchandise.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional measures in the proviso to Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting standard, if it is applied prior to the first quarter of 2022, is added to or subtracted from retained earnings at the beginning of the first quarter of 2022. The new standard is then applied beginning with this amount of retained earnings.

As a result, net sales increased 701 million yen and cost of sales increased 3 million yen. Operating loss increased 127 million yen, and ordinary loss and loss before income taxes increased 141 million yen each in the first half of 2022. In addition, there was a decrease of 5 million yen in retained earnings at the beginning of 2022.

Due to the application of the Accounting Standard for Revenue Recognition, “Notes and accounts receivable-trade” that was presented in the current assets section of the consolidated balance sheet in 2021 is, from the first quarter of 2022, included in “Notes and accounts receivable-trade, and contract assets.” In addition, the amount corresponding to contract liabilities in the revenue recognition standards, that was included in “Other” presented in the current liabilities section in 2021 is, from the first quarter of 2022, stated as “Contract liabilities.” In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made to the prior year’s consolidated financial statements to conform to the new presentation.

Application of the Accounting Standards for Measurement of Fair Value

Senshukai has applied the Accounting Standard for Measurement of Fair Value (ASBJ Statement No. 30, July 4, 2019) and other standards from the beginning of the first quarter of 2022, and has applied the new accounting policies set forth by the Accounting Standard for Measurement of Fair Value, etc. prospectively in accordance with the transitional measures prescribed in Paragraph 19 of the Accounting Standard for Measurement of Fair Value and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). There is no effect of the application of these standards on the quarterly consolidated financial statements.

(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)

As of the end of June 2022, there were fewer restrictions on activities in Japan because the severity of the pandemic had declined. Despite this improvement, the outlook for the Japanese economy remains unclear because of increasing geopolitical risk caused by the Ukraine crisis and other events, rising U.S. interest rates, exchange rate volatility, and inflation that includes a sharp rise in the cost of raw materials. Senshukai assumes that these factors will have only a limited effect on accounting estimates. However, due to problems involving the launch of the new

core IT system in January 2022, marketing activities were suspended and the level of normal business activities was reduced in order to focus on handling inquiries from customers. Due to this situation, sales of Belle Maison in the core mail-order and online shopping business were far below sales one year earlier, resulting in lower segment sales and earnings. Currently, marketing activities have resumed, the volume of business activities is increasing and there are new actions for achieving a sales recovery. The entire Senshukai Group is firmly committed to restoring the trust of customers and achieving a recovery in the volume of orders. Although Senshukai is using the best possible estimates based on information that is currently available, a change in the business climate or problems involving the new core IT system may have an effect on the financial condition, results of operations and cash flows of the Senshukai Group.

(Segment Information)

I 2Q 2021 (Jan. 1, 2021 – Jun. 30, 2021)

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

(Millions of yen)

	Reportable segment					Others (Note 1)	Total	Adjustment (Note 2)	Amounts shown on quarterly consolidated statement of income (Note 3)
	Mail- order and online shopping business	Bridal business	Corporates business	Insurance business	Sub-total				
Net sales									
Sales to customers	32,842	1,733	2,239	174	36,989	916	37,905	-	37,905
Inter-segment sales or transfers	127	5	19	-	151	0	151	(151)	-
Total	32,969	1,738	2,258	174	37,141	916	38,057	(151)	37,905
Segment profit (loss)	1,331	(1,045)	203	59	550	(77)	472	0	473

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

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

3. Segment profit (loss) is adjusted to be consistent with the operating profit on the quarterly consolidated statement of income.

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

Significant changes in the amount of goodwill

In the bridal business, all shares of consolidated subsidiaries Dears Brain Inc. and PLANETWORK CO., LTD. were sold at the end of the first quarter of 2021. As a result of the sales of these subsidiaries shares, goodwill decreased 1,158 million yen.

3. Information related to assets for each reportable segment

Significant decrease in assets due to decrease in number of subsidiaries

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 at the end of the first quarter of 2021. As a result, segment assets of the bridal business for the second quarter of 2021 decreased 14,911 million yen, compared with the end of 2020.

II 2Q 2022 (Jan. 1, 2022 – Jun. 30, 2022)

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

(Millions of yen)

	Reportable segment				Others (Note 1)	Total	Adjustment	Amounts shown on quarterly consolidated statement of income (Note 2)
	Mail-order and online shopping business	Corporates business	Insurance business	Sub-total				
Net sales								
Sales to customers	25,145	2,217	214	27,577	811	28,389	-	28,389
Inter-segment sales or transfers	118	20	-	139	0	139	(139)	-
Total	25,263	2,238	214	27,716	812	28,529	(139)	28,389
Segment profit (loss)	(4,042)	107	97	(3,837)	(70)	(3,908)	-	(3,908)

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

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

2. Information related to revisions for reportable segments

In 2021, consolidated subsidiaries Dears Brain Inc. and PLANETWORK CO., LTD., and WONDERSTAGE Co., Ltd., a wholly owned subsidiary of Dears Brain and a sub-sub-subsidiary of Senshukai, were excluded from the scope of consolidation following the sales of all shares of Dears Brain and PLANETWORK. As a result, the Senshukai Group no longer operates a bridal business. Consequently, there is no longer business segment information for the bridal business beginning with the first quarter of 2022.

(Application of the Accounting Standards for Revenue Recognition)

As described in Changes in Accounting Policies, Senshukai has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) from the beginning of the first quarter of 2022 and changed the accounting method for revenue recognition. Accordingly, the method for calculating segment profit or loss has been changed as well.

The effect of this change was to increase net sales by 707 million yen and to increase segment loss by 127 million yen for the first half of 2022 in the mail-order and online shopping business. Net sales decreased 6 million yen and there was no change in segment profit in other businesses.

** 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.*