

Briefing on Third Quarter Financial Statements for Fiscal Year ending December 31, 2015 (Japan GAAP) (Consolidated)

November 12, 2015

Name of listed firm: Laox Co., Ltd. Shares traded on: Tokyo Stock Exchange
 Code number: 8202 URL <http://www.laox.co.jp>
 Representative: (Title) Representative Director (Name) Yiwen Luo
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 Scheduled quarterly report filing date: November 12, 2015 Scheduled start date for dividend payments: –
 Supplemental materials on quarterly results: None
 Presentation on quarterly results: None

(Amounts are rounded down to the nearest million yen.)

1. Consolidated financial results for the third quarter of the fiscal year ending December 31, 2015 (January 1 - September 30, 2015)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating profits		Ordinary profit		Current net income	
	M yen	%	M yen	%	M yen	%	M yen	%
3Q FY ending December 2015	72,574	119.4	7,478	676.3	7,518	680.3	7,108	–
3Q FY ending December 2014	33,075	42.2	963	–	963	–	514	–

(Note) Comprehensive income: 3Q FY ending December 2015 7,136 M yen (–%),
 3Q FY ending December 2014 449 M yen (–%)

	Quarterly net income per share		Diluted quarterly net income per share	
	Yen	Sen	Yen	Sen
3Q FY ending December 2015	11.42		11.30	
3Q FY ending December 2014	0.94		–	

(2) Consolidated financial condition

	Total assets		Net assets		Capital ratio
	M yen	%	M yen	%	%
3Q FY ending December 2015	62,343		46,906		75.1
FY ending December 2014	18,959		10,279		54.2

(Ref.) Equity: 3Q FY ending December 2015 46,801 M yen
 3Q FY ending December 2014 10,279 M yen

2. Dividends

	Annual dividends								
	End of 1Q		End of 2Q		End of 3Q	End of year	Total		
	Yen	Sen	Yen	Sen	Yen	Sen	Yen	Sen	
FY ending December 2014	–		–		–		0.00		0.00
FY ending December 2015	–		–		–		–		–
FY ending December 2015 (projected)	–		–		–		0.00		0.00

(Note) Adjustments from recently announced dividend forecasts: None

3. Forecast of consolidated results for period ending December 2015 (January 1 - December 31, 2015)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profits		Ordinary profit		Current net income		Current net income per share	
	M yen	%	M yen	%	M yen	%	M yen	%	Yen	Sen
Full year	90,000	79.3	9,000	418.4	9,000	406.1	8,300	568.0	13.13	

(Note) Adjustments from recently announced forecasts of results: None

* Notes

- (1) Transfers involving major subsidiaries during this cumulative quarter of the current consolidated fiscal year: None
- (2) Application of special accounting procedures when creating quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting projections, and restatement of prior period financial statements
- ① Changes in accounting policies due to revisions in accounting standards or other regulations: None
- ② Changes in accounting policies for other reasons than ①: None
- ③ Changes in accounting projections: None
- ④ Restatement of prior period financial statements: None

(4) Number of shares issued and outstanding (common stock)

① Number of shares issued and outstanding at the end of the period (including treasury stock)	3Q FY ending December 2015	663,881,033 shares	FY ending December 2014	548,881,033 shares
② Number of shares of treasury stock at the end of the period	3Q FY ending December 2015	4,016,140 shares	FY ending December 2014	4,069,406 shares
③ Average number of shares during the period (cumulative quarterly)	3Q FY ending December 2015	622,546,286 shares	3Q FY ending December 2014	544,812,560 shares

* Statement on execution of quarterly review procedures

This quarterly briefing on financial statements is not subject to quarterly review procedures pursuant to the Financial Instruments and Exchange Act. At the time this briefing was released, review procedures for quarterly financial statements pursuant to the Financial Instruments and Exchange Act had already been finalized.

* Explanation concerning appropriate use of forecasts of business performance and other notes

Forecasts of business performance and other forward-looking statements in this document are based on information currently available and certain assumptions the Company deems reasonable at the time they were prepared. Actual results may depart materially from these projections for various reasons.

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1. Qualitative information on this quarterly financial report

(1) Operating results

The forward-looking statements made in this report were determined at the Group's discretion based on information available as of the end of this quarterly consolidated fiscal year.

Economic conditions during the cumulative third quarter of this consolidated fiscal year included a gradual slowdown continued in emerging markets. In response to slowing growth, China has begun implementing stimulus measures. Japan maintained a course of general recovery. Corporate performance continued to improve, supported by inbound demand and the yen settling at lower exchange rates on international currency markets. However, with no major improvements in personal consumption, a sense of uncertainty persisted.

A look at trends in foreign tourists visiting Japan, a factor that affects our key businesses, indicates that 14.48 million tourists visited Japan during the nine-month period from January through September, a 49% year-on-year increase, with 1.91 million tourists visiting in July alone, a new record high for a single month. Contributing factors included not just growth in demand due to the existing promotional campaign by the Japanese government to boost travel to Japan, expanded air routes, a significant increase in numbers of cruise ships stopping at ports in Japan, the effects of relaxed visa requirements, and the popularity of shopping in Japan due to the expansion of consumption tax exemptions. Numbers of Chinese tourists, who comprise a major customer category, showed record high increases year on year for nine consecutive months for the first nine months of the year. Numbers of both individual and group travelers rose dramatically from last year.

In light of these trends, the Laox Group is targeting markets around the world, including China and Asia, and focusing on offering a Japan Premium that combines reliable high-quality products with world-famous Japanese hospitality.

In the Domestic Sales Business, we are making progress in realizing the MD Premium through a lineup of products meeting diverse needs, through the Store Premium (attractive retail stores that embody Japan's renowned hospitality), and through the Human Resources Premium, as well as through hospitality targeting an international customer base with products meeting diverse needs, including traditional crafts, cosmetics, and health foods, all based on the Great Satisfaction in Japan concept, whose goal is to deliver new discoveries and experiences to customers.

During the third quarter of this consolidated fiscal year, bringing the total number of stores we operate to 30 are the seven new stores we opened in September. These are the Laox Daimaru Kobe Store in Kobe, among Japan's leading port cities and visited by numerous cruise ships; the Laox Nikko Toshogu Store in Nikko, a famed World Heritage Site; the Laox Shinsaibashisuji Store in Shinsaibashisuji, the most popular commercial district in Osaka for overseas visitors; the Laox Daimaru Kyoto Store on Shijodori street, Kyoto's central shopping district; the Laox Ginza EXITMELSA Store, which projects an up-to-the-minute Japan pop image in our second store in Ginza, Tokyo's popular commercial district; the Laox Asahikawa Ekimae-Dori Store in the city of Asahikawa, Hokkaido, at which regular flights from China recently begun arriving; and the Laox Marinoa City Fukuoka Store in Marinoa City Fukuoka, a shopping center that includes one of Kyushu's largest outlet malls and specialized boutiques. We will continue to enhance our retail network, which operates one of Japan's largest chains of duty-free stores, as we strive to build a network of 50 stores centered on the greater Tokyo metropolitan area, Hokkaido, Osaka, Kyushu, and Okinawa.

In our Branch Store Business in China, we are striving to revise our earnings structure and to improve the efficiency of store operations, backed by strong ties to Suning Commerce Group Co., Ltd., our parent company.

In the Foreign Trade Business, in partnership with our Chinese subsidiaries, we are actively involved in export businesses, focusing on products like infant products. The goal is to improve earnings by introducing outstanding Japanese products to the Chinese market.

All these efforts boosted income and profits significantly for the cumulative third quarter of this consolidated fiscal year. Net sales totaled 72.574 billion yen, up 119.4% from 33.075 billion yen in the same quarter of the previous year. Operating profits were 7.478 billion yen, up 676.3% from 963 million yen in the same quarter of the previous year. Ordinary profits were 7.518 billion yen, up to 680.3% from 963 million yen in the same quarter of the previous year. Net income for the quarter was 7.108 billion yen, compared to 514 million yen in the same quarter of the previous year. We remain committed to growing the Laox business model, which embodies the Japan Premium, targeting China, Asia, and the global market as part of efforts to become a pace-setting global company.

The performance of each business segment is outlined below.

① Domestic Sales Business

Various initiatives in this business segment increased income and profits significantly compared to the same period in the previous year. These included our mobile network efforts in partnership with NTT Docomo and measures to enhance our network for serving cruise ship passengers, which combined with a significant increase in numbers of Chinese tourists visiting Japan, our major customer base. Net sales in the cumulative third quarter of this consolidated fiscal year were 65.772 billion yen, up 186.0% from 22.997 billion yen in the same quarter of the previous year; operating profits were 9.420 billion yen, up 271.1% from 2.538 billion yen in the same quarter of the previous year.

② Branch Store Business in China

In this business segment, we were able to cut costs by closing unprofitable stores and making store operations more efficient. Nevertheless, changes in the spending behavior of individual Chinese consumers led to a decline in net sales during the cumulative third quarter of this consolidated fiscal year. Sales fell to 5.587 billion yen, down 37.5% from 8.941 billion yen in the same quarter of the previous year. Operating losses were 375 million yen, compared to 767 million yen in losses in the same quarter of the previous year.

③ Foreign Trade Business

We are currently pursuing reforms in the structure of our export businesses in this business segment, with the goals of building a strategic sales network and restructuring our logistic systems. Net sales in the cumulative third quarter of this consolidated fiscal year were 728 million yen, up 22.0% from 597 million yen in the same quarter of the previous year. Operating losses totaled 230 million yen, compared to losses of 173 million yen in the same quarter of the previous year.

④ Other businesses

In this business segment, net sales in the cumulative third quarter of this consolidated fiscal year were 531 million yen, down 3.9% from 552 million yen in the same quarter of the previous year. Operating losses were 41 million yen, compared to operating loss of 0 million yen in the same quarter of the previous year.

(2) Financial conditions

① Assets

Total assets in the third quarter of this consolidated fiscal year were 62.343 billion yen, compared to 18.959 billion yen at the end of the previous consolidated fiscal year.

The increase in total assets was mainly attributable to increases of 20 billion yen in long-term time deposits, 5.252 billion yen in cash and deposits, and 11.526 billion yen in merchandise and finished goods.

② Liabilities

Total liabilities were 15.437 billion yen, compared to 8.679 billion yen at the end of the previous consolidated fiscal year.

The increase in liabilities was mainly due to an increase of 4.487 billion yen in notes and accounts payable and an increase of 698 million yen in income taxes payable.

③ Net assets

Total net assets were 46.906 billion yen, up from 10.279 billion yen at the end of the previous consolidated fiscal year.

The increase in net assets was mainly attributable to increases of 14.683 billion yen in capital, 10.154 billion yen in capital surplus, and 7.653 billion yen in earned surplus.

(3) Forward-looking statements, including forecasts of future consolidated results

There has been no change in full-year forecasts for consolidated business results announced in the Briefing on Second Quarter Financial Statements for Fiscal Year ending December 31, 2015 (Japan GAAP) (Consolidated), issued August 13, 2015.

2. Summary (remarks)

- (1) Transfers involving major subsidiaries during this cumulative quarter of the current consolidated fiscal year

Not applicable

- (2) Application of special accounting procedures in creating the quarterly consolidated financial reports

Tax expenses for the Company and some of its consolidated subsidiaries were calculated based on reasonable estimates of the effective tax rate after applying tax-effect accounting to pretax net income for the consolidated fiscal year, including the third quarter of this consolidated fiscal year, and multiplying pretax quarterly net income by this estimated effective tax rate.

- (3) Changes in accounting policies, changes in accounting projections, and restatement of prior period financial statements

Not applicable

3. Consolidated quarterly financial statements

(1) Consolidated quarterly balance sheet

(Unit: 1,000 yen)

	Previous consolidated fiscal year (December 31, 2014)	Third quarter of the current consolidated fiscal year (September 30, 2015)
Assets		
Current assets		
Cash and deposits	3,398,395	8,651,292
Notes and accounts receivable	2,723,043	4,059,372
Merchandise and finished goods	4,587,126	16,113,341
Raw materials and supplies	7,815	54,640
Work in process	-	52,936
Accounts receivable	1,293,293	2,924,692
Advanced payments	862,297	1,094,277
Prepaid expenses	344,969	478,098
Security deposits returnable in one year	123,306	80,166
Other	228,043	315,067
Allowance for doubtful accounts	-9,220	-102,063
Total current assets	13,559,070	33,721,823
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	1,119,687	2,205,135
Vehicles (net)	2,931	36,423
Tools, equipment, and fixtures (net)	381,816	936,606
Property	88,647	111,778
Leased assets (net)	44,977	31,561
Construction currently underway	5,803	56,142
Total of tangible fixed assets	1,643,862	3,377,646
Intangible fixed assets		
Software	23,414	155,546
Leased assets	5,487	21,818
Software suspense account	90,607	53,250
Other	5,116	4,609
Total of intangible fixed assets	124,625	235,223
Investments and other assets		
Investments in securities	12,263	64,449
Stock of affiliates	-	206,499
Long-term time deposits	-	20,000,000
Deferred tax assets	274,975	280,791
Long-term loans	121,953	121,953
Deposits and guarantees	3,257,884	4,347,732
Other	411,208	310,000
Allowance for doubtful accounts	-446,637	-460,053
Total of investments and other assets	3,631,648	24,871,373
Total of fixed assets	5,400,135	28,484,243
Deferred assets		
Stock issuance cost	-	137,165
Total of deferred assets	-	137,165
Total assets	18,959,206	62,343,232

(Unit: 1,000 yen)

	Previous consolidated fiscal year (December 31, 2014)	Third quarter of the current consolidated fiscal year (September 30, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable	5,184,677	9,671,923
Current portion of long-term loans payable	-	69,014
Payment in arrears	1,147,235	1,544,357
Accrued expenses	377,840	806,929
Lease obligations	25,562	28,742
Income taxes payable	33,232	732,105
Provision for bonuses	93,077	64,842
Reserve for directors' bonuses	8,742	4,406
Reserve for point card certificates	9,090	10,262
Reserve for product warranty	192,440	22,930
Reserve for losses on withdrawal from employees' pension fund	-	170,000
Other	366,188	549,413
Total of current liabilities	7,438,086	13,674,925
Fixed liabilities		
Long-term loans payable	-	370,378
Long-term guarantees deposited	471,571	444,637
Liabilities for retirement benefits	243,233	415,459
Reserve for directors' retirement and farewell recognition	10,090	20,251
Leased liabilities	26,871	26,111
Reserves for loss in lawsuits	15,058	2,218
Asset retirement obligation	190,729	268,623
Deferred tax liabilities	78,656	48,709
Other	205,699	165,897
Total of fixed liabilities	1,241,910	1,762,285
Total liabilities	8,679,997	15,437,211
Net assets		
Shareholders' equity		
Capital stock	7,950,002	22,633,662
Capital surplus	7,268,961	18,920,205
Earned surplus	-4,826,127	5,328,435
Treasury stock	-426,141	-421,055
Total of shareholder's equity	9,966,694	46,461,247
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,518	6,508
Foreign currency translation adjustment	307,995	333,923
Total accumulated other comprehensive income	312,514	340,431
Stock options	-	104,340
Minority interests	-	-
Total net assets	10,279,209	46,906,020
Total liabilities and net assets	18,959,206	62,343,232

(2) Consolidated quarterly statement on profit and loss and consolidated quarterly statement on comprehensive income

Consolidated quarterly statement on profit and loss

Cumulative third quarter of the consolidated fiscal year

(Unit: 1,000 yen)

	Cumulative third quarter of the previous consolidated fiscal year (January 1 - September 30, 2014)	Cumulative third quarter of the current consolidated fiscal year (January 1 - September 30, 2015)
Net sales	33,075,813	72,574,371
Cost of sales	23,797,865	47,748,814
Gross profit	9,277,948	24,825,557
Selling and general administrative expenses		
Advertising expenses	54,182	67,758
Sales commission	3,120,502	10,262,520
Transportation expenses	213,998	216,249
Depreciation expenses	294,298	348,173
Wages and salary	1,341,238	2,159,020
Legal welfare expenses	194,026	284,084
Retirement benefit expenses	70,338	82,281
Bonuses	114,326	286,028
Provisions of reserves for bonuses	-	22,026
Provisions of reserves for directors' bonuses	-	10,161
Expenses for rent of space and land	1,819,912	1,830,225
Rent	21,851	203,234
Other	1,069,858	1,574,897
Total selling and general administrative expenses	8,314,535	17,346,662
Operating profits	963,412	7,478,894
Non-operating income		
Interest income	7,145	54,357
Cash discount on purchases	25,463	91,278
Foreign exchange profits	8,991	-
Other	9,206	32,873
Total of non-operating income	50,806	178,509
Non-operating expenses		
Interest paid	5,037	4,578
Sales discounts	2,145	1,901
Amortization of stock issuance expenses	8,770	33,108
Guarantee commission	22,500	-
Foreign exchange loss	-	13,654
Provision of allowance for doubtful accounts	-	70,712
Other	12,232	14,570
Total of non-operating expenses	50,686	138,526
Operating profits	963,533	7,518,877

(Unit: 1,000 yen)

	Cumulative third quarter of the previous consolidated fiscal year (January 1 - September 30, 2014)	Cumulative third quarter of the current consolidated fiscal year (January 1 - September 30, 2015)
Extraordinary income		
Income from disposal of fixed assets	185	-
Reversal of reserves for loss in lawsuits	13,298	-
Reversal of impairment loss	-	205,871
Gain on negative goodwill	-	142,159
Total of extraordinary income	13,484	348,031
Extraordinary expenses		
Impairment loss	17,086	-
Loss on liquidation of stores	179,043	-
Provisions of reserve for losses on product warranty	200,000	-
Provisions of reserve for losses on withdrawal from employees' pension fund	-	170,000
Total of extraordinary expenses	396,129	170,000
Income before income taxes and minority interests	580,888	7,696,909
Total income tax	66,394	588,241
Quarterly net income before minority interests	514,493	7,108,667
Minority interests	-	-
Quarterly net income	514,493	7,108,667

Consolidated Quarterly Statement on Comprehensive Income
 Cumulative third quarter of the consolidated fiscal year

(Unit: 1,000 yen)

	Cumulative third quarter of the previous consolidated fiscal year (January 1 - September 30, 2014)	Cumulative third quarter of the current consolidated fiscal year (January 1 - September 30, 2015)
Quarterly net income before minority interests	514,493	7,108,667
Other comprehensive income		
Other valuation difference on available-for-sale securities	-563	1,990
Foreign currency translation adjustment	-64,668	25,927
Total of other comprehensive income	-65,231	27,917
Quarterly comprehensive income	449,261	7,136,585
(Breakdown)		
Quarterly comprehensive income attributable to the shareholders of the parent company	449,261	7,136,585
Quarterly comprehensive income attributable to minority interests	-	-

(3) Notes on consolidated quarterly financial statement

(Notes on going concern assumption)

Not applicable

(Notes on significant changes in amount of shareholder equity)

As determined in the board meeting held March 9, 2015, the Company issued new shares (100,000,000 shares) through a public offering, with a payment date of March 24, 2015, and new shares (15,000,000 shares) through a third-party allocation, with a payment date of April 22, 2015. The objective is to increase capital and the legal capital surplus to 14,683,660,000 yen each.

In addition, based on a decision at the shareholders' meeting held March 26, 2015, we made up the deficit by transferring 1,726,937,000 yen of our legal capital surplus and 1,318,958,000 yen of our capital surplus to our earned surplus.

During the second quarter of this consolidated fiscal year, we sold shares of treasury stock, recording to our capital surplus the difference of 13,480,000 yen between the amount of payment received for the treasury stock and the value of the treasury stock sold.

As a result, at the end of the third quarter of this consolidated fiscal year, our capital is 22,633,662,000 yen, and our capital surplus is 18,920,205,000 yen.

(Segment Information, etc.)

[Segment Information]

I. Cumulative third quarter of the previous consolidated fiscal year (January 1 - September 30, 2014)

1. Information on net sales, profits, and losses by reported segment

(Unit: 1,000 yen)

	Reported segment				Total	Adjustments (Note 1)	Amount recorded to Consolidated Quarterly Statement on Profit and Loss (Note 2)
	Domestic Sales Business	Branch Store Business in China	Foreign Trade Business	Other businesses			
Net sales							
Net sales to outside customers	22,997,372	8,941,519	584,255	552,665	33,075,813	–	33,075,813
Internal net sale or transfer amount between segments	–	–	13,022	–	13,022	-13,022	–
Total	22,997,372	8,941,519	597,278	552,665	33,088,836	-13,022	33,075,813
Segment profit or loss	2,538,150	-767,720	-173,931	-64	1,596,434	-633,021	963,412

(Notes) 1. The amount of the adjustment to segment profit or loss of -633,021,000 yen represents company costs not distributed to individual reported segments.

These company costs consist mainly of salaries, wages, and general administrative expenses not attributable to individual reported segments.

2. Segment profits or losses are adjusted against operating profits in the Consolidated Quarterly Statement on Profit and Loss.

2. Information on impairment losses on fixed assets, goodwill, etc. by reported segments

Not covered here due to negligible related amounts

II. Cumulative third quarter of the current consolidated fiscal year (January 1 - September 30, 2015)

1. Information on net sales, profits, and losses by reported segment

(Unit: 1,000 yen)

	Reported segment				Total	Adjustments (Note 1)	Amount recorded to Consolidated Quarterly Statement on Profit and Loss (Note 2)
	Domestic Sales Business	Branch Store Business in China	Foreign Trade Business	Other businesses			
Net sales							
Net sales to outside customers	65,772,671	5,541,909	728,417	531,373	72,574,371	–	72,574,371
Internal net sale or transfer amount between segments	–	45,787	445	–	46,232	-46,232	–
Total	65,772,671	5,587,696	728,862	531,373	72,620,604	-46,232	72,574,371
Segment profit or loss	9,420,199	-375,278	-230,826	-41,221	8,772,872	-1,293,977	7,478,894

(Notes) 1. The amount of the adjustment to segment profit or loss of -1,293,977,000 yen represents company costs not distributed to individual reported segments.

These company costs consist mainly of salaries, wages, and general administrative expenses not attributable to individual reported segments.

2. Segment profits or losses are adjusted against operating profits in the Consolidated Quarterly Statement on Profit and Loss.

2. Information on impairment losses on fixed assets, goodwill, etc. by reported segments

(Important impairment losses on fixed assets)

Not applicable

(Important changes in amounts of goodwill)

Not applicable

(Important gains on negative goodwill)

During the cumulative third quarter of the current consolidated fiscal year, the Company recorded gains on negative goodwill of 142,159,000 yen in the Domestic Sales Business.

3. Information on assets of individual reported segments

(Substantial increase in assets related to increase in net sales)

During the cumulative third quarter of this consolidated fiscal year, assets including accounts receivable-trade and merchandise increased alongside net sales. The assets of the Domestic Sales Business increased by 15,774,526,000 yen from the ending date of the previous consolidated fiscal year.