

# Summary of Financial Statements for Q1 term Ending December 2017 (Japanese Standards) (consolidated)

May 15, 2017

Listed company: Laox Co., Ltd. Stock exchange: Tokyo Stock Exchange  
 Code: 8202 URL: <http://www.laox.co.jp>  
 Representative: (Title) President and Representative Director (Name) Yiwen Luo  
 For inquiries, Contact: (Title) General Manager of Corporate Planning Department (Name) Daichi Tano  
 TEL: +81-3-6852-8881

Planned Submission Date for the Quarterly Report: May 15, 2017  
 Planned Starting Date for Dividend Payments: —  
 Supplementary documents for quarterly results: NO  
 Quarterly results briefing: NO

(Rounded down to nearest million yen)

## 1. Consolidated Results for Q1 term Ending December 2017 (January 1, 2017 to March 31, 2017)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Q1 of FY2017	14,748	(21.0)	(417)	—	(474)	—	(495)	—
Q1 of FY2016	18,676	2.5	325	(82.3)	340	(80.9)	(424)	—

(Note) Comprehensive income Q1 of FY2017: (426) million yen (—%) Q1 of FY2016: (361) million yen (—%)

	Profit per share		Diluted profit per share	
	Yen		Yen	
Q1 of FY2017	(7.69)		—	
Q1 of FY2016	(6.47)		—	

(Note) A reverse stock split of 10 common shares to one was conducted on July 1, 2016. Profit per share has been calculated by assuming that this reverse stock split was conducted at the beginning of the previous consolidated fiscal year.

### (2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
Q1 of FY2017	59,506		44,074		73.9	
FY2016	58,406		44,500		76.0	

(For reference) Shareholders' equity Q1 of FY2017: 43,981 million yen FY2016: 44,407 million yen

## 2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen				
FY2016	—	—	—	0.00	0.00
FY2017	—	—	—	—	—
FY2017 (forecast)	—	—	—	0.00	0.00

## 3. Consolidated results forecast for FY2017 (from January 1, 2017 to December 31, 2017)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit	
	Million yen	%	Million yen	%	Million yen	%
Full year	81,000	29.1	2,000	—	2,000	—

(Note) Revision to the forecast publicized most recently: No

(Note) The Company does not provide results forecasts for the first half of FY2017.

## Notes

(1) Important changes in subsidiaries in the first half under review: No

(2) Application of accounting specific to the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policy and changes or restatement of accounting estimates

(i) Changes in accounting policy due to revisions to accounting standards etc.:	No
(ii) Changes in accounting policy other than those in (i):	No
(iii) Changes in accounting estimates:	No
(iv) Restatement of accounting estimates:	No

(4) Number of issued shares (common shares)

(i) Number of issued shares at the end of period (including treasury stock):	Q1 of FY2017	66,388,103
	FY2016	66,388,103
(ii) Number of shares of treasury stock at the end of period:	Q1 of FY2017	1,918,059
	FY2016	1,918,017
(iii) Average number of issued shares during period (from the beginning of fiscal year)	Q1 of FY2017	64,470,060
	Q1 of FY2016	65,557,910

(Note) A reverse stock split of 10 common shares to one was conducted on July 1, 2016. The number of shares at the end of period (including treasury stock), number of shares of treasury stock at the end of period and the average number of issued shares during the period have been calculated by assuming that this reverse stock split was conducted at the beginning of the previous consolidated fiscal year.

### Status of a quarterly review

This summary of quarterly consolidated financial statements falls outside the scope of the quarterly review procedure under the Financial Instruments and Exchange Act.

### Explanation on the proper use of results forecasts and other special notes

Forward-looking statements, including results forecasts, in this document are based on information that the Group has obtained and certain assumptions that the Group believes to be reasonable. Actual results may differ significantly due to a variety of factors.

**○ Contents of attached document**

**1. Qualitative Information on Consolidated Results for the First Quarter of FY2017 ..... 2**

(1) Explanation of operating results ..... 2

(2) Explanation of financial conditions ..... 3

(3) Explanation of future predictive information such as consolidated results forecasts, etc. .... 3

**2. Quarterly Consolidated Financial Statements..... 4**

(1) Quarterly consolidated balance sheet..... 4

(2) Quarterly consolidated profit and loss statement and quarterly consolidated comprehensive income statement ..... 6

(3) Explanatory notes regarding quarterly consolidated financial statement ..... 9

    (Explanatory notes regarding assumption of going concern)..... 9

    (Explanatory notes in case of remarkable change in monetary amount of shareholders' equity)..... 9

    (Application of accounting specific to the preparation of quarterly consolidated financial statements) ..... 9

    (Segment information, etc.) ..... 9

## 1. Qualitative Information on Consolidated Results for the First Quarter of FY2017

### (1) Explanation of operating results

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

During the first quarter under review, the Japanese economy basically trended towards a gradual recovery with signs of a pickup observed in employment and income conditions under the positive effects of policies implemented by the Japanese government. However, the future of the economy remained obscure overall, owing to effects produced by the change of administration in the United States, the Brexit decision by Britain and unstable conditions in East Asia. Looking at trends for foreign tourists visiting Japan, who are customers for the Company's main business, their estimated number reached 6.53 million (up 13.6% year on year) in the three-month period from January to March 2017, reflecting factors such as the launch of new airline routes into service, increased flights, increased port calls by cruise ships and the sustained promotion of trips to Japan. Total consumption by foreign tourists also rose, climbing 4.0% year on year. As these figures suggest, trends for inbound tourism stayed firm. In the meantime, per capita consumption by foreign visitors fell 8.5% year on year. The breakdown of per capita consumption shows increased rates of expenditures related to services such as food, drink and sightseeing.

Under these conditions, the Group launched initiatives designed to raise the level of customer satisfaction with the supply of comprehensive services covering goods and experiences, such as food, drinks and entertainment, in addition to the sales of conventional merchandise, including consumer electronics, cosmetics, apparel products and shoes. In the field of food and drink services, the Company set up Food Creation Works Co., Ltd., a wholly owned subsidiary in charge of food and drink operations, in March 2017. The subsidiary will build a new business offering hybrid value, such as a combination of goods and experiences and a combination of local and inbound needs, to customers by promoting local consumption of locally produced goods. In the existing field of sales at duty-free shops, the Group continued initiatives, such as the review of unprofitable stores and cost rationalization, in addition to increasing sales through the development of high-quality, reliable products and the enhancement of sales capabilities. The Group stepped up other efforts, including the closing of three unprofitable stores. Meanwhile, in the shoes field, the Group moved into full gear its initiative for improving profitability through the establishment of a system of integrated manufacturing and sales (the SPA model).

As a result, consolidated net sales came to 14,748 million yen in the first quarter under review (down 21.0% from 18,676 million yen posted in the same period of the previous fiscal year). The consolidated operating loss for the period amounted to 417 million yen (compared to consolidated operating profit of 325 million yen posted in the same period of the previous fiscal year). The consolidated ordinary loss for the period was 474 million yen (compared to consolidated ordinary profit of 340 million yen posted in the same period of the previous fiscal year). In the ongoing fiscal year, the Company will continue its efforts to evolve the Group's business models to operate successfully in diversifying markets in the world, including China, Japan and other Asian countries, transforming itself into a global corporation able to respond to changes. To achieve these goals, the Company will pursue initiatives that include the opening of a buffet restaurant in Chiba Port Town, a commercial facility in Chiba City to be operated by the Group, or more precisely the new subsidiary in charge of food and drink operations.

The financial results of each business segment are as follows:

#### 1) Domestic Retail Business

In the Domestic Retail Business segment, per-customer spending decreased and concerns emerged over a temporary decline in group tourists from China due to rumors about nuclear power plants. However, the Group secured revenues from sales at duty-free shops, supported by factors such as sustained growth in the number of customers who visited the shops, which began to recover at the end of the previous fiscal year, during the Chinese New Year holidays (from the end of January to the beginning of February 2017). In the meantime, business acquisitions carried out in the previous fiscal year began to bolster net sales and the integration of purchase and administrative expenses started to improve revenues in the shoes field. However, they remained short of achieving the desired effects in the first quarter under review. As for inbound markets, a shift from group tours to foreign independent tours (FITs) is picking up speed. Responding to these changes, the Company will strengthen its ability to attract customers through the introduction of new experience-oriented services and efforts to reexamine cost-effectiveness Group-wide. As a result of these developments, consolidated net sales for the segment amounted to 14,358 million yen in the first quarter under review (down 17.7% from 17,444 million yen posted in the same period of the previous fiscal year). Consolidated operating loss for the segment reached 34 million yen (compared to consolidated operating profit of 1,169 million yen posted in the same period of the previous fiscal year).

#### 2) Overseas Businesses

In this segment, the Company finished operating retail stores in the previous fiscal year. The Company is currently rebuilding wholesale, logistics and other structures for products bound for mainland China and Taiwan. The

consolidated operating loss for the segment decreased, but the decrease was not large enough to secure revenues. Consolidated net sales for the segment came to 262 million yen in the first quarter under review (down 76.0% from 1,093 million yen posted in the same period of the previous fiscal year). The consolidated operating loss for the segment was 24 million yen (compared to consolidated operating loss of 247 million yen posted in the same period of the previous fiscal year).

### 3) Other Businesses

This segment consists mainly of real estate leasing operations. Consolidated net sales for the segment amounted to 156 million yen in the first quarter under review (up 10.7% from 141 million yen posted in the same period of the previous fiscal year). Consolidated operating profit for the segment was 24 million yen (compared to consolidated operating loss of 49 million yen posted in the same period of the previous fiscal year).

## (2) Explanation of financial conditions

### 1) Assets, Liabilities, and Net assets

#### (Assets)

Total assets at the end of the first quarter of the consolidated fiscal year under review stood at 59,506 million yen (compared to 58,406 million yen at the end of the previous fiscal year).

The increase in total assets was largely attributable to an increase of 20,999 million yen in cash and deposits and a rise of 349 million yen in buildings and structures, despite a decrease of 19,000 million yen in long-term fixed-period deposits and a fall of 1,308 million yen in merchandise and finished goods.

#### (Liabilities)

Total liabilities amounted to 15,431 million yen (compared to 13,905 million yen at the end of the previous fiscal year)

The increase in total liabilities was largely attributable to an increase of 1,044 million yen in notes and accounts payable – trade and a rise of 807 million yen in short-term loans payable, despite in a decrease of 517 million yen in accounts payable – other.

#### (Net assets)

Net assets stood at 44,074 million yen (compared to 44,500 million yen at the end of the previous fiscal year).

The decline in net assets was due primarily to a decrease of 495 million yen in retained earnings.

## (3) Explanation of future predictive information such as consolidated results forecasts, etc.

The full-year consolidated financial forecast announced in the Summary of (Consolidated) Financial Statements for the Fiscal Year Ended December 31, 2016 (Japanese Standards) dated February 14, 2017 has not been changed.

## 2. Quarterly Consolidated Financial Statements

### (1) Quarterly consolidated balance sheet

(Units: 1,000 yen)

	FY2016 (As of December 31, 2016)	First quarter of FY2017 (As of March 31, 2017)
<b>Assets</b>		
Current assets		
Cash and deposits	2,863,943	23,863,685
Notes and accounts receivable - trade	3,086,502	3,240,942
Merchandise and finished goods	13,664,873	12,355,883
Work in process	61,457	51,753
Raw materials and supplies	125,343	77,644
Accounts receivable	1,455,475	1,644,658
Advance payments - trade	727,741	743,360
Prepaid expenses	571,535	622,912
Current portion of guarantee deposits	68,681	68,681
Other	454,690	473,582
Allowance for doubtful accounts	(75,878)	(74,381)
Total current assets	23,004,365	43,068,722
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	3,977,614	4,327,087
Machinery, equipment and vehicles (net)	45,301	40,837
Tools, furniture and fixtures (net)	1,783,042	1,720,105
land	517,159	517,159
Lease assets (net)	92,249	90,473
Construction in progress	80,789	193,305
Total non-current assets	6,496,156	6,888,969
Intangible assets		
Goodwill	376,279	356,121
Trademark right	76,811	71,538
Software	234,060	325,378
Lease assets	13,201	12,235
Software in progress	78,820	-
Other	901	901
Total intangible assets	780,074	766,176
Investments and other assets		
Investment securities	764,996	430,721
Shares of subsidiaries and associates	202,000	202,000
Investments in capital of subsidiaries and associates	2,574,896	2,574,896
Long-term fixed-period deposits	19,000,000	-
Long-term loans receivable	531,488	530,625
Lease and guarantee deposits	5,165,655	5,159,847
Other	295,586	295,356
Allowance for doubtful accounts	(471,235)	(459,719)
Total investments and other assets	28,063,388	8,733,727
Total non-current assets	35,339,619	16,388,872
Deferred assets		
Share issuance cost	62,018	48,728
Total deferred assets	62,018	48,728
Total assets	58,406,003	59,506,324

(Units: 1,000 yen)

	FY2016 (As of December 31, 2016)	First quarter of FY2017 (As of March 31, 2017)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	4,164,045	5,208,891
Short-term loans payable	4,843,300	5,650,300
Current portion of long-term loans	69,014	69,014
Accounts payable - other	1,797,228	1,280,194
Accrued expenses	459,235	601,938
Lease obligations	31,115	32,027
Income taxes payable	35,089	123,718
Provision for bonuses	77,760	–
Provision for director's bonuses	66	–
Provision for point card certificates	6,404	6,266
Provision for loss from product warranty	18,683	17,918
Provision for loss on withdrawal from employees' pension fund	100,000	100,000
Asset retirement obligations	6,248	–
Other	292,398	347,393
Total current liabilities	11,900,591	13,437,663
Non-current liabilities		
Long-term loans payable	301,363	301,363
Long-term guarantees deposited	347,622	316,821
Net defined benefit liabilities	425,949	442,645
Provision for director's retirement benefits	23,633	23,633
Lease obligations	74,078	71,327
Provision for loss on litigation	2,218	2,218
Allowance for business structure improvement expenses	541,875	541,875
Asset retirement obligations	252,116	256,104
Deferred tax liabilities	19,762	22,612
Other	16,361	15,698
Total non-current liabilities	2,004,980	1,994,300
Total liabilities	13,905,571	15,431,964
<b>Net assets</b>		
Shareholder's equity		
Capital stock	22,633,662	22,633,662
Capital surplus	18,920,205	18,920,205
Retained earnings	4,771,696	4,275,792
Treasury shares	(2,419,850)	(2,419,878)
Total shareholder's equity	43,905,713	43,409,781
Total amount of other comprehensive income		
Valuation difference on available-for-sale securities	9,973	17,338
Remeasurements of defined benefit plans	(17,158)	(17,158)
Foreign currency translation adjustment	509,148	571,644
Total amount of other comprehensive income	501,963	571,824
Subscription right to shares	92,753	92,753
Non-controlling interest	–	–
Total net assets	44,500,431	44,074,360
Total liabilities and net assets	58,406,003	59,506,324

## (2) Quarterly consolidated profit and loss statement and quarterly consolidated comprehensive income statement

## Quarterly consolidated profit and loss statement

First quarter

(Units: 1,000 yen)

	First quarter of FY2016 (From January 1 to March 31, 2016)	First quarter of FY2017 (From January 1 to March 31, 2017)
Net sales	18,676,759	14,748,128
Cost of sales	12,161,855	9,235,230
Gross profit	6,514,903	5,512,897
Selling, general and administrative expenses		
Advertising expenses	48,640	107,072
Sales commission	2,563,532	1,706,094
Promotion expenses	42,483	180,831
Haulage expenses	113,322	100,195
Depreciation	191,798	247,697
Amortization of goodwill	–	20,157
Salaries and allowances	1,072,602	1,275,841
Legal welfare expenses	183,220	187,449
Bonuses	6,146	2,236
Provision for bonuses	68,345	–
Director's bonuses	4,597	–
Provision for directors' bonuses	9,732	–
Retirement benefit expenses	26,573	23,566
Provision for directors' retirement benefits	3,648	–
Rents	1,145,316	1,429,923
Rent expenses	33,745	51,961
Other	675,968	597,703
Total selling, general and administrative expenses	6,189,673	5,930,732
Operating profit (loss)	325,229	(417,834)
Non-operating income		
Interest income	35,422	37,967
Dividend income	–	4,500
Reversal of allowance for doubtful accounts	12,088	–
Other	15,017	3,451
Total non-operating income	62,528	45,918
Non-operating expenses		
Interest expenses	4,039	7,983
Sales discount	644	576
Amortization of stock issuance cost	13,289	13,289
Commission for syndicate loan	–	31,209
Foreign exchange losses	25,117	30,115
Other	3,949	19,167
Total non-operating expenses	47,040	102,340
Ordinary profit (loss)	340,717	(474,256)
Extraordinary losses		
Loss on disposal of non-current assets	16,604	–
Loss on liquidation of stores	205,873	9,812
Allowance for business structure improvement expenses	191,875	–
Total extraordinary loss	414,353	9,812
Profit (loss) before income taxes	(73,636)	(484,068)

(Units: 1,000 yen)

	First quarter of FY2016 (From January 1 to March 31, 2016)	First quarter of FY2017 (From January 1 to March 31, 2017)
Income taxes - current	79,309	12,751
Income taxes - deferred	271,283	(916)
Total income taxes	350,592	11,835
Profit (loss)	(424,228)	(495,903)
Profit (loss) attributable to non-controlling interests	–	–
Profit (loss) attributable to owners of parent	(424,228)	(495,903)

Quarterly consolidated comprehensive income account statement  
 First quarter

(Units: 1,000 yen)

	First quarter of FY2016 (From January 1 to March 31, 2016)	First quarter of FY2017 (From January 1 to March 31, 2017)
Profit (loss)	(424,228)	(495,903)
Other comprehensive income		
Valuation difference on available-for-sale securities	475	7,365
Foreign currency translation adjustment	62,728	62,495
Total of other comprehensive income	63,203	69,860
Comprehensive income	(361,024)	(426,042)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(361,024)	(426,042)
Comprehensive income attributable to non-controlling interests	–	–

(3) Explanatory notes regarding quarterly consolidated financial statement

(Explanatory notes regarding assumption of going concern)

No corresponding items.

(Explanatory notes in case of remarkable change in monetary amount of shareholders' equity)

No corresponding items.

(Application of accounting specific to the preparation of quarterly consolidated financial statements)

Tax expenses for the Company and certain of its consolidated subsidiaries are calculated by rationally estimating an effective tax rate for profit before income taxes for the fiscal year including the first quarter under review after the application of tax effect accounting and multiplying profit/loss before income taxes for the first quarter under review by the estimated effective tax rate.

(Segment information, etc.)

I. First quarter of FY2016 (from January 1 to March 31, 2016)

1. Information concerning monetary amount of sales and profit or loss of each reporting segment

(Units: 1,000 yen)

	Reporting segment			Total	Amount of adjustment Note: 1	Amount appropriated in quarterly consolidated profit and loss statement Note: 2
	Domestic retail business	Overseas business	Other business			
Sales						
Sales to extremal clients	17,441,247	1,093,985	141,526	18,676,759	–	18,676,759
Internal sales or transfers between segment	3,253	–	–	3,253	(3,253)	–
Total	17,444,500	1,093,985	141,526	18,680,012	(3,253)	18,676,759
Segment profit (loss)	1,169,714	(247,282)	(49,367)	873,064	(547,835)	325,229

(Notes) 1. Segment profit amount of adjustment -547,835 thousand yen indicates expenses for whole company without dividing for each reporting segment. Whole company expenses mainly consist of personnel expenses and general management expenses not belonging to reporting segments.

2. Segment profit (loss) is adjusted with operating profit from the quarterly consolidated profit and loss statement.

2. Information concerning impairment loss or goodwill, etc. of non-current assets in each reporting segment

No corresponding items.

II. First quarter of FY2017 (from January 1 to March 31, 2017)

1. Information concerning monetary amount of sales and profit or loss of each reporting segment

(Units: 1,000 yen)

	Reporting segment			Total	Amount of adjustment Note: 1	Amount appropriated in quarterly consolidated profit and loss statement Note: 2
	Domestic retail business	Overseas business	Other business			
Sales						
Sales to extremal clients	14,356,942	234,483	156,702	14,748,128	–	14,748,128
Internal sales or transfers between segment	1,247	28,492	–	29,739	(29,739)	–
Total	14,358,189	262,975	156,702	14,777,867	(29,739)	14,748,128
Segment profit (loss)	(34,816)	(24,981)	24,725	(35,070)	(382,763)	(417,834)

(Notes) 1. Segment profit amount of adjustment -382,763 thousand yen indicates expenses for whole company without dividing for each reporting segment. Whole company expenses mainly consist of personnel expenses and general management expenses not belonging to reporting segments.

2. Segment profit (loss) is adjusted with operating profit from the quarterly consolidated profit and loss statement.

2. Information concerning impairment loss or goodwill, etc. of non-current assets in each reporting segment

No corresponding items.