

【1st Quarterly Report FY 2019】

Business Conditions in the 1st quarter of FY 2019 (Jan.-Mar. 2019)

2019, the second year in our medium-term management plan, is a crucial year for us to enhance our profitability through structural reforms in order to prepare for the advent of a global life style. Since Shaddy Co., Ltd. joined the Laox group last year, the synergy effect among our subsidiaries and affiliates has clearly emerged and our revenue sources have steadily diversified from the inbound business to other fields.

While the sales at our tax free stores in the inbound business now represent around thirty percent of the total sales of the Laox group as we have expanded into various business areas, the section still remains crucially important as our starting point. With the number of foreign tourists visiting Japan continuously on the rise, we will keep leading the inbound consumption trend by steadily attracting FITs as well as group tourists. Our advance into the Chinese market is leading the fast growth in the Laox Global Business. In the Life & Fashion business, whose sales are the largest in our group, we deliver high-quality products made in Japan to the world through multiple channels. We will further expand business in these two sections that have grown into major revenue sources for Laox. With regard to the Entertainment Business, which is in an investment phase, we will aggressively develop new businesses while implementing structural reforms in an effort to strengthen the revenue base.

Business Conditions in Each Segment

In addition to the tax-free retail business, currently our core business, we continue to expand our business to achieve our goal of establishing a global life style. Business condition in each segment is described below. **The form of the reports on the 2nd and following quarters and their release schedule are now under consideration and will be announced once determined.**

| 2019 | 1Q | 2Q | 3Q | 4Q | All |
|----------|----|----|----|----|-----|
| Openings | — | | | | 38 |
| Closures | — | | | | |

* Openings and Closures of Laox tax-free stores in Japan

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 2018 | 187,139 | 209,132 | 196,732 | 232,940 | 216,718 | 213,117 | 233,224 | 235,770 | 163,747 | 191,007 | 184,840 | 176,707 |
| 2019 | 178,953 | 180,881 | 217,117 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| YOY change/month | 95.6% | 86.5% | 110.4% | | | | | | | | | |
| YOY change/quarter | 97.3% | | | | | | | | | | | |

* Number of paying customers at Laox tax-free stores in Japan

■ Inbound Business

Our inbound business was sluggish in February partly because this year's Chinese New Year came eleven days earlier than last year. However, inbound demand during the cherry blossom season from mid-March to April has been quite robust and the number of paying customers in March at our tax-free stores rose from 2018. We opened Japan's first tax-free reservation store on Fliggy, a travel platform run by the Alibaba Group, the largest E-commerce company in China on March 20. Customers can first reserve and pay for products at the reservation store and then pick up them at some (*1) of our physical stores in Japan after arriving in the country. The service helps us offer more efficient shopping experience and attract more FITs and repeat customers as well as group tourists. (*1) We started with eight stores and will expand in stages.

■ Life & Fashion Business

- The Shaddy group held Shaddy Gift EXPO in Osaka in January, a large-scale gift exhibition where around 150 makers displayed their products. In March, Shaddy joined Gift for Life, Seven Eleven Japan's net shopping platform, and started to provide the infrastructure to distribute gifts and other products in a bid to offer new gift-related services in collaboration with Seven Eleven Japan which has entered the casual gift market in earnest. Also in March, Shaddy, along with Laox, opened "Japan Pavilion" in Greenland Global Commodity Hub, the largest foreign trade exhibition facility in China, a first for a Japanese company. Shaddy will use Japan Pavilion as a foothold to expand into the Chinese market
- Laox's women's shoes group opened three Fountain Blue stores, a new type of store under the concept of "Relax & Healthy", and a MODE ET JACOMO THE ORDER store, also a new type of store that has a section dedicated to custom-made shoes.

■ Global Business

In the Laox group, the global business has achieved a particularly fast growth. We have directed a considerable effort to the fast-growing cross-border E-commerce business as well as the existing BtoB trade business.

Laox's flagship stores opened on leading Chinese E-commerce platforms (T-mall, Koala.com, & Suning.com) showed a steady growth in sales during the first quarter. They are also engaging in new styles of retailing such as live distribution of video introducing made-in-Japan products on so called live-commerce platforms said to be the next generation of retailing channel. We have also started operating a smartphone application for foreign tourists to dine at restaurants in Japan and are now taking measures to attract companies in the restaurant industry to join the application. <http://www.laox.co.jp/ttd/>

■ Entertainment Business

In the entertainment business, NEW CITY CLUB OF TOKYO, a members-only restaurant we opened last August, held events inviting celebrities from various fields. Its membership is steadily increasing. We are planning to lease the real property within Chiba Port Square in an effort to further improve the operational efficiency of the facility.

We have been running a theme park in Kitakyushu Riverwalk under the concept of "everyone's playground". It aims to meet the needs of diverse customers from locals to foreign tourists. Laox will further strengthen its efforts to develop facilities that offer hands-on experience.

We are actively implementing business restructuring, including consolidating or abolishing organizations in order to enhance the value of the assets of the entire Laox group and build a structure that will increase our profitability in this fiscal year.