

Overall Business Conditions in the 3rd Q (Jul-Sep 2018)

During the third quarter of the year a number of natural disasters hit Japan, including the extraordinarily heavy rain in Western Japan, a series of powerful typhoons, and Hokkaido Eastern Iburi Earthquake. They caused immense damage, and our group's business has also been seriously affected. Not only were we forced to temporarily close some stores and were our products damaged but also adverse effects such as declining consumer confidence and an increase in foreign tourists' cancellation could linger on in the fourth quarter. (We are currently examining the effects of the natural disasters on our business. The examination results will be announced as soon as they are finalized.) Under these circumstances, we set up a Chinese chat service on WeChat to help foreign visitors gain timely information related to the disasters including advice on local transportation. Consequently, the service was used by a large number of tourists. It is undeniable that natural disasters will continue to affect Japan's inbound business that still accounts for a considerable part of our total sales. Therefore, we will flexibly respond to disasters and offer true service to meet the customer needs in crisis situations. On the other hand, in addition to tax-free retail business in Japan that has been the mainstay of our business so far, we are accelerating business development in cross-border E-commerce to directly appeal to overseas customers, concluding a strategic business partnership agreement with Kaola.com, a leading cross-border E-commerce platform in China, in September for example. We will further work to introduce quality products made in Japan to the Chinese market. Furthermore, during the third quarter, we kept investing in, and improve revenue structure of, various businesses in our group to better serve both the market for consumption of goods and the market for consumption of experience in response to diversifying consumption patterns. For instance, one of our subsidiary opened Dotonbori Festival of Meat-Cooking Stalls, a meat-specialty restaurant, which has been reported in the media, including TV programs, a number of times, and become a talk of the town.

【Investor Relations information released during the 3rd quarter】 https://www.laox.co.jp/ir/en/library/library_08.html

Laox set up Made-in-Japan Products Specialty Area in Suning group's new giant mall in Xi'an / Food Creation Works, a Laox subsidiary, opens Dotonbori Festival of Meat-Cooking Stalls / Closure of Ginza Main Store and consolidation into Laox Ginza EXITMELSA / Conclusion of a strategic partnership agreement with Kaola.com, a leading cross-border E-commerce platform in China / and others

In addition to the tax-free retail business, which is currently our backbone business, we continue to expand our business to achieve our goal of establishing "a global life style".

Business Conditions in Each Segment

■ Retail Business

Year 2018	1Q	2Q	3Q	Total of existing stores
Openings			1	38
Closures	3		3	

※Store openings and closures

Our tax-free stores in Japan added seasonal items such as insect-repellent products and goods targeted at children in high demand ahead of the summer season. Meanwhile the number of paying customers declined from a year earlier due to the cancellation of cruise ship visits to Kyushu that has been hit by a number of natural disasters and temporary store closures in Kansai and Hokkaido also caused by natural disasters. In the trade business, we opened Made-in-Japan Products Specialty Area in Xi'an Suning.com Square which offers the latest technologies and services such as a face-recognition system. Also, we signed a strategic partnership agreement with Kaola.com that has the largest share in the cross-border E-commerce market in China. Together with similar alliances with T-mall Global and Suning.com, we now have a flagship store on each of the three largest E-commerce platforms in China, which will be our starting point to accelerate our trade business.

■ Life & Fashion Business

•The shoe business has been reorganized into four groups according to channels and brands (Shop business, Department Store business, Wholesale business, New business). We will further streamline these businesses and enhance the value of their brands.
•Shaddy is continuing merchandising efforts and preparing to offer a large number of quality products made in Japan to China starting from household products, taking advantage of the business network with us and Suning.com, our parent company. However, because Shaddy has many stores and logistics centers in western Japan, the typhoons' aftereffects are still impacting both the company's sales and logistics operations.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
2016	172,890	194,220	218,365	233,924	196,335	198,007	238,951	223,826	159,488
2017	197,136	198,983	191,867	193,553	175,756	186,501	242,348	256,426	224,826
2018	187,139	209,132	196,732	232,940	216,718	213,117	233,224	235,770	163,747
YoY percentage	94.9%	105.1%	102.5%	120.3%	123.3%	114.3%	96.2%	91.9%	72.8%

※Number of paying customers at all the Laox stores in Japan

■ Entertainment Business

- At Chiba Port Square, we worked to increase our name recognition among locals by holding family-fun events during the summer vacation, setting up a barbecue stand, and inviting a local festival.
- We opened Dotonbori Festival of Meat-Cooking Stalls in Dotonbori, the heart of Osaka tourism, which offers meat dishes rarely served anywhere else.
- We held a party in August to mark the opening of New City Club of Tokyo, the "place where global citizens meet", in October, inviting many business leaders and celebrities. They were introduced to the features of the facility, including a wine cellar with one of the best wine collections in Japan / a French restaurant surrounded by elegant pictures / a large counter for hot-plate grilling where diners can also enjoy dynamic performances by chefs / a graceful sushi counter cut out of a single log of Japanese cypress with a high scarcity value / a cigar bar that has an assortment of famous brands of cigars / and others. They will surely satisfy the club members who have high standards for food and culture.

■ Shopping Center Development Business

- We actively invited potential tenants to Chiba Port Square and Kitakyushu Riverwalk, two commercial facilities we have a stake in. We also continued to improve management of the real properties owned by our group companies and increase the efficiency of the stores within our group.