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Press Release

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Notice Regarding Issue of Share Options for Subscription (Stock Options for Consideration)

Laox Co., Ltd. (the “Company”) announces that it was resolved at the meeting of the Board of Directors of the Company held on April 28, 2017 that the Company would issue share options to the directors, auditors and employees of the Company according to the provisions of Articles 236, 238 and 240 of the Companies Act, as follows. The share options will be issued for consideration to those who subscribe to them for a fair price without any special favorable conditions, and thus the issue will be made without the approval of the general meeting of shareholders. In addition, the share options will be subscribed to based on the individual investment judgment of each person, rather than remuneration for the grantees.

I. Purpose of and reasons for solicitation of subscription to the share options

To commit itself to achieving the targets described in the medium-term management plan, the Company has introduced a paid stock option plan on the condition of achieving the targets (see “Notice Regarding Issuance of Share Options for Subscription (Stock Options for Consideration)” dated June 8, 2015). To date, the target (operating income of 4,550 million yen) set for the fiscal year ended December 31, 2015, as the first phase of the medium-term plan, has been achieved. However, the external environment of the Company’s core businesses has recently been changing rapidly, and, in particular, factors such as an increasingly strong yen that significantly affects domestic retail business, a revised tax law imposed on personal imports from China, and a decline in the average purchasing unit price of consumers due to rapid changes in their shopping preferences, among other factors, have had a substantial impact on the Company’s financial results. As a result, the Company

reported an operating loss in the financial settlements for the fiscal year ended December 31, 2016. Nevertheless, the Company is committed to developing new merchandise to accommodate growth in the number of foreign visitors to Japan and their increasingly diverse needs and embarking on new businesses not limited to physical consumption, but experiential consumption such as dining, entertainment, and tourism.

The share options will be issued to the directors, auditors, and executive employees of the Company for consideration for the purpose of raising the motivation of both employees and management by sharing responsibility for achieving targets and defining the compensation for the achievement in such a challenging business environment.

As described in “II. Main points of the issue of the share options, 3. (6) Conditions for the exercise of the share options,” the right to the share options may be exercised only when a holder of the right has achieved the performance level prescribed in advance. The right to share options is designed to encourage the directors, auditors, and employees of the Company holding the right to be committed to achieving the Company’s financial goals.

In addition, when the Company issues new shares upon the exercise of all of the said share options, there will be a maximum dilution of around 3.1% against the total number of issued shares, which is 64,470,086 shares as of the date of the Company’s resolution for issue. Meanwhile, the share options are designed to prevent a decrease in the profit of existing shareholders by allowing the right to be exercised only when the performance level specified in advance has been achieved and adding a 10% premium on the average closing price for the past three months until the date of the resolution at the meeting of the Board of Directors and a 26.8% premium on the share price on the preceding business day to the exercise price so that stock dilution will not be likely when the business performance and stock price fall below the levels targeted by the Company.

The Company considers, therefore, that achieving these performance conditions will also benefit existing shareholders and the scale of stock dilution arising from the issue of the share options will be within a reasonable scope.

II. Main points of the issue of the share options

1. Number of share options

20,000 share options

The total number of shares that may be issued upon the exercise of the share options shall be 2,000,000 ordinary shares of the Company. When the number of shares to be issued in relation to the share options is adjusted according to Paragraph 3 (1) below, such number of shares shall be the product of the number of the share options and the number of shares to be granted after adjustment.

2. Money to be paid in exchange for share options

The issue price for each of the share options shall be 158 yen. The said price is determined with

reference to, and to be the same amount as, the results of calculation by a third-party appraiser, Akasaka International TAX&CO (“Akasaka International”). Akasaka International calculated the value of the share options according to the general option pricing model, the Monte Carlo Simulation, based on the closing price of the Company’s stock, which was 542 yen per share on the Tokyo Stock Exchange on the business day immediately before April 28, 2017 when the issue of the share options was resolved at the meeting of the Board of Directors of the Company, the stock price volatility of 61%, the dividend yield of 0.0%, the risk free rate of 0.2% and the conditions set forth in the main points of the issue of the share options (exercise price of 687 yen per share, period before maturity of 3.9 years, business performance conditions).

3. Description of share options

(1) Class and number of shares that are the subject of the share options

The number of shares underlying each of the share options (hereinafter referred to as the “Number of Shares to Be Granted”) shall be one hundred (100) ordinary shares of the Company.

In the case of a share split (including the allotment of ordinary shares of the Company without contribution; the same shall apply hereinafter) or the consolidation of shares by the Company after the date of allotment of the share options, the Number of Shares to Be Granted shall be adjusted according to the following calculation formula. However, such adjustment shall be made only to the number of shares underlying the share options that are not exercised at that time, and any fractions below one (1) share arising from the adjustment shall be discarded.

Number of Shares to Be Granted after adjustment = Number of Shares to Be Granted before adjustment x ratio of split (or consolidation)

In addition, in the case of a merger, demerger or reduction of the stated capital by the Company after the date of allotment of the share options and in any other similar cases requiring adjustment of the Number of Shares to Be Granted, the Number of Shares to Be Granted shall be appropriately adjusted to a reasonable extent.

(2) Value of property contributed upon the exercise of the share options or calculation method thereof

The value of property contributed upon the exercise of the share options shall be the product of the amount to be paid in per share (hereinafter referred to as the “Exercise Price”) and the Number of Shares to Be Granted.

The Exercise Price shall be 687 yen, which is the price obtained by multiplying the average closing price of the Company’s stock on the Tokyo Stock Exchange for the most recent three months until the business day immediately before April 28, 2017 when the issue of the share options was resolved at the meeting of the Board of Directors of the Company by 110%.

In the case of a share split or consolidation of shares by the Company after the date of allotment of the share options, the Exercise Price shall be adjusted according to the following calculation formula,

and any fractions below one (1) yen arising from the adjustment shall be rounded up.

Exercise Price after adjustment = Exercise Price before adjustment x 1/ratio of split (or consolidation)

In addition, when the Company issues new shares at a price below the market value of the ordinary shares of the Company or disposes of its own shares after the date of allotment of the share options (other than the issue of new shares and the disposal of its own shares upon the exercise of the share options and the transfer of its own shares upon a share exchange), the Exercise Price shall be adjusted according to the following calculation formula, and any fractions below one (1) yen arising from the adjustment shall be rounded up.

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment} \times \left(\frac{\text{Number of newly issued shares} \times \text{Amount to be paid in per share}}{\text{Market value per share before new issue}} \right)}{\text{Number of outstanding shares} + \text{Number of newly issued shares}}$$

In the calculation formula above, “Number of outstanding shares” shall refer to the number obtained by deducting the number of treasury shares that are ordinary shares of the Company from the total number of issued shares that are ordinary shares of the Company. In the case of the disposal of treasury shares that are ordinary shares of the Company, “Number of newly issued shares” shall be read as “Number of treasury shares to be disposed of.”

In addition to the above, in the case of a merger between the Company and other companies and a demerger by the Company after the date of allotment of the share options, and in any other similar cases requiring the adjustment of the Exercise Price, the Company may adjust the Exercise Price appropriately to a reasonable extent.

(3) Period during which the share options may be exercised

The period during which the share options may be exercised (hereinafter referred to as the “Exercise Period”) shall start on April 1, 2019 and continue until March 31, 2021.

(4) Matters regarding stated capital and capital reserve to be increased

(i) The amount of stated capital to be increased when the shares are issued upon the exercise of the share options shall be half the amount of the limit amount of the increase in the stated capital, etc. that is calculated according to Paragraph 1, Article 17 of the Ordinance on Company Accounting. Any fractions below one (1) yen arising from the calculation shall be rounded up.

(ii) The amount of capital reserve to be increased when the shares are issued upon the exercise of the share options shall be the amount obtained by deducting the amount of stated capital to be increased as set forth in (i) above from the limit amount of the increase in the stated capital, etc. as set forth in (i) above.

(5) Restrictions on acquisition of share options by transfer

The acquisition of the share options by transfer shall be subject to approval by resolution of the Board of Directors of the Company.

(6) Conditions for the exercise of the share options

(i) The holders of the share options shall be entitled to exercise 50% of their rights only during the period from April 1, 2019 to March 31, 2020 if the net sales stated in the audited consolidated income statement of the Company for the fiscal year ending December 31, 2018 (when consolidated financial statements are not prepared, the income statement) exceed 90,000 million yen and the operating income stated in said financial statements exceeds 2,000 million yen.

(ii) The holders of the share options shall be entitled to exercise 50% of their rights only during the period from April 1, 2020 to March 31, 2021 if the net sales stated in the audited consolidated income statement of the Company for the fiscal year ending December 31, 2019 (when consolidated financial statements are not prepared, the income statement) exceed 100,000 million yen and the operating income stated in said financial statements exceeds 2,200 million yen.

(iii) In the decision of the above (i) and (ii), should there be a material change in the concept of net sales, operating profit, etc. to be referred to due to the application of the International Financial Reporting Standards, among other causes, the indexes that should be referred to shall be separately specified by the Board of Directors.

(iv) The holders of the share options shall maintain the status of directors, auditors or employees of the Company or its affiliated companies at the time of the exercise of the rights to the share options unless they retire upon the expiry of their term of office or at the mandatory retirement age, or the Board of Directors approves any other good reasons.

(v) The heirs of the holders of the share options shall not be allowed to exercise the share options.

(vi) When any exercise of the share options causes the total number of issued shares of the Company to exceed the number of authorized shares at that time, the said share options may not be exercised.

(vii) None of the share options may be exercised if each of them falls below one (1) share option.

4. Date of allotment of the share options

May 31, 2017

5. Matters regarding the acquisition of the share options

(1) When the general meeting of shareholders approves a merger agreement under which the Company will be a disappearing company, a split agreement or plan in relation to the demerger as a result of which the Company will be a split company, or a share exchange agreement or share transfer plan under which the Company will be a wholly owned subsidiary company (when the approval of the general meeting of shareholders is not required, the resolution of the Board of Directors for such agreement, etc.), the Company may acquire all the share options without compensation when the date separately specified by the Board of Directors of the Company arrives.

(2) When the share options may not be exercised according to the provisions set forth in Paragraph 3

(6) before the holders of the share options exercise their rights, the Company may acquire the share options without compensation.

6. Treatment of share options in the case of organizational restructure

In the case of a merger (limited to one under which the Company will disappear when it occurs), absorption-type demerger, incorporation-type demerger, share exchange or share transfer (hereinafter collectively referred to as the “Organizational Restructure”) by the Company, the share options of the stock companies set forth in a. to e., Item (8), Paragraph 1, Article 236 of the Companies Act respectively (hereinafter referred to as the “Companies to Be Reorganized”) shall be issued to the holders of the share options on the effective date of the Organizational Restructure according to the following conditions. However, such issue shall be made only when the absorption-type merger agreement, the consolidation-type merger agreement, the absorption-type demerger agreement, the incorporation-type demerger plan, the share exchange agreement or the share transfer plan provides that the share options of the Companies to Be Reorganized shall be issued according to the following conditions.

(1) Number of share options of the Companies to Be Reorganized to be issued

The same number as the number of share options held by the holders of the share options shall be issued, respectively.

(2) Class of shares of the Companies to Be Reorganized underlying the share options

It shall be ordinary shares of the Companies to Be Reorganized.

(3) Number of shares of the Companies to Be Reorganized underlying the share options

It shall be determined by taking into consideration the conditions for the Organizational Restructure according to Paragraph 3 (1).

(4) Value of property contributed upon the exercise of the share options

The value of property contributed upon the exercise of the share options issued shall be the amount obtained by multiplying the exercise price after reorganization that will be obtained through the adjustment of the Exercise Price specified under Paragraph 3 (2) above by the number of shares of the Companies to Be Reorganized underlying the said share options that will be determined according to Paragraph 6 (3) above, taking into consideration the conditions for the Organizational Restructure, among others.

(5) Period during which the share options may be exercised

It shall start from the later of either the first day of the Exercise Period set forth in Paragraph 3 (3) above or the effective date of the Organizational Restructure, and shall continue until the last day of the Exercise Period set forth in Paragraph 3 (3) above.

(6) Matters regarding the stated capital and capital reserve to be increased when the shares are issued upon the exercise of the share options

They shall be decided according to Paragraph 3 (4) above.

(7) Restrictions on the acquisition of the share options by transfer

Restrictions on the acquisition by transfer shall be subject to approval by resolution of the Board of Directors of the Companies to Be Reorganized.

(8) Other conditions for the exercise of the share options

They shall be determined according to Paragraph 3 (6) above.

(9) Causes and conditions for the acquisition of the share options

They shall be determined according to Paragraph 5 above.

(10) Any other conditions shall be determined in accordance with the conditions of the Companies to Be Reorganized.

7. Matters regarding share option certificates in relation to the share options

The Company shall not issue share option certificates in relation to the share options.

8. Date of payment of money in exchange for the share options

May 31, 2017

9. Application deadline

May 19, 2017

10. Persons to whom the share options are allotted and the number of such persons and the share options

Directors and auditors of the Company: 11 persons 15,500 share options

Employees of the Company: 59 persons 4,500 share options

End.