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1. Qualitative Information on Consolidated Results for the First Half 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 half of the consolidated fiscal year under review, the Japanese economy remained on a moderate recovery trend amid improved employment conditions and other factors, although the situations in Europe, the United States and the East Asian region had to be watched continuously from the perspective of political and geopolitical risks.

Looking at the trend for foreign tourists visiting Japan, which impacts on the Company's main businesses, the estimated number of tourists visiting Japan reached 7.22 million (up 21.1% year on year) in the period from April to June (three months), reflecting factors such as an increase in the number of airline seats, the expansion of airline routes, a rise in the number of ports at which cruise ships call and the launch of chartered flights, and their cumulative number in May exceeded 10 million on an annualized basis at the fastest pace ever, showing solid growth. On the other hand, with regard to the trend of consumption by foreigners visiting Japan, the total amount of spending came to 1,076.6 billion yen (up 13.0% year on year), achieving a record the highest on a quarterly basis, and in terms of the spending of foreign tourists visiting Japan by expenditure item, shopping accounted for 38.5%, the greatest percentage, followed by accommodation (27.5%), food and drinks (19.4%), and transportation (11.3%) in descending order, while there is no significant change year on year, it is indicating diverse ways of enjoying things other than tours while visiting Japan.

Under these conditions, the Company has been moving forward with new initiatives to promote "goods and experiences" as well as existing businesses that focus on selling items. In February, the Company took part in YouJiHua, a promotion program sponsored by UnionPay for which more than 5 billion are considered to have been issued, and also launched its original members-only point reward service through WeChat, which has over 600 million users. Through these efforts, it has been working on the implementation of effective advertising activities for tourists before they visit Japan as well as the enhancement of services. In April, the Company promoted jewelry, which comprises highly fashionable items, through a business collaboration with Chow Tai Fook Jewellery Group Ltd. (Hong Kong), the world-famous jewelry group. In June, it installed Japan Cosmetics Lounges (JCL) in three existing stores with a focus on cosmetics items whose sales are particularly strong among items consumed by foreigners visiting Japan, and promoted them as part of a total service that offers "goods and experiences" in which customers can enjoy trying on (experiences) cosmetics (goods). Through these initiatives, the Company has been enhancing its specialty while responding to diversification. The Company also continued to work on initiatives such as the review of unprofitable stores and the rationalization of costs. Furthermore, in the shoe business, it moved forward with efforts for the merger of consolidated subsidiaries toward the goal of establishing an SPA, or an integrated system for entire operational processes from production to sales.

As a result, net sales stood at 28,153 million yen (down 19.7% from 35,062 million yen in the same period of the previous year), operating loss was 1,051 million yen (compared to operating profit of 454 million yen in the same period of the previous year) and ordinary loss was 1,045 million yen (compared to operating profit of 417 million yen in the same period of the previous year) in the first half of the consolidated fiscal year under review. In July, the Company established the Domestic Retail Business Division with a focus on the existing business of sales through duty free stores, the SC Development Business Division with a focus mainly on the planning, development and operation of commercial facilities, the Content Service Business Division with a focus on the planning, development and operation of content featuring the consumption of goods, and the MD Business Division with a focus on e-commerce-based sales and wholesale sales for the Chinese continent and Taiwan. By doing so, it implemented an organizational change to improve efficiency and specialty in the respective operations. The Company will continue to improve its efficiency and specialty in businesses while reviewing the operation of unprofitable stores and rationalizing costs.

The financial results of each business segment are as follows:

1) Domestic Retail Business

In this business segment, the Company moved forward with goods and experience-oriented initiatives, as it had done in the first quarter of the consolidated fiscal year under review, to strengthen its ability to attract more customers, review the operation of unprofitable stores, rationalize costs, and respond to the diversification of the objectives of tourists visiting Japan. It also worked on measures for cost reductions such as the closure of some unprofitable stores. The shoe business saw its profitability improve in the second quarter of the consolidated fiscal year under review, but its sales decreased due to a decline in sales per customer (down 5,654 yen from the same period of the previous year), among other factors. As a result, net sales came to 27,313 million yen (down 17.8% from 33,245 million yen in the same period of the previous year) and operating loss was 62 million yen (compared to operating profit of 1,891 million yen in the same period of the previous year) in the first half of the fiscal year under review.

2) Overseas Businesses

In this business segment, with the entire operation of retail stores terminated in the previous consolidated fiscal year, the Company has been working on the reconstruction of systems such as wholesale and logistical systems for the Chinese continent and Taiwan. The wholesale sales of some products started but did not increase to an extent that generates profit. Consequently, net sales were 591 million yen (down 61.5% from 1,537 million yen in the same period of the previous year) and operating loss was 105 million yen (compared to a loss of 304 million yen in the same period of the previous year) in the first half of the fiscal year under review.

3) Other Businesses

This business segment mainly comprises the real estate leasing business. It recorded sales of 280 million yen (down 1.8% from 285 million yen in the same period of the previous year) and operating loss of 112 million yen (compared to a loss of 44 million yen in the same period of the previous year) in the first half of the fiscal year under review.

(2) Explanation of financial conditions

1) Assets, Liabilities, and Net assets

(Assets)

Total assets at the end of the second quarter of the consolidated fiscal year under review stood at 60,236 million yen (compared to 58,406 million yen at the end of the previous consolidated fiscal year).

The increase in total assets was largely attributable to increases of 20,391 million yen in cash and deposits and 1,089 million yen in construction in progress, which offset decreases of 190 million yen in long-term time deposits and 1,263 million yen in goods and products.

(Liabilities)

Total liabilities stood at 16,832 million yen (compared to 13,905 million yen at the end of the previous consolidated fiscal year).

The increase in liabilities was largely attributable to increases of 1,075 million yen in notes and accounts payable-trade and 1,357 million yen in short-term loans payable.

(Net assets)

Net assets stood at 43,403 million yen (compared to 44,500 million yen at the end of the previous consolidated fiscal year).

The decline in net assets was primarily due to a decrease of 1,157 million yen in retained earnings.

2) Cash flow

Cash and cash equivalents at the end of the first half of the consolidated fiscal year under review have increased by 1,139 million yen from the end of the previous fiscal year to 4,003 million yen.

(Cash flow from operating activities)

Net cash provided by operating activities during the first half of the consolidated fiscal year totaled 1,306 million yen (compared to 1,159 million yen provided in the same period of the previous fiscal year).

This was mainly attributable to a decline of 1,237 million yen in inventories.

(Cash flow from investing activities)

Net cash used in investing activities during the first half of the consolidated fiscal year totaled 1,918 million yen (compared to 3,566 million yen used in the same period of the previous fiscal year).

This was largely due to the payment of 1,699 million yen for the acquisition of tangible non-current assets.

(Cash flow from financing activities)

Cash provided by financing activities during the first half of the consolidated fiscal year was 1,270 million yen (compared to net cash used of 2,200 million yen in the same period of the previous fiscal year).

This was largely attributable to net cash provided of 1,357 million yen due to short-term borrowings, which offset net cash used of 72 million yen for the repayment of long-term loans payable-trade.

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

After reviewing the earnings forecast and taking into account the conditions during the first half of the consolidated fiscal year, the Company has revised the consolidated financial forecast for the fiscal year ending December 31, 2017 announced in Financial Statements Ending December 2016 [Japanese Based] (Consolidated) dated February 14, 2017.

For details, see “Announcement of Revised Financial Forecasts and Recording of Extraordinary Income and Extraordinary Loss” that was posted on the date this summary was released.

The Company will make separate announcements if it expects important changes to be made in the future.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheet

(Units: 1,000 yen)

	FY2016 (As of December 31, 2016)	Second quarter of FY2017 (As of June 30, 2017)
Assets		
Current assets		
Cash and deposits	2,863,943	23,255,611
Notes and accounts receivable – trade	3,086,502	3,133,269
Merchandise and finished goods	13,664,873	12,401,523
Work in process	61,457	92,419
Raw materials and supplies	125,343	123,280
Accounts receivable	1,455,475	1,472,113
Advance payments – trade	727,741	835,225
Prepaid expenses	571,535	707,436
Current portion of guarantee deposits	68,681	68,681
Other	454,690	833,434
Allowance for doubtful accounts	(75,878)	(17,476)
Total current assets	23,004,365	42,907,520
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	3,977,614	4,240,461
Machinery, equipment and vehicles (net)	45,301	36,601
Tools, furniture and fixtures (net)	1,783,042	1,660,240
land	517,159	517,159
Lease assets (net)	92,249	97,338
Construction in progress	80,789	1,170,758
Total non-current assets	6,496,156	7,722,559
Intangible assets		
Goodwill	376,279	335,964
Trademark right	76,811	67,441
Software	234,060	328,930
Lease assets	13,201	11,269
Software in progress	78,820	–
Other	901	901
Total intangible assets	780,074	744,507
Investments and other assets		
Investment securities	764,996	439,801
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	529,760
Lease and guarantee deposits	5,165,655	5,244,625
Other	295,586	295,100
Allowance for doubtful accounts	(471,235)	(459,979)
Total investments and other assets	28,063,388	8,826,204
Total non-current assets	35,339,619	17,293,271
Deferred assets		
Share issuance cost	62,018	35,438
Total deferred assets	62,018	35,438
Total assets	58,406,003	60,261,248

(Units: 1,000 yen)

	FY2016 (As of December 31, 2016)	Second quarter of FY2017 (As of June 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	4,164,045	5,239,990
Short-term loans payable	4,843,300	6,200,800
Current portion of long-term loans	69,014	99,338
Accounts payable – other	1,797,228	1,560,856
Accrued expenses	459,235	637,761
Lease obligations	31,115	36,336
Income taxes payable	35,089	235,299
Provision for bonuses	77,760	103,858
Provision for director’s bonuses	66	–
Provision for point card certificates	6,404	12,498
Provision for loss from product warranty	18,683	17,206
Provision for loss on withdrawal from employees’ pension fund	100,000	100,000
Asset retirement obligations	6,248	–
Other	292,398	657,272
Total current liabilities	11,900,591	14,901,218
Non-current liabilities		
Long-term loans payable	301,363	199,342
Long-term guarantees deposited	347,622	314,534
Net defined benefit liabilities	425,949	489,163
Provision for director’s retirement benefits	23,633	23,633
Lease obligations	74,078	73,397
Provision for loss on litigation	2,218	2,218
Allowance for business structure improvement expenses	541,875	541,875
Asset retirement obligations	252,116	257,090
Deferred tax liabilities	19,762	24,353
Other	16,361	5,806
Total non-current liabilities	2,004,980	1,931,415
Total liabilities	13,905,571	16,832,634
Net assets		
Shareholder’s equity		
Capital stock	22,633,662	22,633,662
Capital surplus	18,920,205	18,920,205
Retained earnings	4,771,696	3,614,393
Treasury shares	(2,419,850)	(2,419,884)
Total shareholder’s equity	43,905,713	42,748,376
Total amount of other comprehensive income		
Valuation difference on available-for-sale securities	9,973	24,153
Remeasurements of defined benefit plans	(17,158)	(17,158)
Foreign currency translation adjustment	509,148	552,426
Total amount of other comprehensive income	501,963	559,421
Subscription right to shares	92,753	95,798
Non-controlling interest	–	–
Total net assets	44,500,431	43,403,596
Total liabilities and net assets	58,406,003	60,236,231

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

(Units: 1,000 yen)

	First half of FY2016 (From January 1 to June 30, 2016)	First half of FY2017 (From January 1 to June 30, 2017)
Net sales	35,062,022	28,153,193
Cost of sales	22,556,369	17,203,977
Gross profit	12,505,653	10,949,216
Selling, general and administrative expenses		
Advertising expenses	108,996	173,761
Sales commission	4,852,027	3,321,228
Promotion expenses	78,610	439,821
Haulage expenses	244,537	195,055
Depreciation	388,558	507,606
Amortization of goodwill	–	40,315
Salaries and allowances	2,242,677	2,547,363
Legal welfare expenses	340,252	370,434
Retirement benefit expenses	63,307	81,559
Bonuses	6,146	2,290
Provision for bonuses	128,212	103,858
Director's bonuses	4,597	–
Provision for directors' bonuses	333	–
Rents	2,258,137	2,993,598
Rent expenses	57,590	106,693
Other	1,276,952	1,117,319
Total selling, general and administrative expenses	12,050,939	12,000,905
Operating profit (loss)	454,713	(1,051,688)
Non-operating income		
Interest income	61,984	100,906
Dividend income	–	4,501
Reversal of allowance for doubtful accounts	12,404	–
Other	21,915	38,518
Total non-operating income	96,304	143,927
Non-operating expenses		
Interest payable	8,207	17,678
Sales discount	1,207	1,123
Amortization of stock issuance cost	26,579	26,579
Commission for syndicate loan	–	33,196
Foreign exchange losses	92,059	35,014
Other	5,576	24,191
Total non-operating expenses	133,631	137,783
Ordinary profit (loss)	417,386	(1,045,545)
Extraordinary losses		
Impairment loss	–	76,267
Loss on disposal of non-current assets	16,950	–
Loss on liquidation of stores	283,967	11,712
Allowance for business structure improvement expenses	191,875	–
Total extraordinary loss	492,794	87,979
Profit (loss) before income taxes	(75,407)	(1,133,524)

(Units: 1,000 yen)

	First half of FY2016 (From January 1 to June 30, 2016)	First half of FY2017 (From January 1 to June 30, 2017)
Income taxes – current	127,335	25,217
Income taxes – deferred	261,663	(1,439)
Total income taxes	388,998	23,778
Profit (loss) before income taxes	(464,406)	(1,157,302)
Profit (loss) attributable to non-controlling interests	–	–
Profit (loss) attributable to owners of parent	(464,406)	(1,157,302)

Quarterly consolidated comprehensive income account statement
 First half

(Units: 1,000 yen)

	First half of FY2016 (From January 1 to June 30, 2016)	First half of FY2017 (From January 1 to June 30, 2017)
Profit (loss)	(464,406)	(1,157,302)
Other comprehensive income		
Valuation difference on available-for-sale securities	(17,130)	14,180
Foreign currency translation adjustment	216,095	43,277
Total of other comprehensive income	198,965	57,457
Comprehensive income	(265,441)	(1,099,845)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(265,441)	(1,099,845)
Comprehensive income attributable to non-controlling interests	–	–

(3) Consolidated statements of cash flow

(Units: 1,000 yen)

	First half of FY2016 (From January 1 to June 30, 2016)	First half of FY2017 (From January 1 to June 30, 2017)
Cash flows from operating activities		
Profit (loss) before income taxes	(75,407)	(1,133,524)
Depreciation	399,073	532,070
Impairment loss	–	76,267
Amortization of share issuance cost	26,579	26,579
Amortization of goodwill	–	40,315
Loss on liquidation of stores	283,967	11,712
Increase (decrease) in allowance for doubtful accounts	(13,418)	(69,752)
Increase (decrease) in provision for bonuses	(66,793)	26,098
Increase (decrease) in provision for directors' bonuses	(18,231)	–
Increase (decrease) in net defined benefit liability	15,603	63,213
Increase (decrease) in provision for loss from product warranty	(1,532)	(1,476)
Increase/decrease in allowance for business structure improvement expenses	191,875	–
Interest and dividend income	(61,985)	(105,408)
Interest expenses	8,207	17,678
Loss (gain) on sales and retirement of property, plant and equipment	16,950	–
Decrease (increase) in notes and accounts receivable – trade	506,313	(35,174)
Decrease (increase) in inventories	457,604	1,237,756
Increase (decrease) in notes and accounts payable – trade	263,707	1,047,650
Decrease (increase) in accounts receivable – other	111,911	(10,410)
Decrease (increase) in advance payments	208,886	(102,182)
Increase (decrease) in accounts payable – other	58,324	(238,052)
Increase (decrease) in long-term accounts payable – other	(146,524)	–
Increase (decrease) in guarantee deposits received	(9,210)	(33,088)
Other	(290,919)	(178,642)
Subtotal	1,864,987	1,171,635
Interest and dividend income received	15,556	15,046
Interest expenses paid	(8,207)	(17,678)
Income taxes paid	(712,352)	137,958
Cash flows provided by (used in) operating activities	1,159,982	1,306,961

(Units: 1,000 yen)

	First half of FY2016 (From January 1 to June 30, 2016)	First half of FY2017 (From January 1 to June 30, 2017)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,238,663)	(1,699,053)
Purchase of intangible assets	(172,823)	(135,127)
Purchase of investment securities	(344,499)	–
Proceeds from sales of investment securities	–	345,405
Expenditure for acquisition of investments in capital of subsidiaries and affiliates	(2,574,896)	–
Payments of long-term loans receivable	(16,500)	(300,000)
Collection of long-term loans receivable	–	1,728
Payments for lease and guarantee deposits	(407,560)	(455,580)
Proceeds from collection of lease and guarantee deposits	8,755	324,018
Payments into time deposits	(100,000)	–
Proceeds from withdrawal of time deposits	2,277,400	–
Other	2,216	190
Cash flows provided by (used in) investing activities	(3,566,571)	(1,918,417)
Cash flows from financing activities		
Increase in short-term loans payable	895,000	1,357,500
Repayments of long-term loans payable	(69,014)	(72,619)
Purchase of treasury shares	(1,998,298)	(34)
Repayments of lease obligations	(41,057)	(16,955)
Proceeds from issuance of subscription rights to shares	–	3,044
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(987,260)	–
Cash flows provided by (used in) financing activities	(2,200,630)	1,270,935
Effect of exchange rate change on cash and cash equivalents	420,302	480,189
Net increase (decrease) in cash and cash equivalents	(4,186,917)	1,139,668
Balance of cash and cash equivalents at beginning of period	5,617,557	2,863,943
Cash and cash equivalents at end of period	1,430,640	4,003,611

(4) 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 second quarter of the consolidated fiscal year under review after the application of tax effect accounting and multiplying profit/loss before income taxes for the second quarter under review by the estimated effective tax rate.

(Segment information, etc.)

I. First half of FY2016 (from January 1 to June 30, 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 external clients	33,238,571	1,537,478	285,972	35,062,022	–	35,062,022
Internal sales or transfers between segment	6,713	–	–	6,713	(6,713)	–
Total	33,245,285	1,537,478	285,972	35,068,736	(6,713)	35,062,022
Segment profit (loss)	1,891,137	(304,552)	(44,830)	1,541,754	(1,087,040)	454,713

(Notes) 1. Segment profit amount of adjustment -1,087,040 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.

3. Items regarding changes of reporting segment, etc.

Based on the closure of all stores in China, etc. during the first quarter of the fiscal year ending December 2016, the existing “China store opening business” and “foreign trade agency business” have been changed so as to be integrated as “overseas business.” Also, the name of the reporting segment has accordingly been changed from “domestic store business” to “domestic retail business.”

II. First half of FY2017 (from January 1 to June 30, 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 external clients	27,312,836	559,480	280,875	28,153,193	–	28,153,193
Internal sales or transfers between segment	340	31,845	–	32,186	(32,186)	–
Total	27,313,177	591,326	280,875	28,185,380	(32,186)	28,153,193
Segment profit (loss)	(62,540)	(105,882)	(112,064)	(280,485)	(771,203)	(1,051,688)

(Notes) 1. Segment profit amount of adjustment of -71,203 thousand yen indicates expenses for the 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

(Important impairment loss relating to non-current assets)

In the Domestic Retail Business, an impairment loss of 76,267 thousand yen is posted for stores to which closures or other measures will be applied within one year.