

Summary of Financial Statements for the Fiscal Year Ended December 2017 (Japanese Standards) (consolidated)

February 14, 2018

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) Atsushi Matsuzawa
 TEL: +81-3-6852-8881

Planned Date of Ordinary Shareholders' Meeting: March 30, 2018
 Planned Starting Date for Dividend Payments: —
 Planned Submission Date for the Financial Report: March 30, 2018
 Supplementary Documents for Financial Results: NO
 Financial Results Briefing: YES

(Rounded down to nearest million yen)

1. Consolidated Results for the Fiscal Year Ended December 2017 (January 1, 2017 to December 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	%
FY2017	64,291	2.4	138	—	48	—	104	—
FY2016	62,764	(32.3)	(955)	—	(1,012)	—	(1,766)	—

(Note) Comprehensive income FY2017: 139 million yen (—%) FY2016: -1,636 million yen (—%)

	Profit per share	Diluted profit per share	Return on equity	Ratio of ordinary profit to net assets	Ratio of operating profit to sales
	Yen	Yen	%	%	%
FY2017	1.63	—	0.2	0.1	0.2
FY2016	(27.27)	—	(3.8)	(1.7)	(1.5)

(For reference) Equity in earnings of affiliates: FY2017: -358 million yen FY2016: — million yen

(Note 1) In the third quarter of the fiscal year ending December 31, 2017, the Company fixed provisional accounting for business combinations, and for the fiscal year ending December 31, 2018, the Company uses amounts after reflecting important revisions to the initial allocated amount of acquisition costs based on the fixed provisional accounting.

(Note 2) 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	Net assets per share
	Million yen	Million yen	%	Yen
FY2017	63,527	44,527	69.6	685.94
FY2016	58,406	44,260	75.6	685.09

(For reference) Shareholders' equity FY2017: 44,222 million yen FY2016: 44,167 million yen

(Note) In the third quarter of the fiscal year ending December 31, 2017, the Company fixed provisional accounting for business combinations, and for the third quarter of the fiscal year ending December 31, 2018, the Company uses amounts after reflecting important revisions to the initial allocated amount of acquisition costs based on the fixed provisional accounting.

(3) Consolidated cash flow condition

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY2017	2,783	4,957	(3,465)	7,157
FY2016	1,458	(6,810)	2,669	2,863

2. Dividends

	Dividends per share					Total cash dividends (total)	Dividends payout (consolidated)	Net assets dividend ratio (consolidated)
	End of Q1	End of Q2	End of Q3	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2017	—	—	—	0.00	0.00	—	—	—
FY2016	—	—	—	0.00	0.00	—	—	—
FY2018 (forecast)	—	—	—	0.00	0.00	—	—	—

3. Results forecast for FY2018 (from January 1, 2018 to December 31, 2018)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit	
	Million yen	%	Million yen	%	Million yen	%
Full year	90,000	40.0	1,000	620.3	1,000	—

(Note) The Company does not provide results forecasts for the first half of FY2018.

Notes

(1) Important changes in subsidiaries during the term (Changes in specified subsidiaries resulting in changes in scope of consolidation):
No

(2) 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: | Yes |
| (iv) Restatement of accounting estimates: | No |

(3) Number of issued shares (common shares)

(i) Number of issued shares at the end of period (including treasury stock):	FY2017	66,388,103
	FY2016	66,388,103
(ii) Number of shares of treasury stock at the end of period:	FY2017	1,918,108
	FY2016	1,918,017
(iii) Average number of issued shares during period	FY2017	64,470,030
	FY2016	64,792,017

(For reference) Summary of Non-Consolidated Results

Non-Consolidated Results for the Fiscal Year Ended December 2017 (January 1, 2017 to December 31, 2017)

(1) Non-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	%
FY2017	52,344	(4.8)	69	—	273	—	(991)	—
FY2016	55,007	(34.1)	(945)	—	(1,026)	—	(2,107)	—

	Profit per share	Diluted profit per share
	Yen	Yen
FY2017	(15.37)	—
FY2016	(32.53)	—

(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) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2017	52,617	44,314	84.1	686.05
FY2016	54,778	45,325	82.6	701.62

(For reference) Shareholders' equity FY2017: 44,229 million yen FY2016: 45,233 million yen

Summaries of financial statements are not subject to audit.

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 Company has obtained and certain assumptions that the Company believes to be reasonable. Actual results may differ significantly due to a variety of factors.

For assumptions regarding the results forecasts and notes to the forecasts, please refer to the Analysis of operating results on page 4 of the accompanying materials.

○ Contents of attached document

1. Analysis of Operating Results and Financial Conditions.....	2
(1) Analysis of operating results	2
(2) Analysis of financial conditions	3
(3) Basic policy regarding the distribution of profit and dividends in the current and next terms.....	4
(4) Business risks	5
2. Management Policy.....	7
(1) Basic management policy of the Company	7
(2) Management strategy of the Company in the medium and long term	7
(3) Issues to be addressed by the Company.....	7
3. Basic Approach to the Selection of Accounting Standards	7
4. Consolidated Financial Statements and Important Notes	8
(1) Consolidated balance sheet.....	8
(2) Consolidated statement of income and consolidated statement of comprehensive income	11
(3) Consolidated statement of changes in equity.....	14
(4) Consolidated statement of cash flows.....	16
(5) Notes to the Consolidated Financial Statements.....	18
(Explanatory notes regarding assumption of going concern).....	18
(Change of the estimates for accounting purposes)	18
(Segment information, etc.).....	19
(Per share information).....	21
(Significant subsequent events).....	21
5. Non-Consolidated Financial Statements	21
(1) Non-consolidated balance sheet	21
(2) Non-consolidated statement of income.....	23
(3) Non-consolidated statement of changes in equity.....	24

1. Analysis of Operating Results and Financial Conditions

(1) Analysis of operating results

1) Operating results for the fiscal year under review

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

During the consolidated fiscal year under review, the Japanese economy recovered moderately overall due to improving corporate earnings and employment and income conditions backed by the government's economic policies, although the outlook remained uncertain given the policy trends of the new U.S. administration and the political and geopolitical risks in the East Asian region.

In this economic environment, looking at the trend for foreign tourists visiting Japan, the estimated number of tourists visiting Japan reached 28.69 million (up 19.3% year on year) in the period from January to December, marking a record high for the fifth consecutive year, reflecting the easing of requirements for the issuing of tourist visas, the expansion of airline routes and a rise in the number of ports at which cruise ships call. In addition, total spending came to 4,416.1 billion yen (up 18% year on year), reaching a total of 4 trillion yen in a year for the first time. The number of Chinese tourists visiting Japan, the main customers of the Company, reached a record high of 6.79 million (up 6.6% year on year). The ratio of individual travelers (FIT: Foreign Independent Travelers) also increased 4.7% year on year, which shows the progress of the transition from group tours to individual travel. With respect to the composition of items of consumption, the ratio of expenditure for purchases (consumption of goods) still marked the highest (37.1%), and the ratio of expenditure for services (consumption of experiences) such as eating and drinking, entertainment and accommodation charges increased 1.3%, to 51.6% year on year. (Source: statistics of the Japan National Tourism Organization (JNTO) and the Japan Tourism Agency.)

During the consolidated fiscal year under review, in the Company's businesses, nine stores were opened in Japan, mainly in the Kyushu and Okinawa region, due to the increased number of port calls by cruise ships. At the same time, eight stores were closed in order to reduce the number of unprofitable stores. In terms of measures for responding to the increase in FIT, the alliance with China's largest online travel site, Ctrip.com International, Ltd., was deepened and information was provided to our unique point program members (around 300,000 individuals) by linking the program with WeChat from February for a continuous approach to customers.

As a new initiative for goods and experiences, a subsidiary providing food and drink services, Food Creation Works Co., Ltd., was established in March, and an area exclusively for face-to-face cosmetics and beauty services based on experiences, JCL (Japan Cosmetic Lounge), was launched in June. The wining and dining and entertainment business was launched to provide new elements of experiences. Port Town, Chiba Port Square was opened in July, and the performance of the non-verbal performance GEAR East Version commenced at Chiba Port Theater in December. By implementing measures leading to the integration of goods and experiences and the integration of foreigners visiting Japan and local revitalization, the Company sought to stimulate new demand.

In the women's shoe business, Shinko Seika Kogyo Co., Ltd. was absorbed and merged into Mode Et Giacomo Co., Ltd. in July to establish the system for integrated operations from manufacturing to distribution (SPA). At the same time, the Ogitsu Group was made a consolidated subsidiary in October to increase the sales scale and the share in the industry.

In the overseas business, in addition to cross-border e-commerce (B to C business), the trade business commenced as the B to B business on a full scale from the third quarter under review. In the huge market of China, products that aligned with the sales strategy of SUNING.COM CO., LTD. (formerly SUNING COMMERCE GROUP CO., LTD.) sold well.

As a result, net sales stood at 64,291 million yen (up 2.4% from 62,764 million yen in the same period of the previous year) and operating profit was 138 million yen (compared to operating loss of 955 million yen in the same period of the previous year) for the consolidated fiscal year under review. In comparison to the same period of the previous year, both revenue and profit increased, returning to profit. The Company forecasts that the number of foreign tourists visiting Japan will increase and that the trend of consumption will become even more diversified. We will evolve the initiatives taken to date, and at the same time we will acquire new customers by looking ahead to future changes in the market toward better business results and growth.

The financial results of each business segment are as follows:

a) Domestic Retail Business

In this business segment, the number of customers counted at the register among inbound tourists, which are the core element, was 2,512,773 (up 5.8% year on year), a new record high, and the unit price of the purchase per customer using the register was 19,651 yen (down 12.1% year on year). However, the second half result exceeded that of the second half of the previous year, showing a trend of recovery. In addition, some stores were consolidated, and the fixed costs were reviewed to improve profitability. In the women's shoe business, the Ogitsu group was made a subsidiary from the fourth quarter under review, and the sales scale was increased. Net sales came to 60,587 million yen (up 0.6% from 60,215

million yen in the same period of the previous year) and segment profit was 1,295 million yen (down 23.3% from 1,689 million yen in the same period of the previous year) in the consolidated fiscal year under review. As compared to the same period of the previous year, revenue increased and profit decreased.

b) Overseas Businesses

This business segment undertakes the wholesaling of high quality products made in Japan to mainland China and Taiwan and the cross-border e-commerce business. In the consolidated fiscal year under review, net sales were 2,012 million yen (down 5.8% from 2,136 million yen in the same period of the previous year), and operating profit was 16 million yen (compared to a loss of 763 million yen in the same period of the previous year). While initiatives to rebuild the business were implemented, revenue decreased from the same period of the previous year. However, the segment loss was significantly reduced.

c) Other Businesses

This business segment mainly comprises the commercial real estate business including Chiba Port Square and the real estate leasing business. In the consolidated fiscal year under review, net sales were 1,753 million yen (up 211.5% from 562 million yen in the same period of the previous year) and operating profit was 334 million yen (compared to a loss of 44 million yen in the same period of the previous year). Both revenue and profit increased compared to the same period of the previous year.

2) Outlook for the fiscal year ending December 31, 2018

The forecast of the number of foreign tourists visiting Japan is an increase at an annual rate of 20%, as active measures will be taken toward the Japanese government's goal of "40 million in 2020." In addition, it was decided to expand the consumption tax exemption system for foreign travelers according to the revision to the tax system for the fiscal year 2018 announced by the Ministry of Land, Infrastructure, Transport and Tourism. From July 2018, it will be permitted to combine the cost of general goods and consumables, which is expected to result in the evolution of the purchase and tax exemption conditions for foreign travelers. Under these circumstances, the number of customers counted at the register among inbound tourists, which are the Company's core element, is expected to increase steadily. On the other hand, it is feared that improved shopping convenience will cause a decrease in the unit price of the purchase per customer using the register. In the composition of items of consumption by foreigners visiting Japan in the fiscal year 2017, the ratio of expenditure for the consumption of experiences has been increasing year after year. The Group foresaw the demand for the consumption of experiences and actively entered into the new business of wining and dining and entertainment, among others. We will continue to ascertain the trend of enjoying travel in diversified ways in the conduct of the business, and will endeavor to increase customer satisfaction and the average sale per customer.

At the same time, in the women's shoe business in the domestic market, integrated manufacturing and distribution (SPA) will be implemented to improve productivity, and the sales channels will be expanded through the omni-channels by entering the e-commerce business in earnest, in addition to maintaining the existing physical stores, with an eye toward the future, both in Japan and abroad.

Given the data outlined above, we consider that it is important to further develop the inbound business and provide attractive content including various sales channels and services for consumption based on experiences in the following fiscal year. The Group will work actively on the investments necessary for such activities.

(2) Analysis of financial conditions

1) Assets, liabilities and net assets

(Assets)

Total assets at the end of the consolidated fiscal year under review stood at 63,527 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 4,287 million yen in property, plant and equipment.

(Liabilities)

Total liabilities at the end of the consolidated fiscal year under review came to 19,000 million yen (compared to 14,145 million yen at the end of the previous fiscal year).

The increase in liabilities stemmed primarily from increases of 1,301 million yen in notes and accounts payable - trade and 2,387 million yen in bonds.

(Net assets)

Net assets stood at 44,527 million yen (compared to 44,260 million yen at the end of the previous fiscal year).

The increase in net assets was mainly due to an increase of 221 million yen in non-controlling interests.

2) Cash flows

Cash and cash equivalents at the end of the consolidated fiscal year under review stood at 7,157 million yen, up 4,293 million yen from a year ago. The status of each type of cash flow during the consolidated fiscal year under review and the contributing factors are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities for the consolidated fiscal year under review increased 2,783 million yen (compared to net cash used of 1,458 million yen for the previous fiscal year). The increase was largely attributable to a decrease of 2,691 million yen in inventories.

(Cash flows from investing activities)

Net cash used in investing activities for the consolidated fiscal year under review increased 4,957 million yen (compared to net cash used of 6,810 million yen for the previous fiscal year). This was primarily due to proceeds of 7,500 million yen from the withdrawal of time deposits, despite the payment of 2,909 million yen for the purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash provided by financing activities for the consolidated fiscal year under review decreased 3,465 million yen (compared to net cash provided of 2,669 million yen for the previous fiscal year). This was largely attributable to the repayment of short-term loans of 3,343 million yen.

(Reference) Trends in cash flow-related indicators

	FY2013/12	FY2014/12	FY2015/12	FY2016/12	FY2017/12
Capital adequacy ratio (%)	60.0	54.2	82.3	75.6	69.6
Market value-based capital adequacy ratio (%)	170.9	741.4	254.3	79.0	59.3
Ratio of interest-bearing liabilities to cash flows (%)	–	8.4	–	364.7	171.4
Interest coverage ratio (times)	–	101.54	–	70.04	65.86

(Notes)

Capital adequacy ratio: Shareholders' equity/total assets

Market value-based capital adequacy ratio: Market capitalization/total assets

Ratio of interest-bearing debt to cash flows: Interest-bearing debt/cash flows

Interest coverage ratio: Cash flows/interest payments

- * Each indicator is calculated using consolidated financial figures.
- * Market capitalization is calculated based on the number of shares issued, excluding treasury stock.
- * Cash flows refer to cash flows from operating activities.
- * Interest-bearing liabilities refer to all types of liabilities posted on consolidated balance sheets for which interest is paid.
- * Interest payments denote the payment of interest presented in consolidated statements of cash flows.
- * The ratio of interest-bearing debt to cash flows and the interest coverage ratio are not calculated for the fiscal years ended December 31, 2013 and 2015 because operating cash flows in these years were in negative territory.

(3) Basic policy regarding the distribution of profit and dividends in the current and next terms

The Company strongly considers returns to shareholders through dividends to be one of its most important policies. The Company pays year-end surplus dividends once a year according to its basic policy, and the Articles of Incorporation contain a provision according to which the Company, based on the respective items of Article 459, Paragraph 1 of the Companies Act, may distribute such dividends without specifying a record date pursuant to the decision of a meeting of the board of directors, irrespective of the resolution of a general meeting of shareholders. However, the Company therefore considers that it is essential to use internal reserves to strengthen the measures for the consumption of experiences and business expansion. Going forward, the Company will work on success in business expansion and the stable return of profits to shareholders beyond the impact of the market conditions. Political or social uncertainty, the worsening of the economic situation, the revision of laws, regulations and policies due to any reasons in China and other foreign countries may cause a substantial decrease in the number of foreign tourists visiting Japan and a decrease in demand for the products

offered by the Group, thereby materially affecting the business results of the Group.

(4) Business risks

Risks that may greatly affect investors' decision about the Group are as follows, with the proviso that references to the future here reflect the Group's judgment as of December 31, 2016. Recognizing the potential risks, the Group plans to take actions to prevent these risks and to address such risks in case they occur.

1) About country risk

The Group's three business segments Domestic Retail Business, Overseas Businesses and Other Businesses, especially the business of selling tax free goods in the Domestic Retail Business segment, are significantly affected by political and economic conditions in overseas countries such as China and fluctuations in foreign currency exchange rates. If, for some reason, political or social unrest, economic deterioration, or a change in the law or government policy occurred in China or another overseas country, leading to significant decline in the number of tourists visiting Japan or a weakening in demand for the products provided by the Group, the Group's business results could be seriously affected.

2) About competition in the domestic store business

The Company operates many stores, creating one of the largest networks of general tax-free stores in Japan. However, as the inbound market expands, the competition between stores is intensifying, with companies from other industries entering the market, new tax-free stores opening around the world, and existing retailers strengthening their tax-free business. The Company is taking steps to increase its ability to attract customers, reviewing selling space daily and renovating stores, in order to maintain its position as one of the first to create a network of general tax-free stores. However, if the Company is as unable to increase its ability to attract customers as planned, the Group's business results could be affected.

3) About dependence on certain managers and securing human resources

The knowledge and experience of the Group's human resources, including the Representative Director, executive officers and managers, plays an important role in the Group's management and business execution and can be considered as important management resources of the Group. However, if these officers and employees retired or resigned for some reason and it was difficult to hire successors, the Group's business results could be affected.

4) Risk involved in securing and training store sales personnel

Especially in the Group's Domestic Retail Business, store sales largely depend on the sales skills of store sales personnel in addition to the appeal of the products themselves. The Group, therefore, provides employee training to enable sales personnel to acquire product knowledge and improve their ability to explain products. At the same time, the Group seeks to energize and improve the workplace environment through the rotation of human resources, career path development and the enhancement of personnel programs. The Company employs many foreign workers from more than 10 countries, including overseas students, and provides these foreign workers with even more rigorous training particularly from the viewpoint of compliance with laws and regulations. More specifically, since September 2015, the Company has conducted training and measures to strengthen attendance management at each business site and has also phased in company-wide measures such as the introduction of company-wide attendance management system and a structure for checking attendance at head office. However, if changes in the working environment or other factors prevented the Group from securing, developing and training human resources as planned, the Group's business results may be seriously affected.

5) About protection of personal information

The Group holds a great deal of personal information about Members Card members and other store and online customers. The Company has established a Compliance Committee and Internal Audit Department, and performs audits to assess whether the Group's business operations are being conducted in accordance with the compliance policy. However, there is still the possibility of an unforeseen information leak occurring due to a computer system fault or other cause and in this case the Company could lose public confidence and its business results could also be greatly affected.

6) About the safety of products

In addition to selling products in store, the Group develops and sells its own private brand products. Amid increasing public expectations and interest in product safety, the Group also endeavors to supply safe products by reviewing quality standards for purchased products and strengthening quality and conformance testing. However, if a product sold by the Group was faulty, resulting in the large-scale return of products, compensation for damages under product liability laws, the cost of dealing with this, and the loss of public confidence, the Group's business and business results could be affected.

7) About natural disasters, accidents and others

In the event of a large earthquake, typhoon or other natural disaster, extreme weather conditions or an foreseen accident, the Group could suffer not only decreased sales due to falling customer numbers but also physical damage to its stores, and the Group's sales activities and distribution and purchasing activities could be disrupted. Similarly, a disaster, accident, riot, terror attack or other event that affects the Group's suppliers and purchase and distribution network, either in Japan or overseas, could also hinder the Group's business.

8) About the risk involved in legal regulation

The Group's business operations are governed by various laws and regulations both in Japan and overseas. The Group endeavors to strengthen compliance, which it sees as an important management issue. However, compliance risk cannot be eliminated completely. In the event of an infringement of laws and regulations by the Group in its business activities or the unexpected introduction of a new law or the amendment of an existing law, the Group's operating results and financial position could be adversely affected.

9) About the risk involved in internal control over directors and employees

The Group sees corporate governance, compliance and risk management as important management issues, and has established a basic policy for developing the internal control system and seeks to enhance and strengthen this system on an ongoing basis. The Group does its utmost to prevent its officers and employees from engaging in fraudulent and illegal activities in the conduct of business operations. However, the occurrence of such activities could adversely affect the Group's operating results and financial position, as well as public confidence in the Company.

2. Management Policy

(1) Basic management policy of the Company

The Group's philosophy is to deliver the "good things" about Japan, and its basic policy as to "maximize customer satisfaction" through the creation of "Japan Premium." The Group will pursue sustainable corporate growth by providing the optimal products and services for each market. As a leading Japan-based general tax-free retail business operator, the Group also aims to develop into a global company through collaboration with SUNING.COM CO., LTD. (formerly SUNING COMMERCE GROUP CO., LTD.), China's largest retailer with which the Group has a strong business partnership.

(2) Management strategy of the Company in the medium and long term

On February 14, 2018, the Medium-Term Management Plan (Third Medium-Term Management Plan) for FY2018 to FY2020 was announced. Following the process of growth under the Second Medium-Term Management Plan (for FY2015 to FY2017), it is planned to aim to increase the corporate value.

The Company will implement a strategy of looking ahead at changes in consumption trends due to diverse lifestyles around the world (global lifestyles).

The published materials are available on the website, which can be accessed at the following URL:

(Homepage of the Company)

http://www.laox.co.jp/ir/management/management_02.html

(3) Issues to be addressed by the Company

The Group's top priority is to deliver "Japan Premium" to the world.

With the increase in the number of tourists visiting Japan expected in spite of the high level of economic uncertainty, competition in the inbound industry is also increasing, as companies from other industries and global tax-free retailers enter the market and existing retailers strengthen their tax-free business. To maintain and strengthen its position as the pioneer of general tax-free business in Japan, the Group will expand and improve its products and services and significantly expand the Domestic Retail Business. The Group will also establish the Other Businesses segment as a profitable business segment and focus on radical measures in the Overseas Business segment. The Company will continue to keep pace with business expansion, developing internal controls and strengthening the business management structure, increasing the efficiency of business operations, hiring and developing human resources, and solving any issues that arise.

3. Basic Approach to the Selection of Accounting Standards

The Group prepares its consolidated financial statements in accordance with Japanese Accounting Standards, taking into consideration the comparability of the consolidated financial statements between companies.

The Group's policy is to examine applying International Financial Reporting Standards (IFRS) based on consideration of various factors in the future.

4. Consolidated Financial Statements and Important Notes

(1) Consolidated balance sheet

(Units: 1,000 yen)

	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)
Assets		
Current assets		
Cash and deposits	2,863,943	19,830,545
Notes and accounts receivable - trade	3,086,502	3,046,325
Merchandise and finished goods	13,664,873	13,883,849
Work in process	61,457	84,593
Raw materials and supplies	125,343	234,389
Accounts receivable - other	1,455,475	2,328,871
Advance payments - trade	727,741	944,966
Prepaid expenses	571,535	601,353
Short-term loans receivable	–	1,450,000
Short-term loans receivable from subsidiaries and associates	–	40,000
Deferred tax assets	–	79,460
Current portion of guarantee deposits	68,681	46,869
Other	454,690	601,143
Allowance for doubtful accounts	(75,878)	(95,024)
Total current assets	23,004,365	43,077,343
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,443,623	12,553,165
Accumulated depreciation	(2,466,008)	(5,508,583)
Buildings and structures (net)	3,977,614	7,044,582
Machinery, equipment and vehicles	88,586	107,892
Accumulated depreciation	(43,284)	(63,192)
Machinery, equipment and vehicles (net)	45,301	44,700
Tools, furniture and fixtures	2,736,533	3,273,946
Accumulated depreciation	(953,491)	(1,415,055)
Tools, furniture and fixtures (net)	1,783,041	1,858,890
Land	517,159	1,698,552
Leased assets	139,591	128,900
Accumulated depreciation	(47,341)	(39,518)
Leased assets (net)	92,249	89,382
Construction in progress	80,789	47,345
Total property, plant and equipment	6,496,156	10,783,453
Intangible assets		
Goodwill	376,279	–
Trademark right	76,811	57,276
Software	234,060	299,222
Leased assets	13,201	9,337
Software in progress	78,820	7,895
Other	901	901
Total intangible assets	780,074	374,633

(Units: 1,000 yen)

	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)
Investments and other assets		
Investment securities	764,996	1,044,429
Shares of subsidiaries and associates	202,000	237,000
Investments in capital of subsidiaries and associates	2,574,896	2,185,035
Deferred tax assets	–	111,183
Long-term loans receivable	531,488	137,624
Investments in capital of subsidiaries and associates	–	30,000
Lease and guarantee deposits	5,165,655	4,927,949
Long-term fixed-period deposits	19,000,000	–
Other	295,586	994,438
Allowance for doubtful accounts	)471,235)	(462,570)
Total investments and other assets	28,063,388	9,205,090
Total non-current assets	35,339,619	20,363,177
Deferred assets		
Business commencement expenses	–	75,400
Bond issuance cost	–	2,984
Share issuance cost	62,018	8,859
Total deferred assets	62,018	87,245
Total assets	58,406,003	63,527,765

(Units: 1,000 yen)

	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,164,045	5,465,891
Short-term loans payable	4,843,300	2,477,002
Current portion of long-term loans payable	69,014	99,338
Accounts payable - other	1,797,228	1,571,854
Current portion of bonds	–	2,387,500
Accrued expenses	459,235	60,091
Lease obligations	31,115	36,456
Income taxes payable	35,089	427,813
Provision for bonuses	77,760	75,411
Provision for directors' bonuses	66	–
Provision for point card certificates	6,404	31,941
Provision for loss from product warranty	18,683	15,885
Provision for loss on withdrawal from employees' pension fund	100,000	66,533
Deferred tax liabilities	59,936	59,936
Asset retirement obligations	6,248	–
Other	292,398	417,548
Total current liabilities	11,960,527	13,193,205
Non-current liabilities		
Long-term loans payable	301,363	2,090,137
Long-term guarantee deposited	347,622	391,454
Lease obligations	74,078	66,075
Long-term accounts payable - other	–	1,327,224
Net defined benefit liability	425,949	764,766
Provision for directors' retirement benefits	23,633	23,633
Provision for loss on litigation	2,218	–
Provision for business structure improvement expenses	541,875	151,137
Asset retirement obligations	252,116	504,739
Deferred tax liabilities	199,570	482,948
Other	16,361	4,754
Total non-current liabilities	2,184,788	5,806,871
Total liabilities	14,145,316	19,000,077
Net assets		
Shareholders' equity		
Capital stock	22,633,662	22,633,662
Capital surplus	18,920,205	18,920,205
Retained earnings	4,531,951	4,598,761
Treasury shares	(2,419,850)	(2,419,904)
Total shareholders' equity	43,665,968	43,732,725
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,973	20,807
Foreign currency translation adjustment	509,148	520,497
Remeasurements of defined benefit plans	(17,158)	(51,753)
Total accumulated other comprehensive income	501,963	489,551
Subscription rights to shares	92,753	84,211
Non-controlling interests	–	221,199
Total net assets	44,260,687	44,527,688
Total liabilities and net assets	58,406,003	63,527,765

(2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Units: 1,000 yen)

	FY2016 (From January 1 to December 31, 2016)	FY2017 (From January 1 to December 31, 2017)
Net sales	62,764,081	64,291,514
Cost of sales	39,677,876	37,999,125
Gross profit	23,086,205	26,292,388
Selling, general and administrative expenses		
Advertising expenses	246,469	279,626
Sales commission	8,100,292	7,424,093
Promotion expenses	744,354	1,753,622
Haulage expenses	568,169	464,833
Depreciation	858,235	1,107,966
Amortization of goodwill	26,877	60,473
Salaries and allowances	4,829,071	5,400,122
Legal welfare expenses	698,869	795,343
Bonuses	159,830	95,424
Provision for bonuses	76,694	90,971
Director's bonuses	7,050	3,000
Retirement benefit expenses	88,626	107,925
Rents	4,925,188	5,815,259
Rent expenses	189,327	206,154
Other	2,523,097	2,548,746
Total selling, general and administrative expenses	24,042,154	26,153,563
Operating income (loss)	)955,948)	138,824
Non-operating income		
Interest income	130,230	203,886
Dividend income	9,496	16,929
Gain on sales of investment securities	–	152,225
Reversal of allowance for doubtful accounts	12,057	–
Other	42,843	99,825
Total non-operating income	194,627	472,866
Non-operating expenses		
Interest expenses	20,821	40,860
Sales discounts	2,421	4,737
Amortization of share issuance cost	53,158	53,158
Amortization of bond issuance cost	–	258
Commission for syndicate loan	83,327	34,442
Foreign exchange losses	34,545	48,730
Share of loss of entities accounted for using equity method	–	358,009
Other	56,493	22,544
Total non-operating expenses	250,767	562,741
Ordinary income (loss)	)1,012,089)	48,949

(Units: 1,000 yen)

	FY2016 (From January 1 to December 31, 2016)	FY2017 (From January 1 to December 31, 2017)
Extraordinary income		
Gain on reversal of subscription rights to shares	11,586	11,586
Reversal of allowance for loss on withdrawal from employees' pension fund	–	33,466
Gain on bargain purchase	655,325	1,236,482
Total extraordinary income	666,912	1,281,535
Extraordinary losses		
Impairment loss	200,331	545,658
Loss on retirement of non-current assets	73,817	8,661
Loss on liquidation of stores	372,004	45,222
Loss on liquidation of subsidiaries	–	543,274
Costs for relocation of offices	–	60,312
Special retirement expenses	–	10,037
Provision for business structure improvement expenses	541,875	–
Total extraordinary losses	1,188,028	1,213,166
Income (loss) before income taxes	)1,533,205)	117,318
Income taxes - current	51,217	102,260
Income taxes - deferred	182,398	(136,751)
Total income taxes	233,615	(34,491)
Net income (loss)	)1,766,821)	151,809
Net income (loss) attributable to non-controlling interests	–	46,906
Net income (loss) attributable to owners of parent	)1,766,821)	104,903

Consolidated statement of comprehensive income

(Units: 1,000 yen)

	FY2016 (From January 1 to December 31, 2016)	FY2017 (From January 1 to December 31, 2017)
Net income (loss)	(1,766,821)	151,809
Other comprehensive income		
Valuation difference on available-for-sale securities	3,893	10,834
Foreign currency translation adjustment	143,574	11,348
Remeasurements of defined benefit plans, net of tax	(17,158)	(34,595)
Total other comprehensive income	130,310	(12,412)
Comprehensive income	(1,636,511)	139,397
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,636,511)	88,059
Comprehensive income attributable to non-controlling interests	-	51,338

(3) Consolidated statement of changes in equity
 FY2016 (From January 1 to December 31, 2016)

(Units: 1,000 yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	22,633,662	18,920,205	6,298,772	)421,107)	47,431,532
Changes of items during period					
Net income (loss) attributable to owners of parent			)1,766,821)		)1,766,821)
Purchase of treasury shares				)1,998,742)	)1,998,742)
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	–	)1,766,821)	)1,998,742)	)3,765,563)
Balance at end of period	22,633,662	18,920,205	4,531,951	)2,419,850)	43,665,968

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	6,079	365,573	–	371,653	104,340	–	47,907,526
Changes of items during period							
Net income (loss) attributable to owners of parent							)1,766,821)
Purchase of treasury shares							)1,998,742)
Net changes of items other than shareholders' equity	3,893	143,574	)17,158)	130,310	)11,586)		118,723
Total changes of items during period	3,893	143,574	)17,158)	130,310	)11,586)	–	)3,646,839)
Balance at end of period	9,973	509,148	)17,158)	501,963	92,753	–	44,260,687

FY2017 (From January 1 to December 31, 2017)

(Units: 1,000 yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	22,633,662	18,920,205	4,531,951	(2,419,850)	43,665,968
Changes of items during period					
Net income (loss) attributable to owners of parent			104,903		104,903
Purchase of treasury shares				(54)	(54)
Change of scope of equity method			(38,093)		(38,093)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	66,809	(54)	66,755
Balance at end of period	22,633,662	18,920,205	4,598,761	(2,419,904)	43,732,725

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	9,973	509,148	(17,158)	501,963	92,753	-	44,260,687
Changes of items during period							
Net income (loss) attributable to owners of parent							104,903
Purchase of treasury shares							(54)
Change of scope of equity method							(38,093)
Net changes of items other than shareholders' equity	10,834	11,348	(34,595)	(12,412)	(8,542)	221,199	200,245
Total changes of items during period	10,834	11,348	(34,595)	(12,412)	(8,542)	221,199	267,000
Balance at end of period	20,807	520,497	(51,753)	489,551	84,211	221,199	44,527,688

(4) Consolidated statement of cash flows

(Units: 1,000 yen)

	FY2016 (From January 1 to December 31, 2016)	FY2017 (From January 1 to December 31, 2017)
Cash flows from operating activities		
Income (loss) before income taxes	(1,533,205)	117,318
Depreciation	886,327	1,192,482
Amortization of share issuance cost	53,158	53,158
Impairment loss	200,331	545,658
Loss (gain) on sales of investment securities	-	(152,225)
Loss on retirement of non-current assets	73,817	8,661
Share of (profit) loss of entities accounted for using equity method	-	358,009
Amortization of goodwill	26,877	60,473
Loss on liquidation of stores	372,004	45,222
Gain on bargain purchase	(655,325)	(1,236,482)
Increase (decrease) in allowance for doubtful accounts	(8,131)	(101,830)
Increase (decrease) in provision for bonuses	(117,244)	(13,998)
Increase (decrease) in provision for directors' bonuses	(18,498)	(66)
Increase (decrease) in net defined benefit liability	34,543	79,832
Increase (decrease) in provision for loss on litigation	-	(2,218)
Increase (decrease) in provision for loss from product warranty	(3,261)	(2,798)
Increase (decrease) in provision for business structure improvement expenses	541,875	(390,738)
Interest and dividend income	(139,727)	(220,815)
Interest expenses	20,821	40,968
Decrease (increase) in notes and accounts receivable - trade	271,088	660,024
Decrease (increase) in inventories	2,069,670	2,691,535
Increase (decrease) in notes and accounts payable - trade	(781,509)	185,397
Decrease (increase) in accounts receivable - other	370,085	(843,414)
Increase (decrease) in accounts payable - other	788,191	(403,844)
Increase (decrease) in long-term accounts payable - other	(130,669)	385,533
Increase (decrease) in guarantee deposits received	(21,745)	42,481
Decrease (increase) in advance payments	407,865	35,617
Other	(395,376)	(461,700)
Subtotal	2,311,961	2,672,246
Interest and dividend income received	41,600	175,753
Interest expenses paid	(20,821)	(40,968)
Income taxes paid	(874,339)	(23,907)
Net cash provided by (used in) operating activities	1,458,401	2,783,124

(Units: 1,000 yen)

	FY2016 (From January 1 to December 31, 2016)	FY2017 (From January 1 to December 31, 2017)
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,108,531)	(2,909,527)
Proceeds from sales of property, plant and equipment	4,900	2,796
Purchase of intangible assets	(157,937)	(144,001)
Purchase of investment securities	(1,005,391)	(319,440)
Proceeds from sales of investment securities	328,088	1,204,814
Purchase of shares of subsidiaries and associates	(6,000)	(35,000)
Payments for investments in capital of subsidiaries and associates	(2,574,896)	–
Payments for transfer of business	(770,000)	–
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	–	1,526,675
Payments of short-term loans receivable	–	(1,390,065)
Collection of short-term loans receivable	–	300,000
Payments for lease and guarantee deposits	(669,152)	(398,494)
Proceeds from collection of lease and guarantee deposits	328,017	473,295
Payments into time deposits	(1,100,000)	(859,318)
Proceeds from withdrawal of time deposits	3,327,400	7,500,000
Payments of long-term loans receivable	(416,500)	(30,000)
Collection of long-term loans receivable	2,309	37,018
Other	7,519	(1,202)
Net cash provided by (used in) investing activities	(6,810,175)	4,957,551
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	4,759,972	(3,343,300)
Repayments of long-term loans payable	(69,014)	(71,696)
Purchase of treasury shares	(1,998,742)	(54)
Repayments of lease obligations	(22,269)	(16,376)
Redemption of bonds	–	(37,500)
Proceeds from issuance of subscription rights to shares	–	3,044
Net cash provided by (used in) financing activities	2,669,946	(3,465,883)
Effect of exchange rate change on cash and cash equivalents	(71,787)	18,746
Net increase (decrease) in cash and cash equivalents	(2,753,614)	4,293,538
Cash and cash equivalents at beginning of period	5,617,557	2,863,943
Cash and cash equivalents at end of period	2,863,943	7,157,481

(5) Notes to the Consolidated Financial Statements

(Explanatory notes regarding assumption of going concern)

No corresponding items.

(Change of the estimates for accounting purposes)

(Change of the standards for the assessment of inventories)

The Company has used the value of inventories obtained by writing down the book value thereof uniformly according to a certain rate as the value indicated on the balance sheet, in principle, when a certain period has passed from the acquisition thereof in the assessment of inventories. During the consolidated fiscal year under review, the Company decided to change the said period and rate applicable to the women's shoe business.

During the consolidated fiscal year under review, the Company made the Ogitsu group a subsidiary to increase and improve the product mix and at the same time realize the synergies and the increased efficiency of manufacturing and distribution with the existing women's shoe business.

Upon creating the said subsidiary, the change described above was made to ascertain the state of stagnant inventories within the overall women's shoe business in a timely manner and reflect the fact of lower profitability more appropriately in the financial position and the business results.

As a result, during the consolidated fiscal year under review, the cost of sales decreased 20,087 thousand yen and operating profit, ordinary profit and profit before income taxes increased 20,087 thousand yen.

(Segment information, etc.)

1. Overview of Reporting Segments

The Group operates through three business segments: Domestic Retail Business, Overseas Business and Other Businesses. In the Domestic Retail Business, the Group sells tax-free goods and household appliances to tourists from overseas as well as selling goods in Japan where it handles mainly women's shoes and other fashion goods, hobby goods, and watches. In the Overseas Business segment, the Group is involved in export and import and cross-border e-commerce business, mainly with China and Taiwan. In the Other Businesses segment, the Group is engaged mainly in the lease of real estate and the sale of used golf equipment.

2. Calculation methods for net sales, profit/loss, assets, liabilities and other items by reporting segment

The profit of reporting segments is based on operating income. Internal sales or transfers between segments are generally based on market prices.

3. Information about net sales, profit/loss, assets, liabilities and other items by segment

FY2016 (From January 1 to December 31, 2016)

(Units: 1,000 yen)

	Reporting segment			Total	Amount of adjustment Note: 1	Amount reported in the Consolidated Financial Statements Note: 2
	Domestic retail business	Overseas business	Other businesses			
Sales						
Sales to extremal clients	60,200,679	2,000,546	562,855	62,764,081	–	62,764,081
Internal sales or transfers between segments	14,333	136,113	–	150,447	)150,447)	–
Total	60,215,013	2,136,660	562,855	62,914,528	)150,447)	62,764,081
Segment profit (loss)	1,689,005	)763,895)	)44,877)	880,232	)1,836,181)	)955,948)
Segment assets	29,573,436	4,146,391	3,469,916	37,189,744	21,216,258	58,406,003
Depreciation	721,162	34,437	27,709	783,309	103,017	886,327
Increase in property, plant and equipment and intangible assets	5,140,538	36,916	7,616	5,185,071	64,116	5,249,187

- (Notes) 1. The amount of adjustment of segment profit of -1,836,181 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.
The amount of adjustment of segment assets of 21,216,258 thousand yen, the amount of adjustment of depreciation of 103,017 thousand yen, and the amount of adjustment of the increase in property, plant and equipment and intangible assets of 64,116 thousand yen all correspond to corporate assets.
2. Segment profit (loss) is adjusted to operating income in the consolidated statement of income.

FY2017 (From January 1 to December 31, 2017)

(Units: 1,000 yen)

	Reporting segment			Total	Amount of adjustment Note: 1	Amount reported in the Consolidated Financial Statements Note: 2
	Domestic retail business	Overseas business	Other businesses			
Sales						
Sales to extremal clients	60,587,512	1,950,882	1,753,118	64,291,514	–	64,291,514
Internal sales or transfers between segments	340	61,289	–	61,630	(61,630)	–
Total	60,587,853	2,012,172	1,753,118	64,353,144	(61,630)	64,291,514
Segment profit (loss)	1,295,240	16,858	334,367	1,646,466	(1,507,641)	138,824
Segment assets	37,473,420	2,428,440	2,996,655	42,898,516	20,629,248	63,527,765
Depreciation	944,560	11,395	116,882	1,072,839	119,643	1,192,482
Increase in property, plant and equipment and intangible assets	1,293,613	100,075	1,807,518	3,201,206	29,518	3,230,724

- (Note) 1. The amount of adjustment of segment profit of -1,507,641 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.
The amount of adjustment of segment assets of 20,629,248 thousand yen, the amount of adjustment of depreciation of 119,643 thousand yen, and the amount of adjustment of the increase in property, plant and equipment and intangible assets of 29,518 thousand yen all correspond to corporate assets.
2. Segment profit (loss) is adjusted to operating income in the consolidated statement of income.

(Per share information)

	FY2016 (From January 1 to December 31, 2016)	FY2017 (From January 1 to December 31, 2017)
Net assets per share	685.90	685.94
Net income per share	(27.27)	1.63
Diluted net income per share	–	–

- (Notes) 1. The diluted net income per share was not stated both for the preceding consolidated fiscal year and the current consolidated fiscal year because of the loss per share posted and the lack of dilutive shares that do not have a dilutive effect, respectively.

(Significant subsequent events)

At the meeting of the board of directors held on February 14, 2018, it was decided to liquidate Laox Shanghai Co., Ltd. For details, refer to the Notice Regarding Difference Between Consolidated Earnings Forecasts and Actuals and Posting of Extraordinary Profit and Extraordinary Loss announced on February 14, 2018.

5. Non-Consolidated Financial Statements

(1) Non-consolidated balance sheet

(Units: 1,000 yen)

	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)
Assets		
Current assets		
Cash and deposits	1,366,562	15,950,539
Accounts receivable - trade	2,073,110	1,776,632
Merchandise and finished goods	10,468,788	8,576,984
Raw materials and supplies	17,210	16,457
Prepaid expenses	521,705	502,078
Accounts receivable - other	1,057,173	1,543,578
Advance payments - trade	510,390	428,368
Short-term loans receivable	-	1,450,000
Short-term loans receivable from subsidiaries and associates	1,637,000	1,717,000
Other	736,131	934,144
Allowance for doubtful accounts	(250,470)	(236,083)
Total current assets	18,137,602	32,659,700
Non-current assets		
Property, plant and equipment		
Buildings	3,609,386	5,421,964
Structures	44,275	75,575
Vehicles	15,274	25,044
Tools, furniture and fixtures	1,762,643	1,782,427
Land	296,583	373,560
Leased assets	92,249	89,382
Construction in progress	80,789	12,345
Total property, plant and equipment	5,901,202	7,780,298
Intangible assets		
Leasehold right	408	408
Trademark right	492	1,338
Software	207,612	267,345
Software in progress	78,820	7,895
Leased assets	13,201	9,337
Total intangible assets	300,534	286,324
Investments and other assets		
Investment securities	764,936	415,576
Shares of subsidiaries and associates	2,082,204	3,332,204
Investments in capital of subsidiaries and associates	2,574,896	2,574,896
Investments in capital	325	76,525
Long-term loans receivable	531,488	128,024
Long-term loans receivable from subsidiaries and associates	640,000	730,000
Lease and guarantee deposits	4,951,303	4,780,173
Long-term fixed-period deposits	19,000,000	-
Long-term prepaid expenses	6,933	6,133
Other	193,438	193,438
Allowance for doubtful accounts	(368,803)	(354,996)
Total investments and other assets	30,376,723	11,881,974
Total non-current assets	36,578,460	19,948,598
Deferred assets		
Share issuance cost	62,018	8,859
Total deferred assets	62,018	8,859
Total assets	54,778,080	52,617,158

(Units: 1,000 yen)

	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)
Liabilities		
Current liabilities		
Accounts payable - trade	1,516,761	2,343,976
Short-term loans payable	4,843,300	2,404,000
Lease obligations	31,115	36,456
Accounts payable - other	914,683	850,456
Accrued expenses	367,457	167,204
Income taxes payable	29,775	406,236
Advances received	89,550	76,202
Provision for bonuses	77,552	74,591
Provision for directors' bonuses	66	–
Provision for point card certificates	6,404	31,941
Deposits received	59,503	81,599
Provision for loss from product warranty	18,683	15,885
Provision for loss on withdrawal from employees' pension fund	100,000	66,533
Other	11,117	23,717
Total current liabilities	8,065,971	6,578,801
Non-current liabilities		
Lease obligations	74,078	66,075
Deferred tax liabilities	14,950	76,563
Provision for retirement benefits	300,138	353,137
Provision for directors' retirement benefits	23,633	23,633
Provision for business structure improvement expenses	429,282	391,570
Provision for loss on litigation	2,218	–
Asset retirement obligations	206,812	438,800
Other	335,033	374,518
Total non-current liabilities	1,386,146	1,724,300
Total liabilities	9,452,117	8,303,101
Net assets		
Shareholders' equity		
Capital stock	22,633,662	22,633,662
Capital surplus		
Legal capital surplus	18,906,725	18,906,725
Other capital surplus	13,480	13,480
Total capital surplus	18,920,205	18,920,205
Retained earnings		
Other retained earnings		
Retained earnings brought forward	6,089,047	5,097,993
Total retained earnings	6,089,047	5,097,993
Treasury shares	(2,419,679)	(2,419,733)
Total shareholders' equity	45,223,236	44,232,127
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	9,973	(2,282)
Total valuation and translation adjustments	9,973	(2,282)
Subscription rights to shares	92,753	84,211
Total net assets	45,325,962	44,314,057
Total liabilities and net assets	54,778,080	52,617,158

(2) Non-consolidated statement of income

(Units: 1,000 yen)

	FY2016 (From January 1 to December 31, 2016)	FY2017 (From January 1 to December 31, 2017)
Net sales	55,007,568	52,344,045
Cost of sales	35,774,161	32,182,621
Gross profit	19,233,407	20,161,423
Selling, general and administrative expenses	20,178,477	20,091,544
Operating income (loss)	)945,069)	69,879
Non-operating income		
Interest income	140,573	244,058
Dividend income	9,078	9,076
Gain on sales of investment securities	–	74,378
Other	13,317	36,516
Total non-operating income	162,968	364,029
Non-operating expenses		
Interest expenses	10,372	30,630
Sales discounts	2,421	2,286
Amortization of share issuance cost	53,158	53,158
Commission for syndicate loan	83,327	34,442
Foreign exchange losses	20,210	25,419
Provision of allowance for doubtful accounts	33,025	–
Other	42,291	14,220
Total non-operating expenses	244,808	160,158
Ordinary income (loss)	)1,026,908)	273,750
Extraordinary income		
Gain on reversal of subscription rights to shares	11,586	11,586
Reversal of allowance for loss on withdrawal from employees' pension fund	–	33,467
Total extraordinary income	11,586	45,053
Extraordinary losses		
Impairment loss	146,216	229,673
Loss on valuation of shares of subsidiaries and associates	400,000	–
Loss on liquidation of subsidiaries	–	861,897
Provision for business structure improvement expenses	429,282	–
Loss on liquidation of stores	81,473	21,057
Total extraordinary losses	1,056,972	1,112,628
Income (loss) before income taxes	)2,072,294)	(793,825)
Income taxes - current	45,373	129,718
Income taxes - deferred	)9,809)	67,510
Total income taxes	35,564	197,228
Net income (loss)	)2,107,858)	(991,053)

(3) Non-consolidated statement of changes in equity
 FY2016 (From January 1 to December 31, 2016)

(Units: 1,000 yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
					Retained earnings brought forward			
Balance at beginning of period	22,633,662	18,906,725	13,480	18,920,205	8,196,906	8,196,906	)420,936)	49,329,837
Changes of items during period								
Net income (loss)					)2,107,858)	)2,107,858)		)2,107,858)
Purchase of treasury shares							)1,998,742)	)1,998,742)
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	-	-	)2,107,858)	)2,107,858)	)1,998,742)	)4,106,601)
Balance at end of period	22,633,662	18,906,725	13,480	18,920,205	6,089,047	6,089,047	)2,419,679)	45,233,236

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of period	6,075	6,075	104,340	49,440,253
Changes of items during period				
Net income (loss)				)2,107,858)
Purchase of treasury shares				)1,998,742)
Net changes of items other than shareholders' equity	3,897	3,897	)11,586)	)7,689)
Total changes of items during period	3,897	3,897	)11,586)	)4,114,290)
Balance at end of period	9,973	9,973	92,753	45,325,962

FY2017 (From January 1 to December 31, 2017)

(Units: 1,000 yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
					Retained earnings brought forward			
Balance at beginning of period	22,633,662	18,906,725	13,480	18,920,205	6,089,047	6,089,047	(2,419,679)	45,223,236
Changes of items during period								
Net income (loss)					(991,053)	(991,053)		(991,053)
Purchase of treasury shares							(54)	(54)
Net changes of items other than shareholders' equity								
Total changes of items during period	–	–	–	–	(991,053)	(991,053)	(54)	(991,108)
Balance at end of period	22,633,662	18,906,725	13,480	18,920,205	5,097,993	5,097,993	(2,419,733)	44,232,127

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of period	9,973	9,973	92,753	45,325,962
Changes of items during period				
Net income (loss)				(991,053)
Purchase of treasury shares				(54)
Net changes of items other than shareholders' equity	(12,255)	(12,255)	(8,542)	(20,797)
Total changes of items during period	(12,255)	(12,255)	(8,542)	(1,011,905)
Balance at end of period	(2,282)	(2,282)	84,211	44,314,057