Summary of (Consolidated) Financial Statements for the First Half of Fiscal Year Ending December 31, 2018 (Japanese Standards)

August 14, 2018

Listed company: Laox Co., Ltd. Stock exchange: Tokyo Stock Exchange
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Supplementary documents for quarterly results: No
Quarterly results briefing: No

(Rounded down to nearest million yen)

1. Consolidated Results for the First Half of FY2018 (January 1, 2018 to June 30, 2018)

(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	%
H1 of FY2018	46,239	64.2	(848)	–	(832)	–	428	–
H1 of FY2017	28,153	(19.7)	(1,051)	–	(1,045)	–	(1,157)	–

(Note) Comprehensive income H1 of FY2018: 524 million yen (–%) H1 of FY2017: (1,099) million yen (–%)

	Profit per share	Diluted profit per share
	Yen	Yen
H1 of FY2018	6.64	–
H1 of FY2017	(17.95)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
H1 of FY2018	86,946	47,989	51.6
FY2017	63,604	44,604	69.7

(For reference) Shareholders' equity H1 of FY2018: 44,833 million yen FY2017: 44,295 million yen

(Note) In the second quarter of the consolidated fiscal year ending December 31, 2018, provisional accounting related to business combinations was finalized. The values for the fiscal year ended December 31, 2017 reflect important revisions to the initially allocated amount of the acquisition cost, which resulted from the finalization of the provisional accounting.

2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2017	–	–	–	0.00	0.00
FY2018	–	–			
FY2018 (forecast)			–	0.00	0.00

(Note) Revision to the forecast publicized most recently: No

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

(The percentage values for the full year indicate rates of year-on-year change.)

	Net sales		Operating profit		Ordinary profit	
	Million yen	%	Million yen	%	Million yen	%
Full year	120,000	86.6	1,000	620.3	1,000	–

(Note) Revision to the forecast publicized most recently: No

Notes

(1) Important changes in subsidiaries in the first half under review: Yes
New: 1 company SHADDY CO., LTD.

(2) Application of accounting specific to the preparation of quarterly consolidated financial statements: Yes

(3) 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:	No
(iv)	Restatement of accounting estimates:	No

(4) Number of issued shares (common shares)

(i) Number of issued shares at the end of period (including treasury stock):	Q2 of FY2018	66,388,103
	FY2017	66,388,103
(ii) Number of shares of treasury stock at the end of period:	Q2 of FY2018	1,918,128
	FY2017	1,918,108
(iii) Average number of issued shares during period (from the beginning of fiscal year)	H1 of FY2018	64,469,986
	H1 of FY2017	64,470,051

These consolidated financial results are not included in the scope of quarterly audits by certified public accountants or audit corporations.

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

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1. Qualitative Information on Consolidated Results for the First Half of FY2018

(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 recovery trend with a moderate increase in exports, mainly to emerging countries in Asia, and the recovery of consumer spending since April, which is backed by solid employment and income conditions, despite the concern over the trade protectionism of the United States.
In this economic environment, during the first half of the consolidated fiscal year under review, the Group took initiatives reflecting strong awareness of promoting growth in conjunction with the progress of each of the business segments, which were newly classified in the current fiscal year, and producing synergy between segments, to achieve the third medium-term management plan for the "realization of strategies that are appropriate for the upcoming era of the global lifestyle" that was announced on February 14, 2018.
The most important task set in the third medium-term management plan is to make the global lifestyle a reality by delivering a wide range of Japan Premium (outstanding made-in-Japan products and services), from the consumption of *goods* based mainly on the sale of goods to the consumption of *experiences*, to people all over the world via diverse channels in accordance with diversifying customer needs.
The business results for the first half of the consolidated fiscal year under review are as follows. Net sales stood at 46,239 million yen (up 64.2% from 28,153 million yen in the same period of the previous fiscal year), partly reflecting the acquisition of shares of Shaddy Co., Ltd. in May, as a result of which Shaddy Co., Ltd. became a consolidated subsidiary of the Company. As for profits, operating loss was 848 million yen (compared to operating loss of 1,051 million yen in the same period of the previous fiscal year) and ordinary loss was 832 million yen (compared to ordinary loss of 1,045 million yen in the same period of the previous fiscal year), despite the significant growth of profit from the domestic retail business, due in part to the generation of expenses related to the acquisition of subsidiary stock. The Company will continue working on the steady improvement of profitability to achieve the medium-term management plan.
The financial results of each business segment are as follows:
The Company has changed business segments presented as reporting segments starting from the first quarter. Accordingly, the year-on-year comparisons and analyses in the respective segments are made based on the revised classification.

1) Domestic Retail Business
With regard to the trends of foreign tourists visiting Japan related to this business segment, the number of foreign tourists visiting Japan as a whole remained favorable, due in part to the launch of new flights, the increase in the number of flights, the launch of chartered flights and the aggressive promotion of Japan as a tourist destination by the government of the country. During the first half of the consolidated fiscal year under review, the number of foreign tourists to Japan was 15.89 million (up 15.6% year on year), with the total amount of consumption by them at 2,235,400 million yen (up 9.3% year on year). The number of Chinese tourists visiting Japan, the main customers of the Company, was estimated to be 4.05 million (up 23.6%), the highest ever. (Source: Statistical data from the Japan National Tourism Organization (JNTO) and the Japan Tourism Agency)
Sales in the Company's tax-free shops were mostly strong. The number of customers passing through the cash registers was also the highest ever, at 1,255,778 (up 9.8% year on year), and average sales per customer were 19,855 yen (up 1.9% year on year). The first round of efficiency improvements in the existing shops, which began in the previous fiscal year, is about to be completed. The Company will strive to improve profitability further.
In the trade business, the Company commenced the full-scale export of the high-grade IH rice cooker, which was developed jointly with a major consumer electronics manufacturer in Japan. The rice cooker is now sold in around 650 large-scale stores of the parent company Suning.com Co., Ltd., which are located in major cities, and on its ecommerce site (Suning.com).
As an initiative regarding cross-border ecommerce, the Company enhanced the lineup of products and strengthened sales promotional activities at Laox's Overseas Flagship Store at Tmall, the largest cross-border platform in China. Further, the Company revamped and reopened Laox's Overseas Flagship Store on Suning.com, which was closed temporarily, with an enhanced product lineup and services.
The Company took the first step toward achieving an evolution from the existing waiting-style business to welcome foreigners visiting Japan at duty-free shops to the aggressive-style business to deliver Japan Premium, both in Japan and abroad, through various channels and networks and other multiple means, which began to be promoted more strongly in the fiscal year under review. Moving forward, the Company will deliver a wide variety of products to the world by taking further advantage of group synergy with the parent company.
As a result, consolidated sales for the segment amounted to 27,214 million yen (up 18.4% from 22,981 million yen posted in the same period of the previous year). Consolidated operating profit came to 749 million yen (compared to 24 million yen posted in the same period of the previous year).

2) Life & Fashion Business
Sales in this business segment increased significantly due to sales of Shaddy Co., Ltd., an operator of brochure-based mail-order business that became a consolidated subsidiary in May, in addition to sales of the existing women's shoe business.
In the women's shoe business, the integration of sales and production (SPA) and strengthened initiatives regarding domestic ecommerce, which have been implemented since the acquisition, have begun to have an impact. Moving forward, the Company will pursue further synergy between shoe business groups.
Regarding Shaddy Co., Ltd., the Company will promote initiatives including the development of new products, sales channel expansion, and the strengthening of the corporate sales division, which are implemented by taking advantage of synergy in the Laox Group, and the utilization of the seven logistics warehouses in Japan within the Group, in its efforts to increase sales, diversify its sales channels and improve productivity.
As a result, consolidated sales for the segment amounted to 18,239 million yen (up 272.6% from 4,895 million yen posted in the same period of the previous year). Consolidated operating loss came to 3 million yen (compared to consolidated operating loss of 193 million yen posted in the same period of the previous year).

3) Entertainment Business
In this business segment, the Company promotes the business based on the consumption of experiences, which is aimed at having

customers in Japan and other countries enjoy Japan Premium from a range of perspectives. The repeat customer rate for GEAR East Version, a non-verbal performance given at a theater operated by the Laox Group, has already exceeded 30%. It enjoyed increased audiences thanks to the spread of its reputation through word of mouth and social media. In addition, for the NEW YORK BAYSIDE KITCHEN, a large buffet restaurant boasting a floor area of 1,983 square meters, the Company proactively promotes initiatives for improving customer services, including the introduction of new menus toward the first anniversary and a range of events for entertaining customers during meals.

In addition, Kurogi Shanghai, which was opened at Bellagio Shanghai, a first-class hotel that is located in the Shanghai Band and that was developed by Suning Real Estate (a Suning Holdings Group company) with the aim of introducing the dietary culture of Japan to overseas countries, has already become extremely popular in Shanghai. For example, the restaurant was extensively quoted in the local media immediately after its opening.

In the first half of the consolidated fiscal year under review, however, the net sales of this business stood at 242 million yen, with an operating loss of 360 million yen, due to prior capital investments for the development of contents, restaurants to be revamped and reopened in the future, and the improvement of services.

4) SC Development Business

In this business segment, the Company engages in the operation of Chiba Port Town and Chiba Port Circle in Chiba Port Square, Riverwalk Kitakyushu, a commercial complex, and other facilities in addition to efficiency improvements of existing shops and the leasing of unused spaces among the real estate owned by the Company. At Chiba Port Square, the Company held "Go Together – A future when all of us coexist in harmony with each other," an event for supporting para-sports, in May and also focused its efforts on locally-based operations, including sales of food made with local ingredients from Chiba City. However, the operating structure is still being established and prior capital investment has yet to be completed. The Company will continue its efforts to establish the structure as soon as possible, establish efficient operation, and gain profits while also placing emphasis on improving the value of the facilities of the overall Laox Group.

As a result, consolidated sales for the segment amounted to 648 million yen (up 130.9% from 280 million yen posted in the same period of the previous year), and consolidated operating loss came to 361 million yen (compared to consolidated operating loss of 112 million yen).

(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 86,946 million yen (compared to 63,604 million yen at the end of the previous consolidated fiscal year).

The increase in total assets was largely attributable to increases of 11,604 million yen in notes and accounts receivable – trade, 3,194 million yen in merchandise and finished goods, 3,306 million yen in leased assets (intangible assets), and 4,824 million yen in investment securities.

(Liabilities)

Total liabilities stood at 38,957 million yen (compared to 19,000 million yen at the end of the previous consolidated fiscal year).

The increase in liabilities was largely attributable to increases of 9,110 million yen in notes and accounts payable – trade, 2,765 million yen in advances received, 2,976 million yen in lease obligations (non-current liabilities), and 1,885 million yen in electronically recorded obligations - operating.

(Net assets)

Net assets stood at 47,989 million yen (compared to 44,604 million yen at the end of the previous consolidated fiscal year).

The increase in net assets was primarily due to increases of 427 million yen in retained earnings and 2,916 million yen in non-controlling interests.

2) Cash flow

Cash and cash equivalents at the end of the first half of the consolidated fiscal year under review have decreased by 97 million yen from the end of the previous fiscal year to 7,060 million yen.

(Cash flow from operating activities)

Net cash used by operating activities during the first half of the consolidated fiscal year totaled 3,525 million yen (compared to 1,306 million yen provided in the same period of the previous fiscal year).

This was mainly attributable to an increase of 4,057 million yen in accounts receivable, an increase of 1,110 million yen in inventories, a decrease of 1,153 million yen in deposits received and an increase of 659 million yen in suspense payments, which offset an increase of 3,239 million yen in notes and accounts payable - trade.

(Cash flow from investing activities)

Net cash provided in investing activities during the first half of the consolidated fiscal year totaled 4,575 million yen (compared to 1,918 million yen used in the same period of the previous fiscal year).

This was mainly attributable to proceeds from the withdrawal of time deposits of 12,673 million yen, which offset spending of 5,004 million yen for the purchase of investment securities and payments into time deposits of 2,738 million yen.

(Cash flow from financing activities)

Cash used by financing activities during the first half of the consolidated fiscal year was 1,482 million yen (compared to net cash provided of 1,270 million yen in the same period of the previous fiscal year).

This was primarily due to the redemption of bonds of 2,207 million yen and repayments of long-term loans payable of 365 million yen, which offset an increase of 1,270 million yen in short-term loans payable.

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

There is no change to the full-year consolidated forecasts that were announced in the Summary of Financial Statements for the Q1 Term Ending December 2018 (Japanese Standards) (consolidated) on May 15, 2018.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheet

(Units: 1,000 yen)

	FY2017 (As of December 31, 2017)	Second quarter of FY2018 (As of June 30, 2018)
Assets		
Current assets		
Cash and deposits	19,830,545	9,798,977
Notes and accounts receivable - trade	3,046,325	14,650,821
Merchandise and finished goods	13,883,849	17,077,876
Work in process	84,593	60,197
Raw materials and supplies	234,389	328,947
Accounts receivable	2,328,871	2,523,823
Advance payments - trade	944,966	1,103,854
Prepaid expenses	601,353	1,035,096
Short-term loans receivable	1,450,000	–
Short-term loans receivable from subsidiaries and associates	40,000	81,500
Deferred tax assets	79,460	244,520
Current portion of guarantee deposits	46,869	31,289
Other	601,143	1,148,536
Allowance for doubtful accounts	(95,024)	(147,128)
Total current assets	43,077,343	47,938,314
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	7,044,582	8,776,526
Machinery, equipment and vehicles (net)	44,700	703,978
Tools, furniture and fixtures (net)	1,858,890	1,468,823
land	1,698,552	5,920,264
Lease assets (net)	89,382	947,758
Construction in progress	47,345	17,345
Total non-current assets	10,783,453	17,834,696
Intangible assets		
Goodwill	–	14,666
Trademark right	133,883	482,583
Software	299,222	701,671
Lease assets	9,337	3,315,816
Software in progress	7,895	–
Other	901	535
Total intangible assets	451,240	4,515,273
Investments and other assets		
Investment securities	1,044,429	5,868,540
Shares of subsidiaries and associates	237,000	431,000
Deferred tax assets	111,183	215,105
Shares of subsidiaries and associates	2,185,035	2,296,959
Long-term loans receivable	137,624	2,136,694
Long-term loans receivable from subsidiaries and associates	30,000	30,000
Lease and guarantee deposits	4,927,949	5,120,352
Other	994,438	1,164,289
Allowance for doubtful accounts	(462,570)	(669,619)
Total investments and other assets	9,205,090	16,593,322
Total non-current assets	20,439,784	38,943,293
Deferred assets		
Share issuance cost	8,859	–
Business commencement expenses	75,400	62,626
Bond issuance cost	2,984	2,516
Total deferred assets	87,245	65,142
Total assets	63,604,372	86,946,750

(Units: 1,000 yen)

	FY2017 (As of December 31, 2017)	Second quarter of FY2018 (As of June 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,465,891	14,576,002
Electronically recorded obligations - operating	–	1,885,040
Short-term loans payable	2,477,002	4,339,920
Current portion of long-term loans payable	99,338	231,329
Accounts payable - other	1,571,854	1,862,375
Current portion of bonds	2,387,500	180,000
Accrued expenses	60,091	1,147,106
Advances received	153,004	2,918,610
Lease obligations	36,456	844,556
Income taxes payable	427,813	278,901
Provision for bonuses	75,411	248,552
Provision for point card certificates	31,941	67,641
Provision for loss from product warranty	15,885	14,559
Provision for loss on withdrawal from employees' pension fund	66,533	66,533
Deferred tax liabilities	59,936	54,521
Other	264,544	225,678
Total current liabilities	13,193,205	28,941,332
Non-current liabilities		
Long-term loans payable	2,090,137	998,642
Long-term guarantee deposited	391,454	767,501
Lease obligations	66,075	3,042,704
Long-term accounts payable - other	1,327,224	1,485,723
Net defined benefit liability	764,766	2,234,053
Provision for directors' retirement benefits	23,633	63,686
Provision for business structure improvement expenses	151,137	150,387
Asset retirement obligations	504,739	537,215
Deferred tax liabilities	482,948	732,311
Other	4,754	3,507
Total non-current liabilities	5,806,871	10,015,734
Total liabilities	19,000,077	38,957,067
Net assets		
Shareholder's equity		
Capital stock	22,633,662	22,633,662
Capital surplus	18,920,205	18,920,205
Retained earnings	4,671,538	5,099,217
Treasury shares	(2,419,904)	(2,419,916)
Total shareholder's equity	43,805,501	44,233,169
Total amount of other comprehensive income		
Valuation difference on available-for-sale securities	20,807	78,630
Remeasurements of defined benefit plans	(51,753)	8,690
Foreign currency translation adjustment	520,497	513,058
Total amount of other comprehensive income	489,551	600,379
Subscription right to shares	84,211	14,631
Non-controlling interest	225,029	3,141,501
Total net assets	44,604,295	47,989,682
Total liabilities and net assets	63,604,372	86,946,750

(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 FY2017 (From January 1 to June 30, 2017)	First half of FY2018 (From January 1 to June 30, 2018)
Net sales	28,153,193	46,239,567
Cost of sales	17,203,977	30,089,041
Gross profit	10,949,216	16,150,525
Selling, general and administrative expenses		
Advertising expenses	173,761	92,831
Sales commission	3,321,228	3,970,748
Promotion expenses	439,821	947,203
Haulage expenses	195,055	1,027,570
Depreciation	507,606	843,215
Amortization of goodwill	40,315	333
Salaries and allowances	2,547,363	3,868,106
Legal welfare expenses	370,434	549,523
Retirement benefit expenses	81,559	101,914
Bonuses	2,290	61,875
Provision for bonuses	103,858	199,252
Rents	2,993,598	2,971,258
Rent expenses	106,693	128,459
Expenses related to acquisition of subsidiary stock	–	205,501
Other	1,117,319	2,030,932
Total selling, general and administrative expenses	12,000,905	16,998,727
Operating profit (loss)	(1,051,688)	(848,202)
Non-operating income		
Interest income	100,906	70,006
Dividend income	4,501	10,397
Gain on sales of investment securities	–	22,386
Gain on cancellation of insurance contract	–	7,348
Gain on bad debts recovered	–	5,003
Share of profit of entities accounted for using equity method	–	111,924
Other	38,518	62,215
Total non-operating income	143,927	289,282
Non-operating expenses		
Interest payable	17,678	34,876
Sales discount	1,123	1,134
Amortization of stock issuance cost	26,579	8,859
Amortization of bond issuance cost	–	433
Commission for syndicate loan	33,196	–
Guarantee commission	–	9,621
Expenses for liquidation of receivables	–	25,000
Foreign exchange losses	35,014	103,412
Other	24,191	90,709
Total non-operating expenses	137,783	274,048
Ordinary profit (loss)	(1,045,545)	(832,968)

(Units: 1,000 yen)

	First half of FY2017 (From January 1 to June 30, 2017)	First half of FY2018 (From January 1 to June 30, 2018)
Extraordinary income		
Gain on sales of non-current assets	–	826
Penalty income from lease contract	–	33,499
Gain on forfeiture of share acquisition rights	–	69,580
Gain on bargain purchase	–	3,179,569
Total extraordinary income	–	3,283,476
Extraordinary losses		
Impairment loss	76,267	1,995,613
Loss on disposal of non-current assets	–	42,116
Loss on liquidation of stores	11,712	10,223
Penalty	–	11,828
Total extraordinary loss	87,979	2,059,782
Profit (loss) before income taxes	(1,133,524)	390,725
Income taxes - current	25,217	40,922
Income taxes - deferred	(1,439)	(67,653)
Total income taxes	23,778	(26,731)
Profit (loss) before income taxes	(1,157,302)	417,457
Profit (loss) attributable to non-controlling interests	–	(10,771)
Profit (loss) attributable to owners of parent	(1,157,302)	428,228

Quarterly consolidated comprehensive income account statement
First half

(Units: 1,000 yen)

	First half of FY2017 (From January 1 to June 30, 2017)	First half of FY2018 (From January 1 to June 30, 2018)
Profit (loss)	(1,157,302)	417,457
Other comprehensive income		
Valuation difference on available-for-sale securities	14,180	54,052
Foreign currency translation adjustment	43,277	(7,439)
Remeasurements of defined benefit plans, net of tax	–	60,002
Total of other comprehensive income	57,457	106,615
Comprehensive income	(1,099,845)	524,072
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,099,845)	536,725
Comprehensive income attributable to non-controlling interests	–	(12,652)

(3) Consolidated statements of cash flow

(Units: 1,000 yen)

	First half of FY2017 (From January 1 to June 30, 2017)	First half of FY2018 (From January 1 to June 30, 2018)
Cash flows from operating activities		
Profit (loss) before income taxes	(1,133,524)	390,725
Depreciation	532,070	937,322
Impairment loss	76,267	1,995,613
Loss (gain) on sales of investment securities	–	(22,386)
Loss on retirement of non-current assets	–	42,116
Amortization of share issuance cost	26,579	8,859
Amortization of goodwill	40,315	333
Loss on liquidation of stores	11,712	10,223
Share of loss (profit) of entities accounted for using equity method	–	(111,924)
Gain on bargain purchase	–	(3,179,569)
Increase (decrease) in allowance for doubtful accounts	(69,752)	51,864
Increase (decrease) in provision for bonuses	26,098	124,520
Increase (decrease) in net defined benefit liability	63,213	(84,354)
Increase (decrease) in provision for loss from product warranty	(1,476)	(1,325)
Increase (decrease) in provision for business structure improvement expenses	–	(750)
Interest and dividend income	(105,408)	(80,403)
Interest expenses	17,678	39,352
Decrease (increase) in notes and accounts receivable - trade	(35,174)	(4,057,104)
Decrease (increase) in inventories	1,237,756	(1,110,913)
Increase (decrease) in notes and accounts payable - trade	1,047,650	3,239,277
Decrease (increase) in accounts receivable - other	(10,410)	579,678
Decrease (increase) in advance payments	(102,182)	(163,050)
Decrease (increase) in suspense payments	1,034	(659,495)
Increase (decrease) in accounts payable - other	(238,052)	(552,861)
Increase (decrease) in deposits received	11,835	(1,153,415)
Increase (decrease) in long-term accounts payable - other	–	(49,763)
Increase (decrease) in guarantee deposits received	(33,088)	(3,304)
Other	(191,511)	148,889
Subtotal	1,171,635	(3,661,843)
Interest and dividend income received	15,046	78,677
Interest expenses paid	(17,678)	(39,352)
Income taxes (paid) refund	137,958	97,189
Cash flows provided by (used in) operating activities	1,306,961	(3,525,328)

(Units: 1,000 yen)

	First half of FY2017 (From January 1 to June 30, 2017)	First half of FY2018 (From January 1 to June 30, 2018)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,699,053)	(599,278)
Proceeds from sales of property, plant and equipment	–	1,329
Purchase of intangible assets	(135,127)	(82,756)
Purchase of investment securities	–	(5,004,958)
Proceeds from sales of investment securities	345,405	230,119
Purchase of shares of subsidiaries and associates	–	(200,000)
Payments of short-term loans receivable	(300,000)	(41,660)
Collection of short-term loans receivable	–	503,530
Payments of long-term loans receivable	–	(1,050,000)
Collection of long-term loans receivable	1,728	929
Payments for lease and guarantee deposits	(455,580)	(261,001)
Proceeds from collection of lease and guarantee deposits	324,018	363,484
Payments into time deposits	–	(2,738,922)
Proceeds from withdrawal of time deposits	–	12,673,063
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	–	927,375
Other	190	(145,466)
Cash flows provided by (used in) investing activities	(1,918,417)	4,575,786
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,357,500	1,270,779
Repayments of long-term loans payable	(72,619)	(365,111)
Purchase of treasury shares	(34)	(11)
Repayments of lease obligations	(16,955)	(180,213)
Redemption of bonds	–	(2,207,500)
Proceeds from issuance of share acquisition rights	3,044	–
Cash flows provided by (used in) financing activities	1,270,935	(1,482,057)
Effect of exchange rate change on cash and cash equivalents	480,189	334,172
Net increase (decrease) in cash and cash equivalents	1,139,668	(97,426)
Balance of cash and cash equivalents at beginning of period	2,863,943	7,157,481
Cash and cash equivalents at end of period	4,003,611	7,060,055

(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 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 reported in quarterly consolidated statement of income Note: 2
	Retail Business	Life & Fashion Business	Entertainment Business	SC Development Business			
Sales							
Sales to external clients	22,976,919	4,895,398	–	280,875	28,153,193	–	28,153,193
Internal sales or transfers between segments	4,735	–	–	–	4,735	(4,735)	–
Total	22,981,654	4,895,398	–	280,875	28,157,929	(4,735)	28,153,193
Segment profit (loss)	24,647	(193,069)	–	(112,064)	(280,485)	(771,203)	(1,051,688)

(Notes) 1. Segment profit amount of adjustment -771,203 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 loss 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.

II. First half of FY2018 (from January 1 to June 30, 2018)
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 reported in quarterly consolidated statement of income Note: 2
	Retail Business	Life & Fashion Business	Entertainment Business	SC Development Business			
Sales							
Sales to external clients	27,214,157	18,222,508	240,394	562,506	46,239,567	–	46,239,567
Internal sales or transfers between segments	–	16,568	2,361	85,921	104,851	(104,851)	–
Total	27,214,157	18,239,077	242,755	648,427	46,344,418	(104,851)	46,239,567
Segment profit (loss)	749,880	(3,322)	(360,094)	(361,121)	25,341	(873,544)	(848,202)

(Notes) 1. Segment profit amount of adjustment of -873,544 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 loss from the quarterly consolidated profit and loss statement.

2. Information about assets in each reporting segment

During the first half of the consolidated fiscal year under review, assets in each reporting segment changed significantly compared to the assets as of the end of the previous consolidated financial year. The outline of the change is as described below.

Assets in the Life & Fashion Business segment increased 19,931,988 thousand yen, partly because Shaddy Co., Ltd. became a consolidated subsidiary in the first half of the consolidated fiscal year under review.

3. 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 Retail Business, an impairment loss of 1,140,384 thousand yen is posted concerning stores with decreased profitability and stores to be closed within one year.

In the Entertainment Business, an impairment loss of 110,058 thousand yen is posted as a result of store renovations and other changes.

In the SC Development Business, an impairment loss of 745,170 thousand yen is posted as a result of store renovations and other changes.

(Important gain on bargain purchase)

During the first half of the consolidated fiscal year under review, Shaddy Co., Ltd. and three other companies were included in the scope of consolidation as a result of stock acquisition. As a result, a gain on bargain purchase of 3,179,569 thousand yen was generated in the Life & Fashion Business. This is a provisionally calculated value because the allocation of the acquisition cost has yet to be completed.

4. Matters concerning changes in reporting segments, etc.

The Company has decided to change the classification of reporting segments from the first quarter to reflect the third Medium-Term Management Plan announced on February 14, 2018. Details are as follows:

• Retail Business	Supply of mainly Japan made high-quality products, among other items, through varieties of sales channels and networks including BtoC, BtoB, and real retail stores as well as online, for domestic and overseas customers, on a global basis.
• Life & Fashion Business	Development of the Group’s original products related to life and fashion including shoes for women and the comprehensive marketing thereof through physical stores, e-commerce and omni-channel retailing.
• Entertainment Business	Offering of experience-oriented services including an opportunity to enjoy foods in response to demand among foreigners visiting Japan and people living in Japan.
• SC Development Business	Operation of commercial complexes.

The segment information for the six-month period from January to June 2017 has been prepared after reclassifying the reporting segment applied for the first half (same period) under review.