Summary of Financial Statements for Q1 term Ending December 2019 (Japanese Standards) (consolidated)

May 15, 2019

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) Department Director of the Executive Management Division		(Name) Yosuke Abe TEL: +81-3-6852-8883

Planned Submission Date for the Quarterly Report:	May 15, 2019
Planned Starting Date for Dividend Payments:	—
Supplementary Documents for Quarterly Results:	NO
Quarterly Results Briefing:	NO

(Rounded down to nearest million yen)

1. Consolidated Results for Q1 Term Ending December 2019 (January 1, 2019 to March 31, 2019)

(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	%
Q1 of FY2019	28,858	73.3	(1,305)	–	(1,232)	–	(1,420)	–
Q1 of FY2018	16,655	12.9	(960)	–	(1,060)	–	(977)	–

(Note) Comprehensive income Q1 of FY2019: (1,463) million yen (–%) Q1 of FY2018: (1,147) million yen (–%)

	Profit per share	Diluted profit per share
	Yen	Yen
Q1 of FY2019	(22.03)	–
Q1 of FY2018	(15.17)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Q1 of FY2019	79,379	42,616	52.4
FY2018	84,630	44,043	50.8

(For reference) Shareholders' equity Q1 of FY2019: 41,588million yen FY2018: 43,006 million yen

2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2018	–	–	–	0.00	0.00
FY2019	–				
FY2019 (forecast)		–	–	0.00	0.00

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

3. Results forecast for FY2019 (from January 1, 2019 to December 31, 2019)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit	
	Million yen	%	Million yen	%	Million yen	%
Full year	150,000	27.1	2,000	–	2,000	–

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

(Note) The Company does not provide results forecasts for the first half of FY2019.

Notes

(1) Important changes in subsidiaries during the first quarter under review: No

(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):	Q1 of FY2019	66,388,103
		FY2018	66,388,103
(ii)	Number of shares of treasury stock at the end of period:	Q1 of FY2019	1,918,200
		FY2018	1,918,200
(iii)	Average number of issued shares during period (from the beginning of fiscal year)	Q1 of FY2019	64,469,903
		Q1 of FY2018	64,469,989

This summary of quarterly consolidated financial statements falls outside the scope of the quarterly review 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.

For assumptions regarding the results forecasts and notes to the forecasts, please refer to the Analysis of operating results on the relevant page of the Attachment, the English edition of which will be posted on a later date.

○ Contents of attached document

1. Qualitative Information on Consolidated Results for the First Quarter of FY2019

(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 quarter under review, the Japanese economy remained on a mild recovery trend due to the uptick in consumer spending and increase in capital expenditure. However, there are concerns about the impact on exports or production caused by the US trade policy, the slowdown of the Chinese economy and fluctuations in foreign currency rates. The economic outlook is increasingly uncertain.

Based on the third medium-term management plan developed in 2018, the Group strengthened its efforts to expand its business and also focused on structural reform in order to respond with sensitivity not only to the increase in the consumption of goods, but also to the increasing inbound/consumption of experiences.

In these circumstances, the Company entered into a strategic partnership agreement with Fliggy, an online tour reservation platform run by the Alibaba Group of China, in March, and opened Japan's first reservation-based, duty-free store on Fliggy Buy within the platform. Utilizing a network of the Company's actual stores, Fliggy Buy will provide inbound tourists with a more convenient, efficient shopping experience, and it is also expected to have the effect of directing tourists to our stores through the strong recognition of the Alibaba Group in China. Moreover, a subsidiary of the Company acquired shares of Kakogawa Yamatoyashiki Co. Ltd. and made it a subsidiary in January. This enables the provision of products and services of the Group and securing of sales channels in local cities addressing the expansion of a global lifestyle. Thus, we will seek mutual synergy and business expansion.

Moreover, net sales of Shaddy Co., Ltd., which became a subsidiary in April last year, contributed to the consolidated financial results for the first quarter under review. In addition, net sales of trade/global ecommerce toward the Chinese market, which we have decided to disclose as a new business segment, steadily increased.

As a result, consolidated net sales surged coming to 28,858 million yen in the first quarter under review (up 73.3% from the same period in the previous fiscal year). The consolidated operating loss for the period amounted to 1,305 million yen (compared to the consolidated operating loss of 960 million yen posted in the same period of the previous year) due mainly to the deterioration of the cost rate for some businesses. The consolidated ordinary loss for the period was 1,232 million yen (compared to a consolidated ordinary loss of 1,060 million yen posted in the same period of the previous year). Loss attributable to owners of parent for the period amounted to 1,420 million yen (compared to a loss attributable to owners of parent of 977 million yen in the same period of the previous year).

Regarding the breakdown of the annual net sales of Shaddy Co., Ltd., because net sales for the four months of the summer gift-giving season (June to July) and year-end gift-giving season (November to December) occupy a significant portion accounting for approximately 50% of annual net sales, there is a seasonal fluctuation in the financial results for each quarter.

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 under review. Accordingly, the year-on-year comparisons and analyses in the respective segments are made based on the revised classification.

1) Inbound Business

The estimated number of foreign tourists visiting Japan during the first quarter under review reached 8.05 million (up 5.7% year on year) and total consumption came to 1,118.2 billion yen (up 0.5% year on year). (Source: statistics of the Japan National Tourism Organization (JNTO) and the Japan Tourism Agency.)

In this business segment, following a change in the purchasing habits of tourists visiting Japan, we continued the consolidation of unprofitable stores that started the previous year, resulting in a decline in net sales. However, we opened Japan's first reservation-based, duty-free store on Fliggy Buy within Fliggy, an online tour reservation platform run by the Alibaba Group of China, and established a new sales channel for inbound tourists. As for profit and loss, comprehensive measures such as consolidation of unprofitable stores, enhancements on the merchandise policy and store services were successful, resulting in a decrease in the ratio of operating expenses to sales.

As a result, net sales for the segment amounted to 10,596 million yen (down 7.4% from same period of the previous year). The operating profit came to 210 million yen (compared to operating loss of 33 million yen posted in the same period of the previous year).

2) Global Business

Regarding the trade/global e-commerce business toward the Chinese market in this business segment, net sales grew substantially due to the effects of collaboration with major e-commerce sites such as T-mall Global, Suning.com and Kaola.com, which expanded last year. Moreover, net sales of the trade business via a local Chinese subsidiary established in the prior year sharply increased. At the same time, revenue improved due to new product development of trade.

As a result, net sales for the segment amounted to 3,913 million yen (up 280.1% from same period of the previous year). The operating profit came to 0 million yen (compared to operating loss of 58 million yen posted in the same period of the previous year).

3) Life & Fashion Business

In this business segment, Mode Et Jacomo Co., Ltd. opened a shop for a new store model that deals with products from shoes to fashion-related sundry goods with the concept of "Relax and Healthy." In addition, we posted an operating loss due to rising distribution costs and factors for seasonal fluctuations, despite the fact that net sales of Shaddy Co., Ltd., made into a subsidiary in April last year, contributed to an increase in net sales and we focused on the enhancement of gross profit and new product planning.

As a result, net sales for the segment amounted to 13,965 million yen (up 261.1% from same period of the previous year). The operating loss came to 762 million yen (compared to operating loss of 252 million yen posted in the same period of the previous year).

4) Entertainment Business

In this business segment, the Group operates commercial complexes, and an experience-based consumption business such as restaurants, and amusement facilities inside and outside the commercial complexes. The net sales of Kurogi Shanghai and New City Club of Tokyo opened last year contributed the increase in net sales, which could not offset an increase in operating costs including the commercial complexes.

As a result, net sales for the segment amounted to 383 million yen (up 23.9% from same period of the previous year). The operating loss came to 356 million yen (compared to operating loss of 235 million yen posted in the same period of the previous year).

(2) Explanation of financial conditions

1) Assets

Total assets at the end of the first quarter of the consolidated fiscal year under review stood at 79,379 million yen (compared to 84,630 million yen at the end of the previous fiscal year).

The decrease in total assets was largely attributable to a decrease of 6,932 million yen in notes and accounts receivable - trade, despite increases of 2,150 million yen in other in investments and other assets.

2) Liabilities

Total liabilities amounted to 36,762 million yen (compared to 40,587 million yen at the end of the previous fiscal year).

The decrease in total liabilities was mainly attributable to decreases of 4,520 million yen in notes and accounts payable - trade.

3) Net assets

Net assets stood at 42,616 million yen (compared to 44,043 million yen at the end of the previous fiscal year).

The decline in net assets was due primarily to a decrease of 1,420 million yen in retained earnings.

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

There are no amendments to the forecast of consolidated financial results (announced on February 28, 2019). The forecast is based on currently available information and actual operating results may differ from these projections due to various factors in the future.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	FY2018 (As of December 31, 2018)	First quarter of FY2019 (As of March 31, 2019)
Assets		
Current assets		
Cash and deposits	10,462	9,950
Notes and accounts receivable - trade	19,740	12,808
Inventories	17,758	18,113
Other	5,694	5,539
Allowance for doubtful accounts	(211)	(181)
Total current assets	53,444	46,231
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,387	7,290
Land	5,910	5,910
Other, net	2,675	2,567
Total property, plant and equipment	15,973	15,767
Intangible assets	4,083	4,068
Investments and other assets		
Other	12,287	14,437
Allowance for doubtful accounts	(1,211)	(1,175)
Total investments and other assets	11,075	13,261
Total non-current assets	31,132	33,098
Deferred assets	53	49
Total assets	84,630	79,379

(Million yen)

	FY2018 (As of December 31, 2018)	First quarter of FY2019 (As of March 31, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	14,271	9,751
Electronically recorded obligations - operating	3,525	2,834
Short-term borrowings	5,308	2,825
Current portion of long-term borrowings	271	3,236
Income taxes payable	384	215
Provisions	318	436
Other	7,524	9,076
Total current liabilities	31,604	28,375
Non-current liabilities		
Long-term borrowings	530	352
Provisions	183	57
Retirement benefit liability	2,171	2,237
Asset retirement obligations	543	545
Other	5,553	5,194
Total non-current liabilities	8,983	8,387
Total liabilities	40,587	36,762
Net assets		
Shareholders' equity		
Share capital	22,633	22,633
Capital surplus	18,920	18,920
Retained earnings	3,389	1,969
Treasury shares	(2,419)	(2,419)
Total shareholders' equity	42,523	41,103
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(73)	(71)
Foreign currency translation adjustment	517	516
Remeasurements of defined benefit plans	39	40
Total accumulated other comprehensive income	483	485
Share acquisition rights	13	13
Non-controlling interests	1,023	1,014
Total net assets	44,043	42,616
Total liabilities and net assets	84,630	79,379

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income

First quarter

(Million yen)

	First quarter of FY2018 (From January 1 to March 31, 2018)	First quarter of FY2019 (From January 1 to March 31, 2019)
Net sales	16,655	28,858
Cost of sales	10,600	20,558
Gross profit	6,054	8,300
Selling, general and administrative expenses	7,014	9,605
Operating loss	(960)	(1,305)
Non-operating income		
Interest income	44	48
Share of profit of entities accounted for using equity method	34	20
Reversal of allowance for doubtful accounts	–	50
Other	67	33
Total non-operating income	145	152
Non-operating expenses		
Interest expenses	13	33
Foreign exchange losses	165	24
Other	67	20
Total non-operating expenses	246	79
Ordinary loss	(1,060)	(1,232)
Extraordinary income		
Gain on reversal of share acquisition rights	69	–
Reversal of provision for business restructuring	–	150
Total extraordinary income	69	150
Extraordinary losses		
Loss on retirement of non-current assets	10	–
Loss on liquidation of stores	1	13
Impairment loss	–	292
Loss on valuation of investment securities	–	299
Total extraordinary losses	12	606
Loss before income taxes	(1,003)	(1,687)
Income taxes - current	7	(68)
Income taxes - deferred	(32)	(153)
Total income taxes	(25)	(221)
Loss	(977)	(1,466)
Profit (loss) attributable to non-controlling interests	0	(45)
Loss attributable to owners of parent	(977)	(1,420)

Quarterly consolidated statement of comprehensive income
First quarter

(Million yen)

	First quarter of FY2018 (From January 1 to March 31, 2018)	First quarter of FY2019 (From January 1 to March 31, 2019)
Loss	(977)	(1,466)
Other comprehensive income		
Valuation difference on available-for-sale securities	(176)	2
Foreign currency translation adjustment	(10)	(1)
Remeasurements of defined benefit plans, net of tax	17	1
Total other comprehensive income	(170)	2
Comprehensive income	(1,147)	(1,463)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,147)	(1,417)
Comprehensive income attributable to non-controlling interests	(0)	(45)

(3) Notes to the 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 some of its consolidated subsidiaries are calculated by rationally estimating an effective tax rate for profit before income taxes for the fiscal year including the first quarter under review after the application of tax effect accounting and multiplying profit/loss before income taxes for the first quarter under review by the estimated effective tax rate.

(Segment information, etc.)

[Segment information]

I. First quarter of FY2018 (from January 1 to March 31, 2018)

1. Information concerning monetary amount of sales and profit or loss of each reporting segment

(Million yen)

	Reporting segment				Total	Amount of adjustment Note: 1	Amount reported in quarterly consolidated statement of income Note: 2
	Inbound Business	Global Business	Life & Fashion Business	Entertainment Business			
Sales							
Sales to extremal clients	11,449	1,029	3,867	309	16,655	–	16,655
Internal sales or transfers between segments	–	–	7	59	66	(66)	–
Total	11,449	1,029	3,874	368	16,721	(66)	16,655
Segment profit (loss)	(33)	(58)	(252)	(235)	(580)	(379)	(960)

(Notes) 1. The amount of adjustment of segment profit (loss) of -379 million 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 to operating loss in the quarterly consolidated statement of income.

2. Information concerning impairment loss or goodwill, etc. of non-current assets in each reporting segment

No corresponding items.

II. First quarter of FY2019 (from January 1 to March 31, 2019)

1. Information concerning monetary amount of sales and profit or loss of each reporting segment

(Million yen)

	Reporting segment				Total	Amount of adjustment Note: 1	Amount reported in quarterly consolidated statement of income Note: 2
	Inbound Business	Global Business	Life & Fashion Business	Entertainment Business			
Sales							
Sales to extremal clients	10,596	3,913	13,965	383	28,858	–	28,858
Internal sales or transfers between segments	14	–	6	19	40	(40)	–
Total	10,610	3,913	13,971	403	28,899	(40)	28,858
Segment profit (loss)	210	0	(762)	(356)	(908)	(397)	(1,305)

(Notes) 1. The amount of adjustment of segment profit (loss) of -397 million 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 to operating loss in the quarterly consolidated statement of income.

2. Information concerning impairment loss or goodwill, etc. of non-current assets in each reporting segment

(Significant impairment loss on non-current assets)

In the Life & Fashion Business, impairment loss of 292 million yen was posted for non-current assets including goodwill.

(Significant change in the amount of goodwill)

In the Life & Fashion Business, shares of Kakogawa Yamatoyashiki Co. Ltd. and two other companies, which were acquired during the first quarter under review, are included in the scope of consolidation. The increase in the amount of goodwill in line with this event was 459 million yen.

3. Matters concerning changes in reporting segments, etc.

The Retail Business included the duty-free store business for tourists visiting Japan and the trade/global e-commerce business for the overseas market, but because of the increased importance of the amount of the trade/global e-commerce business, the Inbound Business and the Global Business are separated and described as segments to be reported starting from the first quarter under review.

In addition, in the existing Entertainment Business and SC Development Business, we are enhancing the service in order to respond to the needs of customers for experiential consumption. In line with the revamping of the organizational structure and the performance management method to the integrated operation of the restaurant business and the commercial complex business of each business, the two Businesses were combined as the new Entertainment Business.

The segment information for the previous first quarter was created and released in accordance with the segments after revision.