Summary of Financial Statements for the First Half of Fiscal Year Ending December 31, 2019 (Japanese Standards) (Consolidated)

September 2, 2019

Listed Company:	Laox Co., Ltd.	Stock Exchange: Tokyo Stock Exchange	
Code:	8202	URL: http://www.laox.co.jp	
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Planned Submission Date for the Quarterly Report:	September 2, 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 the First Half of FY2019 (January 1, 2019 to June 30, 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	%
H1 of FY2019	60,683		(2,387)	–	(2,593)	–	(3,129)	–
H1 of FY2018	46,239	64.2	(870)	–	(855)	–	346	–

(Note) Comprehensive income H1 of FY2019: (3,247) million yen (–%) H1 of FY2018: 436 million yen (–%)

	Profit per share	Diluted profit per share
	Yen	Yen
H1 of FY2019	(48.54)	–
H1 of FY2018	5.38	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
H1 of FY2019	79,246	40,727	50.2
FY2018	84,538	43,979	50.8

(For reference) Shareholders' equity H1 of FY2019: 39,793 million yen FY2018: 42,949 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	140,000	18.6	200	–	200	–

(Note) Revision to the forecast publicized most recently: Yes

Notes

(1) Important changes in subsidiaries during the first half under review: No
(changes in specified subsidiaries resulting in changes in scope of consolidation)
New: – company Excluded: – company

(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 FY2019	66,388,103
	FY2018	66,388,103
(ii) Number of shares of treasury stock at the end of period:	Q2 of FY2019	1,918,200
	FY2018	1,918,200
(iii) Average number of issued shares during period (from the beginning of fiscal year)	H1 of FY2019	64,469,903
	H1 of FY2018	64,469,986

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.

○ Contents of attached document

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

(1) Explanation of operating results

During the first half of the consolidated fiscal year under review, the Japanese economy remained on a mild recovery trend due to the development of a positive cycle from income to consumer spending. Meanwhile, a fall in business confidence and a slowdown in export and production reflect growing uncertainty about the future, due in part to the US-China trade friction.
In this environment, the Group continues its efforts to deliver 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 consumers in Japan and overseas according to the third medium-term management plan formulated in 2018. On June 19, 2019, the Company passed a resolution to issue new shares through third-party allotment and implement the 6th issuance of share acquisition rights to procure up to approximately 10 billion yen for the primary purpose of accelerating trade/global e-commerce, particularly for China.
The business results for the first half of the consolidated fiscal year under review are as follows: net sales stood at 60,683 million yen (up 31.2% year on year); however, profit decreased due to spending for business expansion in the Life & Fashion Business and the Entertainment Business, which exceeded revenue. Operating loss was 2,387 million yen (compared to operating loss of 870 million yen in the same period of the previous fiscal year), ordinary loss was 2,593 million yen (compared to ordinary loss of 855 million yen in the same period of the previous fiscal year), and loss attributable to owners of parent was 3,129 million yen (compared to profit attributable to owners of parent of 346 million yen in the same period of the previous year). In particular, Shaddy Co., Ltd., a major subsidiary of the Company, is implementing structural reforms with a focus on streamlining distribution centers; however, Shaddy has yet to be able to absorb the impact of additional temporary expenses and enjoy the impact of cost reductions through the streamlining due to delays in the reforms. The entire Group will continue to deliver Japan Premium and, at the same time, it will steadily increase its business profitability.
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 results of each business segment are described below.

1) Inbound Business
The number of foreign tourists visiting Japan during the first half of the fiscal year under review estimated by the Japan National Tourism Organization (JNTO) came to 16.63 million (up 4.6% year on year). Their total consumption was a record high, reaching 2,432.6 billion yen.
The number of customers passing through the cash registers was 1,227,614 (down 2.2% year on year as a whole and up 12.5% at existing stores). This was a result of continued streamlining of unprofitable stores from last year in response to a change in the purchasing habits of tourists visiting Japan. However, the number increased year on year in March and most recently in June, suggesting that the positive effect of efforts such as raising the ratio of customers making purchases to the number of visitors to the stores while changing the in-store product mix is beginning to appear.
As a result, net sales for the segment amounted to 22,516 million yen (down 8.7% from same period of the previous year). The operating profit came to 927 million yen (up 19.7% from same period of the previous year).

2) Global Business
Sales in the trade/global e-commerce targeting China in this business segment increased significantly thanks to the strong performance of flagship stores operating on T-mall Global, Suning.com, Kaola.com, and other large e-commerce websites. In addition, net sales in the trade business also grew with the support of the high consumption of Japanese products such as cosmetics, small home appliances, haircare products, and health supplements in China.
As a result, net sales for the segment amounted to 7,905 million yen (up 210.8% from same period of the previous year). The operating profit came to 17 million yen (compared to operating loss of 24 million yen posted in the same period of the previous year).

3) Life & Fashion Business
The shoe business in this segment (ladies' shoe retailers, Mode Et Jacomo Co., Ltd. and Ogitsu Co., Ltd.) offered casual shoes in line with the recent boom of sneakers; however, it failed to capture the trend completely and suffered a difficult start in sales of products at list prices.
Shaddy Co., Ltd., on the other hand, became the first Japanese company to open a store in the permanent exhibition hall at Ludi Global Product Trading Port, China in April, and in May it opened a flagship store on Kaola.com, a large e-commerce website in China. Also in May, Shaddy launched the sale of pure gold Heisei and Reiwa era Koban that uses pure gold from Chow Tai Fook, one of the largest jewelry brands in Asia, and in June, it began airing a new TV ad for the summer gift season as part of its new marketing measures for business expansion. At present, expenses are exceeding profit. Moreover, temporary expenses for structural reforms focusing on the streamlining of distribution centers were incurred, and the increase in profit resulting from the reforms has been delayed.
As a result, net sales for the segment amounted to 29,088 million yen (up 59.6% from same period of the previous year). The operating loss came to 1,628 million yen (compared to operating loss of 25 million yen posted in the same period of the previous year).

4) Entertainment Business
This business segment primarily operates commercial complexes and restaurants and amusement facilities both in and outside facilities. The latest topics include the invitation and opening of Foodway Amazing Fresh Food Market Chiba Port Store at Chiba Port Town in June 2019. Also in June, the Company pre-opened Riverwalk Basement Kids' Kingdom Giant Stadium, one of the largest indoor theme parks, at Riverwalk Kitakyushu. New City Club of Tokyo, a members-only club that opened in the fall of last year, has been popular and is used by both Japanese and foreign VIP customers.
While these contributed to an increase in net sales, they did not offset an increase in operation costs of facilities such as commercial complexes.
As a result, net sales for the segment amounted to 1,172 million yen (up 46.0 % from same period of the previous year). The operating loss came to 837 million yen (compared to operating loss of 721 million yen posted in the same period of the previous year).

(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 79,246 million yen (compared to 84,538 million yen at the end of the previous consolidated fiscal year). The decrease in total assets was chiefly attributable to a decrease of 5,716 million yen in notes and accounts receivable – trade.

(Liabilities)

Total liabilities stood at 38,519 million yen (compared to 40,559 million yen at the end of the previous consolidated fiscal year). The decrease in liabilities resulted mainly from a fall of 3,272 million yen in notes and accounts payable – trade and 1,365 million yen in electronically recorded obligations – operating, which more than offset an increase of 2,440 million yen in other current liabilities.

(Net assets)

Net assets stood at 40,727 million yen (compared to 43,979 million yen at the end of the previous consolidated fiscal year). The decline in net assets was due primarily to a decrease of 3,180 million yen in retained earnings.

2) Cash flow

Cash and cash equivalents at the end of the first half of the consolidated fiscal year under review have decreased by 735 million yen from the end of the previous fiscal year to 4,311 million yen.

(Cash flow from operating activities)

Net cash used by operating activities during the first half of the consolidated fiscal year totaled 571 million yen (compared to 3,525 million yen used in the same period of the previous fiscal year).

This was chiefly a result of 3,790 million yen in loss before income taxes and a fall of 5,236 million yen in a decrease in trade payables, which exceeded 1,253 million yen in depreciation, 758 million yen in impairment loss, and a decline of 6,185 million yen in trade receivables.

(Cash flow from investing activities)

Net cash used in investing activities during the first half of the consolidated fiscal year totaled 739 million yen (compared to 4,575 million yen provided in the same period of the previous fiscal year).

This was caused in large part by 900 million yen in long-term loan advances, which more than offset 146 million yen in proceeds from the purchase of shares of subsidiaries resulting in a change in the scope of consolidation.

(Cash flow from financing activities)

Cash provided by financing activities during the first half of the consolidated fiscal year was 617 million yen (compared to net cash used of 1,482 million yen in the same period of the previous fiscal year).

This was principally attributable to an increase of 1,317 million yen in short-term loans payable, which exceeded 331 million yen in repayments of long-term borrowings and 415 million yen in repayments of lease obligations.

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

See the release "Notice of Revision of Business Results Forecasts" dated today (September 2, 2019) for matters concerning the full-year consolidated business results forecasts.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	FY2018 (As of December 31, 2018)	Second quarter of FY2019 (As of June 30, 2019)
Assets		
Current assets		
Cash and deposits	10,462	9,517
Notes and accounts receivable - trade	19,740	14,024
Inventories	17,758	18,042
Other	5,694	5,494
Allowance for doubtful accounts	(211)	(211)
Total current assets	53,444	46,867
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,196	9,336
Land	4,010	3,910
Other, net	2,675	2,598
Total non-current assets	15,881	15,845
Intangible assets	4,083	3,678
Investments and other assets		
Other	12,287	14,286
Allowance for doubtful accounts	(1,211)	(1,479)
Total investments and other assets	11,075	12,806
Total non-current assets	31,040	32,331
Deferred assets	53	47
Total assets	84,538	79,246

(Million yen)

	FY2018 (As of December 31, 2018)	Second quarter of FY2019 (As of June 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	14,271	10,999
Electronically recorded obligations - operating	3,525	2,160
Short-term borrowings	5,308	3,829
Current portion of long-term borrowings	271	3,229
Income taxes payable	384	266
Provisions	318	429
Other	7,524	9,964
Total current liabilities	31,604	30,879
Non-current liabilities		
Long-term borrowings	530	242
Provisions	183	60
Retirement benefit liability	2,171	2,104
Asset retirement obligations	543	498
Other	5,525	4,733
Total non-current liabilities	8,955	7,639
Total liabilities	40,559	38,519
Net assets		
Shareholder’s equity		
Share capital	22,633	22,633
Capital surplus	18,920	18,920
Retained earnings	3,332	152
Treasury shares	(2,419)	(2,419)
Total shareholder’s equity	42,466	39,286
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(73)	(20)
Foreign currency translation adjustment	517	484
Remeasurements of defined benefit plans	39	42
Total accumulated other comprehensive income	483	506
Share acquisition rights	13	13
Non-controlling interests	1,017	921
Total net assets	43,979	40,727
Total liabilities and net assets	84,538	79,246

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

Quarterly consolidated profit and loss statement

First half

(Million yen)

	First half of FY2018 (From January 1 to June 30, 2018)	First half of FY2019 (From January 1 to June 30, 2019)
Net sales	46,239	60,683
Cost of sales	30,089	42,590
Gross profit	16,150	18,092
Selling, general and administrative expenses	17,021	20,480
Operating loss	(870)	(2,387)
Non-operating income		
Interest income	70	94
Share of profit of entities accounted for using equity method	111	–
Other	107	128
Total non-operating income	289	222
Non-operating expenses		
Interest expenses	34	72
Foreign exchange losses	103	126
Provision of allowance for doubtful accounts	15	105
Other	119	123
Total non-operating expenses	274	428
Ordinary loss	(855)	(2,593)
Extraordinary income		
Reversal of provision for business restructuring	–	112
Gain on bargain purchase	3,106	–
Other	103	–
Total extraordinary income	3,210	112
Extraordinary losses		
Impairment loss	1,995	758
Loss on valuation of investment securities	–	299
Other	64	250
Total extraordinary loss	2,059	1,309
Profit (loss) before income taxes	295	(3,790)
Income taxes - current	40	(8)
Income taxes - deferred	(75)	(507)
Total income taxes	(34)	(516)
Profit (loss)	330	(3,274)
Profit (loss) attributable to non-controlling interests	(16)	(144)
Profit (loss) attributable to owners of parent	346	(3,129)

Quarterly consolidated comprehensive income statement
First half

(Million yen)

	First half of FY2018 (From January 1 to June 30, 2018)	First half of FY2019 (From January 1 to June 30, 2019)
Profit (loss)	330	(3,274)
Other comprehensive income		
Valuation difference on available-for-sale securities	54	56
Foreign currency translation adjustment	(7)	(33)
Remeasurements of defined benefit plans, net of tax	60	3
Total other comprehensive income	106	26
Comprehensive income	436	(3,247)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	457	(3,105)
Comprehensive income attributable to non-controlling interests	(20)	(141)

(3) Consolidated statements of cash flow

(Million yen)

	First half of FY2018 (From January 1 to June 30, 2018)	First half of FY2019 (From January 1 to June 30, 2019)
Cash flows from operating activities		
Profit (loss) before income taxes	295	(3,790)
Depreciation	959	1,253
Impairment loss	1,995	758
Loss (gain) on valuation of investment securities	–	299
Share of loss (profit) of entities accounted for using equity method	(111)	15
Gain on bargain purchase	(3,106)	–
Increase (decrease) in allowance for doubtful accounts	51	256
Increase (decrease) in provision for bonuses	124	(67)
Increase (decrease) in retirement benefit liability	(84)	(207)
Increase (decrease) in provision for business restructuring	(0)	(112)
Interest and dividend income	(80)	(97)
Interest expenses	39	72
Decrease (increase) in trade receivables	(4,057)	6,185
Decrease (increase) in inventories	(1,110)	15
Increase (decrease) in trade payables	3,239	(5,236)
Decrease (increase) in suspense payments	(659)	(43)
Increase (decrease) in deposits received	(1,153)	364
Other	(2)	(128)
Subtotal	(3,661)	(460)
Interest and dividends received	78	9
Interest paid	(39)	(74)
Income taxes (paid) refund	97	(45)
Net cash provided by (used in) operating activities	(3,525)	(571)

(Million yen)

	First half of FY2018 (From January 1 to June 30, 2018)	First half of FY2019 (From January 1 to June 30, 2019)
Cash flows from investing activities		
Purchase of property, plant and equipment	(599)	(234)
Purchase of intangible assets	(82)	(112)
Purchase of investment securities	(5,004)	(0)
Proceeds from sales of investment securities	230	63
Purchase of shares of subsidiaries and associates	(200)	(79)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	927	146
Short-term loan advances	(41)	–
Collection of short-term loans receivable	503	–
Long-term loan advances	(1,050)	(900)
Collection of long-term loans receivable	0	30
Payments of leasehold and guarantee deposits	(261)	(251)
Proceeds from refund of leasehold and guarantee deposits	363	391
Payments into time deposits	(2,738)	(1,047)
Proceeds from withdrawal of time deposits	12,673	1,238
Other	(144)	17
Net cash provided by (used in) investing activities	4,575	(739)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,270	1,317
Repayments of long-term borrowings	(365)	(331)
Purchase of treasury shares	(0)	–
Repayments of lease obligations	(180)	(415)
Redemption of convertible bonds	(2,207)	–
Proceeds from share issuance to non-controlling shareholders	–	46
Net cash provided by (used in) financing activities	(1,482)	617
Effect of exchange rate change on cash and cash equivalents	334	(42)
Net increase (decrease) in cash and cash equivalents	(97)	(735)
Cash and cash equivalents at beginning of period	7,157	4,945
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	–	101
Cash and cash equivalents at end of period	7,060	4,311

(4) 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 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.)

[Segment information]

I. 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

(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 external clients	24,670	2,543	18,222	802	46,239	–	46,239
Internal sales or transfers between segments	–	20	16	88	125	(125)	–
Total	24,670	2,563	18,239	891	46,365	(125)	46,239
Segment profit (loss)	774	(24)	(25)	(721)	2	(873)	(870)

(Notes) 1. The amount of adjustment of segment profit (loss) of -873 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 with operating loss from the quarterly consolidated statement of income.
3. The amounts of segment profit (loss) are based on the amounts after applying a significant revision in the initial allocation amounts of the acquisition cost resulting from provisional accounting treatment related to business combination.

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 19,883 million 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)
The Inbound Business segment posted an impairment loss of 1,140 million yen for stores with declining profitability and stores scheduled for closure within one year. The Entertainment Business segment posted an impairment loss of 855 million yen due to store renovation, etc.
(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 3,106 million yen was generated in the Life & Fashion Business.

II. First half of FY2019 (from January 1 to June 30, 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 external clients	22,516	7,905	29,088	1,172	60,683	–	60,683
Internal sales or transfers between segments	50	40	37	33	160	(160)	–
Total	22,566	7,945	29,126	1,205	60,843	(160)	60,683
Segment profit (loss)	927	17	(1,628)	(837)	(1,519)	(867)	(2,387)

(Notes) 1. The amount of adjustment of segment profit (loss) of -867 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 with operating loss from the quarterly consolidated statement of income.

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

(Important impairment loss relating to non-current assets)

The Inbound Business segment posted an impairment loss of store non-current assets amounting to 75 million yen, from which investment was not likely to be recovered.

The Life & Fashion Business segment posted an impairment loss of 531 million yen in non-current assets including goodwill.

The Entertainment Business segment posted an impairment loss in goodwill of 152 million yen.

(Significant changes in the amount of goodwill)

In the Life & Fashion Business segment, Kakogawa Yamatoyashiki Co. Ltd. and two other companies have been included in the scope of consolidation due to the purchase of the shares of these companies in the first quarter of the fiscal year under review. The increase in goodwill as a result of this consolidation is 419 million yen.

In the Entertainment Business segment, SAP Corporation, which had been a non-consolidated subsidiary, has been included in the scope of consolidation since the second quarter of the fiscal year under review due to an increase in its significance. The increase in goodwill as a result of this consolidation is 152 million yen.

3. Matters concerning changes in reporting segments, etc.

The Retail Business included the duty-free shop business targeting foreign visitors to Japan and trade/global e-commerce for overseas markets in the past. Since the first quarter of the fiscal year under review, however, it has been separated between the Inbound Business and the Global Business and presented as reportable segments due to an increase in the quantitative significance of trade/global e-commerce.

In addition, the conventional Entertainment Business and SC Development Business have been combined to form a new Entertainment Business segment as a result of reforms in the organizational structure and business management method in order to operate the dining business and commercial complexes in a unified manner while improving services to meet customers' demand for the consumption of experiences.

The segment information for the first half of the previous fiscal year presented in this document has been prepared based on the segment division after the changes.