

## **Q&A**

### **Q1**

What factors contributed to the improvement in gross profit margins in each of the Jewelry and Apparel businesses? In particular, to what degree has the drop in the cost of goods sold as a result of such factors as fluctuations in platinum prices impacted the Jewelry Business? What are your thoughts on further improvements in the cost of goods sold in the 2H?

### **A1**

The gross profit margin in the Jewelry Business improved 0.7 of a percentage point in 1H. Looking at trends in the price of platinum, the average market price per gram fell ¥732 from ¥4,359 in the 1H of fiscal 2015 to ¥3,627 in the 1H of fiscal 2016. As a result, the gross profit margin of the Group's jewelry products, and especially 4°C BRIDAL items which are manufactured almost entirely (more than 99%) from platinum, improved 2.8 percentage points compared with the corresponding period of the previous fiscal year. Platinum prices in the 2H are expected to remain essentially unchanged from the ¥3,627 average recorded for the 1H.

In the Apparel Business, the AS'TY group drastically changed its approach toward production management shifting away from performance to focus on forecasts. This significantly mitigated production management loss and contributed to a substantial improvement in the gross profit margin. In its everyday fashion brand PALETTE, age Co., Ltd. worked diligently to ensure appropriate levels of store inventories. This had an especially strong impact on women's items, which saw a major improvement in the gross profit margin. Operating conditions are expected to remain harsh throughout the 2H. Under these circumstances, the Group will continue to implement existing measures.

### **Q2**

In its e-commerce Business, the Group launched a designated bridal ring site in August. What are your thoughts on current conditions and progress to date?

### **A2**

At this stage, we believe that the number of customers, who purchase bridal rings without physically seeing the item, remains limited. For this reason, we are expecting

little or no impact on results for the fiscal year under review. While we have not at this stage made any special effort to advertise the site, we have already received close to 100 customer requests to try on and view a variety of rings since the site's launch in August. Some of these customers are also calling into actual stores. The volume of rings provided on this trial basis has increased since September. We will endeavor to secure an upswing in sales from fiscal 2017 as the market's awareness toward the site increases.

**Q3**

What are your thoughts on the current status of store opening activities in China and what are your plans for the future?

**A3**

Entering the fiscal year under review, we have witnessed a downturn in overall inbound demand sales in Japan. As far as the retail market in China is concerned including apparel items, conditions in 2016 remain difficult. From our perspective, the YONDOSHI HOLDINGS Group's product lineup is mainly comprised of items that target the middle-income demographic as opposed to high-priced merchandise. As a result, net sales for the cumulative January to September period recovered to 99.8% of the level recorded in the corresponding period of the previous fiscal year. Looking at September on a stand-alone basis, we are witnessing positive trends. In the future, we plan to open new stores in Shanghai and Xian and to increase sales by expanding our store network.

**Q4**

Turning to "9. Jewelry Business: Sales by Brand and Product" in the presentation reference materials for the first half of fiscal 2016, 4°C BRIDAL and 4°C Jewelry sales declined 3.5% and 0.7%, respectively, compared with the corresponding period of the previous fiscal year. While you pushing forward various measures in the 4°C BRIDAL brand including efforts to upgrade and expand the number of pure platinum items, what steps are you taking for 4°C Jewelry?

**A4**

Demand for 4°C Jewelry gift items is firm clearing levels recorded in the corresponding period of the previous fiscal year. In contrast, purchases for own use have declined as a result of current economic conditions. Looking ahead, energies will be channeled

toward upgrading and expanding reasonably as well as mid-priced items. In the lineup of 4°C Pregence brand products, which comprise relatively high-priced items, we are currently developing gold and platinum products in the ¥50,000 to ¥60,000 price range as opposed to the existing average range of between ¥80,000 and ¥90,000. In addition, we will focus on rolling out limited edition Christmas products. Despite the prevailing assumption of a downturn in average spending per customer, we will draw on our ability to capture large numbers of customers and promote various measures including the introduction of new eternal silver products to increase sales going forward.

**Q5**

What impact will the decline in overseas luxury brand prices have on the Company?

**A5**

Basically, we do not believe the Company's activities will be affected to any great degree. With our bridal products generally priced around the ¥200,000 to ¥290,000 range, we do not, for example, see much competition with Takashimaya, whose bridal-related merchandise retails between ¥500,000 and ¥2,000,000. Tiffany, on the other hand, is for the most part marketed in close proximity to the 4°C brand nationwide. For this reason, the potential does exist for our sales to be affected. Having said this, however, there is a tendency for sales to increase at stores that are adjacent to Tiffany outlets. Customers who call into Tiffany often also visit our stores. Impressed by our broad product lineup, we have seen a substantial number of customers choose our products. Looking at current conditions, we are not seeing any change in this trend. As far as overseas luxury brands are concerned, we will not only monitor reductions in prices, but also follow steps aimed at promoting products set at prices attuned to the Japanese market.

**Q6**

The YONDOSHI HOLDINGS Group is working to resume the opening of MAISON JEWELL, a suburban type shopping center brand. What issues do you currently face? Will you focus on expanding your network mainly of bridal jewelry stores, or will you lift the pace of your store opening activities after strengthening your lineup outside the bridal product range.

**A6**

Marketing of the MAISON JEWELL brand is currently limited solely to the AEON

MALL sales channel. Demand for bridal products is extremely high, with sales of bridal products at existing stores in the 1H of fiscal 2016 climbing 43% compared with the corresponding period of the previous fiscal year. At the same time, the presence of our fashion jewelry continues to rise. Once again, fiscal 2016 1H existing store sales increased 20% year on year. In the future, we will look to handle not only bridal jewelry items, but also fashion jewelry as well. There are clear signs that the MAISON JEWELL brand is attracting the interest of customers who prefer to purchase bridal items away from the hustle and bustle of the city and in a more relaxed suburban setting. To date, we have implemented a freeze on the opening of new stores and concentrated on revising the makeup of our merchandise. Backed by an upswing in the scale of sales per store, we will resume efforts aimed at expanding our network. For example, plans are in place to open a new store in AEON MALL Hiroshima Fuchu in the 2H of the fiscal year under review. In addition to building stores with annual sales of ¥100 million, the greatest challenge that we face is further expanding the scope and scale of each store's sales. Our current breakeven point is in excess of ¥60 million. On this basis, existing stores are capable of clearing this threshold. With the majority of AEON MALL store contracted on a fixed-term lease basis, we will take up negotiations for the opening of stores in line with the timing of lease contract renewal from next spring while looking to enter each current location.