

Translation

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Summary of Consolidated Financial Results for the Six Months Ended August 31, 2018 (Based on Japanese GAAP)

October 12, 2018

Company name: KOHNAN SHOJI CO., LTD.
 Stock exchange listing: Tokyo
 Stock code: 7516 URL <http://www.hc-kohnan.com/>
 Representative: PRESIDENT NAOTARO HIKIDA
 Inquiries: MANAGING DIRECTOR SHUNICHIRO MIYANAGA TEL 072(274)1621
 Scheduled date to file Quarterly Securities Report: October 15, 2018
 Scheduled date to commence dividend payments: November 9, 2018
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for institutional investors)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended August 31, 2018 (from March 1, 2018 to August 31, 2018)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended August 31, 2018	168,770	4.7	10,787	4.7	9,758	(0.1)	5,145	(14.6)
Six months ended August 31, 2017	161,225	-	10,305	-	9,770	-	6,024	-

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended August 31, 2018	149.21		149.17	
Six months ended August 31, 2017	174.72		174.67	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of August 31, 2018	324,270	109,596	33.8
As of February 28, 2018	299,278	105,375	35.2

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen				
Year ended February 28, 2018	-	25.00	-	25.00	50.00
Year ending February 28, 2019	-	26.00			
Year ending February 28, 2019 (Forecast)			-	26.00	52.00

3. Forecast of consolidated financial results for the year ending February 28, 2019 (from March 1, 2018 to February 28, 2019)

Percentages indicate year-on-year changes

	Operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	323,700	2.4	18,500	6.5	17,000	5.1	10,200	1.7	295.81

4. Notes

- (1) Changes in significant subsidiaries during the six months ended August 31, 2018
 (changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- Changes in accounting policies due to revisions to accounting standards and other regulations: No
- Changes in accounting policies due to other reasons: No
- Changes in accounting estimates: No
- Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of August 31, 2018	34,682,113 shares	As of February 28, 2018	34,682,113 shares
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Number of treasury shares at the end of the period

As of August 31, 2018	199,803 shares	As of February 28, 2018	200,473 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended August 31, 2018	34,481,642 shares	Six months ended August 31, 2017	34,480,770 shares
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Quarterly consolidated financial statements
Consolidated balance sheets

(Millions of yen)

	As of February 28, 2018	As of August 31, 2018
Assets		
Current assets		
Cash and deposits	6,563	15,994
Accounts receivable - trade	4,380	5,418
Merchandise and finished goods	62,510	64,599
Raw materials and supplies	791	685
Deferred tax assets	1,458	1,325
Other	5,509	7,224
Allowance for doubtful accounts	(288)	(280)
Total current assets	80,925	94,967
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	95,518	96,745
Land	38,633	48,131
Leased assets, net	23,898	22,450
Construction in progress	977	1,987
Other, net	4,363	5,167
Total property, plant and equipment	163,391	174,482
Intangible assets		
Goodwill	900	845
Other	5,652	5,749
Total intangible assets	6,552	6,595
Investments and other assets		
Investment securities	2,398	3,502
Guarantee deposits	43,297	41,735
Deferred tax assets	685	1,238
Other	2,051	1,773
Allowance for doubtful accounts	(25)	(24)
Total investments and other assets	48,408	48,224
Total non-current assets	218,352	229,302
Total assets	299,278	324,270

(Millions of yen)

	As of February 28, 2018	As of August 31, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	22,031	27,242
Electronically recorded obligations - operating	1,813	2,032
Short-term loans payable	2,500	1,000
Current portion of long-term loans payable	27,624	30,122
Lease obligations	1,657	1,791
Income taxes payable	3,444	3,510
Provision for bonuses	1,457	1,529
Other	10,251	11,625
Total current liabilities	70,779	78,854
Non-current liabilities		
Long-term loans payable	65,262	79,298
Lease obligations	26,338	26,274
Guarantee deposits received	12,276	11,827
Provision for loss on voluntary recall of goods	1,469	1,393
Asset retirement obligations	6,462	6,686
Other	11,314	10,339
Total non-current liabilities	123,122	135,818
Total liabilities	193,902	214,673
Net assets		
Shareholders' equity		
Capital stock	17,658	17,658
Capital surplus	17,921	17,921
Retained earnings	69,935	74,218
Treasury shares	(415)	(413)
Total shareholders' equity	105,099	109,385
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	311	257
Deferred gains or losses on hedges	(35)	(46)
Total accumulated other comprehensive income	276	210
Total net assets	105,375	109,596
Total liabilities and net assets	299,278	324,270

Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)

Consolidated statements of income (cumulative)

(Millions of yen)

	Six months ended August 31, 2017	Six months ended August 31, 2018
Net sales	154,298	161,858
Cost of sales	97,212	101,312
Gross profit	57,086	60,546
Operating revenue	6,927	6,911
Selling, general and administrative expenses	53,708	56,670
Operating profit	10,305	10,787
Non-operating income		
Interest income	52	39
Foreign exchange gains	171	89
Gain on investments in silent partnership	131	138
Other	298	128
Total non-operating income	653	394
Non-operating expenses		
Interest expenses	1,068	1,163
Other	119	260
Total non-operating expenses	1,188	1,424
Ordinary profit	9,770	9,758
Extraordinary income		
Gain on Cancellation of Guaranteed Deposits Received	324	307
Other	12	36
Total extraordinary income	337	344
Extraordinary losses		
Impairment loss	1,059	2,372
Other	9	19
Total extraordinary losses	1,069	2,392
Profit before income taxes	9,038	7,710
Income taxes - current	3,262	2,967
Income taxes - deferred	(248)	(402)
Total income taxes	3,013	2,565
Profit	6,024	5,145
Profit attributable to owners of parent	6,024	5,145

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Six months ended August 31, 2017	Six months ended August 31, 2018
Profit	6,024	5,145
Other comprehensive income		
Valuation difference on available-for-sale securities	13	(54)
Deferred gains or losses on hedges	6	(10)
Total other comprehensive income	19	(65)
Comprehensive income	6,044	5,079
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,044	5,079
Comprehensive income attributable to non-controlling interests	—	—

Consolidated statements of cash flows

(Millions of yen)

	Six months ended August 31, 2017	Six months ended August 31, 2018
Cash flows from operating activities		
Profit before income taxes	9,038	7,710
Depreciation	4,666	5,035
Amortization of goodwill	137	54
Increase (decrease) in provision for directors' bonuses	(106)	(179)
Increase(decrease) in Provision for loss on voluntary recall of goods	(98)	(75)
Gain on Cancellation of Guaranteed Deposits Received	(324)	(307)
Impairment loss	1,059	2,372
Interest and dividend income	(66)	(64)
Interest expenses	1,068	1,163
Decrease (increase) in notes and accounts receivable - trade	(903)	(1,038)
Decrease (increase) in inventories	(1,748)	(1,982)
Increase (decrease) in notes and accounts payable - trade	4,754	5,392
Increase (decrease) in accrued consumption taxes	(825)	888
Other, net	(417)	(1,016)
Subtotal	16,235	17,953
Interest and dividend income received	16	26
Interest expenses paid	(1,076)	(1,163)
Income taxes (paid) refund	(2,495)	(2,731)
Net cash provided by (used in) operating activities	12,679	14,085
Cash flows from investing activities		
Purchase of property, plant and equipment	(12,867)	(18,437)
Proceeds from sales of property, plant and equipment	71	1,960
Purchase of intangible assets	(116)	(289)
purchase of investment in acquisition of new consolidated subsidiary company	(133)	–
Purchase of investment securities	–	(1,034)
Payments for guarantee deposits	(1,575)	(845)
Proceeds from collection of guarantee deposits	2,816	2,548
Proceeds from guarantee deposits received	171	303
Repayments of guarantee deposits received	(342)	(465)
Payments for asset retirement obligations	–	(270)
Other, net	(68)	(231)
Net cash provided by (used in) investing activities	(12,043)	(16,761)
Cash flows from financing activities		
Increase in short-term loans payable	17,315	–
Decrease in short-term loans payable	(23,315)	(1,500)
Proceeds from long-term loans payable	23,000	30,500
Repayments of long-term loans payable	(13,232)	(13,965)
Repayments of lease obligations	(676)	(853)
Collection of Accounts Receivable Installment on Sales of Assets	2,502	–
Repayments of installment payables	(1,071)	(1,209)
Cash dividends paid	(758)	(863)
Other, net	3	(0)
Net cash provided by (used in) financing activities	3,766	12,107
Net increase (decrease) in cash and cash equivalents	4,401	9,431
Cash and cash equivalents at beginning of period	5,741	6,544
Cash and cash equivalents at end of period	10,143	15,975