

# Translation

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## Summary of Consolidated Financial Results for the Six Months Ended August 31, 2019 (Based on Japanese GAAP)

October 11, 2019

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, 2019  
 Scheduled date to commence dividend payments: November 11, 2019  
 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, 2019 (from March 1, 2019 to August 31, 2019)

#### (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, 2019 | 184,448           | 9.3 | 11,703           | 8.5 | 11,240          | 15.2  | 6,421                                   | 24.8   |
| Six months ended August 31, 2018 | 168,770           | 4.7 | 10,787           | 4.7 | 9,758           | (0.1) | 5,145                                   | (14.6) |

|                                  | Earnings per share |  | Diluted earnings per share |  |
|----------------------------------|--------------------|--|----------------------------|--|
|                                  | Yen                |  | Yen                        |  |
| Six months ended August 31, 2019 | 186.27             |  | 186.22                     |  |
| Six months ended August 31, 2018 | 149.21             |  | 149.17                     |  |

#### (2) Consolidated financial position

|                         | Total assets    | Net assets      | Equity ratio |
|-------------------------|-----------------|-----------------|--------------|
|                         | Millions of yen | Millions of yen | %            |
| As of August 31, 2019   | 362,853         | 119,494         | 32.9         |
| As of February 28, 2019 | 319,963         | 114,299         | 35.7         |

### 2. Cash dividends

|  | Annual dividends per share |                 |                 |                 |       |
|--|----------------------------|-----------------|-----------------|-----------------|-------|
|  | 1st quarter-end            | 2nd quarter-end | 3rd quarter-end | Fiscal year-end | Total |
|  | Yen                        | Yen             | Yen             | Yen             | Yen   |
| Year ended February 28, 2019             | —                          | 26.00           | —               | 26.00           | 52.00 |
| Year ending February 29, 2020            | —                          | 27.00           |                 |                 |       |
| Year ending February 29, 2020 (Forecast) |                            |                 | —               | 27.00           | 54.00 |

### 3. Forecast of consolidated financial results for the year ending February 29, 2020 (from March 1, 2019 to February 29, 2020)

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 | 364,300           | 9.2 | 20,500           | 3.1 | 19,000          | 1.2 | 11,000                                  | 1.2 | 319.01             |

#### 4. Notes

- (1) Changes in significant subsidiaries during the six months ended August 31, 2019  
(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, 2019 | 34,682,113 shares | As of February 28, 2019 | 34,682,113 shares |
|-----------------------|-------------------|-------------------------|-------------------|

Number of treasury shares at the end of the period

|                       |                |                         |                |
|-----------------------|----------------|-------------------------|----------------|
| As of August 31, 2019 | 211,058 shares | As of February 28, 2019 | 211,448 shares |
|-----------------------|----------------|-------------------------|----------------|

Average number of shares during the period (cumulative from the beginning of the fiscal year)

|                                  |                   |                                  |                   |
|----------------------------------|-------------------|----------------------------------|-------------------|
| Six months ended August 31, 2019 | 34,470,632 shares | Six months ended August 31, 2018 | 34,481,642 shares |
|----------------------------------|-------------------|----------------------------------|-------------------|

## Quarterly consolidated financial statements

### Consolidated balance sheets

(Millions of yen)

|                                     | As of February 28, 2019 | As of August 31, 2019 |
|-------------------------------------|-------------------------|-----------------------|
| Assets                              |                         |                       |
| Current assets                      |                         |                       |
| Cash and deposits                   | 7,858                   | 11,238                |
| Accounts receivable - trade         | 4,903                   | 7,262                 |
| Merchandise and finished goods      | 68,394                  | 77,720                |
| Raw materials and supplies          | 809                     | 885                   |
| Other                               | 5,849                   | 8,034                 |
| Allowance for doubtful accounts     | (1)                     | (2)                   |
| Total current assets                | 87,813                  | 105,138               |
| Non-current assets                  |                         |                       |
| Property, plant and equipment       |                         |                       |
| Buildings and structures, net       | 97,713                  | 97,760                |
| Land                                | 48,131                  | 48,131                |
| Leased assets, net                  | 22,423                  | 21,927                |
| Construction in progress            | 1,892                   | 1,575                 |
| Other, net                          | 4,873                   | 4,746                 |
| Total property, plant and equipment | 175,033                 | 174,142               |
| Intangible assets                   |                         |                       |
| Trademark right                     | —                       | 4,242                 |
| Customer-related Assets             | —                       | 3,100                 |
| Goodwill                            | 791                     | 16,886                |
| Other                               | 5,582                   | 6,292                 |
| Total intangible assets             | 6,373                   | 30,522                |
| Investments and other assets        |                         |                       |
| Investment securities               | 4,052                   | 3,198                 |
| Guarantee deposits                  | 41,525                  | 44,382                |
| Deferred tax assets                 | 3,552                   | 3,832                 |
| Other                               | 1,934                   | 2,018                 |
| Allowance for doubtful accounts     | (322)                   | (382)                 |
| Total investments and other assets  | 50,743                  | 53,050                |
| Total non-current assets            | 232,150                 | 257,714               |
| Total assets                        | 319,963                 | 362,853               |

(Millions of yen)

|   | As of February 28, 2019 | As of August 31, 2019 |
|---|-------------------------|-----------------------|
| <b>Liabilities</b>                                    |                         |                       |
| Current liabilities                                   |                         |                       |
| Accounts payable - trade                              | 24,207                  | 36,998                |
| Electronically recorded obligations - operating       | 1,815                   | 2,843                 |
| Short-term loans payable                              | 950                     | 18,050                |
| Current portion of long-term loans payable            | 29,374                  | 26,491                |
| Lease obligations                                     | 2,619                   | 2,891                 |
| Income taxes payable                                  | 4,871                   | 4,092                 |
| Provision for bonuses                                 | 1,549                   | 1,802                 |
| Provision for point card certificates                 | —                       | 599                   |
| Other   | 11,237                  | 13,326                |
| Total current liabilities                             | 76,626                  | 107,096               |
| Non-current liabilities                               |                         |                       |
| Long-term loans payable                               | 68,672                  | 73,963                |
| Lease obligations                                     | 25,387                  | 25,063                |
| Guarantee deposits received                           | 11,538                  | 11,390                |
| Net defined benefit liability                         | —                       | 31                    |
| Provision for loss on voluntary recall of goods       | 1,066                   | 949                   |
| Asset retirement obligations                          | 6,586                   | 7,236                 |
| Other   | 15,786                  | 17,627                |
| Total non-current liabilities                         | 129,038                 | 136,261               |
| Total liabilities                                     | 205,664                 | 243,358               |
| <b>Net assets</b>                                     |                         |                       |
| Shareholders' equity                                  |                         |                       |
| Capital stock   | 17,658                  | 17,658                |
| Capital surplus                                       | 17,921                  | 17,921                |
| Retained earnings                                     | 79,031                  | 84,276                |
| Treasury shares                                       | (445)                   | (445)                 |
| Total shareholders' equity                            | 114,167                 | 119,412               |
| Accumulated other comprehensive income                |                         |                       |
| Valuation difference on available-for-sale securities | 174                     | 126                   |
| Deferred gains or losses on hedges                    | (42)                    | (52)                  |
| Foreign currency translation adjustment               | —                       | 7                     |
| Total accumulated other comprehensive income          | 132                     | 81                    |
| Total net assets                                      | 114,299                 | 119,494               |
| Total liabilities and net assets                      | 319,963                 | 362,853               |

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

## Consolidated statements of income (cumulative)

(Millions of yen)

|  | Six months ended<br>August 31, 2018 | Six months ended<br>August 31, 2019 |
|--|-------------------------------------|-------------------------------------|
| Net sales  | 161,858                             | 177,164                             |
| Cost of sales  | 101,312                             | 111,695                             |
| Gross profit   | 60,546                              | 65,468                              |
| Operating revenue                                    | 6,911                               | 7,284                               |
| Selling, general and administrative expenses         | 56,670                              | 61,049                              |
| Operating profit                                     | 10,787                              | 11,703                              |
| Non-operating income                                 |                                     |                                     |
| Interest income                                      | 39                                  | 34                                  |
| Insurance income                                     | 30                                  | 440                                 |
| Foreign exchange gains                               | 89                                  | 158                                 |
| Gain on investments in silent partnership            | 138                                 | 138                                 |
| Other  | 97                                  | 96                                  |
| Total non-operating income                           | 394                                 | 868                                 |
| Non-operating expenses                               |                                     |                                     |
| Interest expenses                                    | 1,163                               | 1,186                               |
| Other  | 260                                 | 144                                 |
| Total non-operating expenses                         | 1,424                               | 1,331                               |
| Ordinary profit                                      | 9,758                               | 11,240                              |
| Extraordinary income                                 |                                     |                                     |
| Gain on Cancellation of Guaranteed Deposits Received | 307                                 | 2                                   |
| Other  | 36                                  | —                                   |
| Total extraordinary income                           | 344                                 | 2                                   |
| Extraordinary losses                                 |                                     |                                     |
| Impairment loss                                      | 2,372                               | 1,603                               |
| Other  | 19                                  | 15                                  |
| Total extraordinary losses                           | 2,392                               | 1,619                               |
| Profit before income taxes                           | 7,710                               | 9,623                               |
| Income taxes - current                               | 2,967                               | 3,520                               |
| Income taxes - deferred                              | (402)                               | (317)                               |
| Total income taxes                                   | 2,565                               | 3,202                               |
| Profit   | 5,145                               | 6,421                               |
| Profit attributable to owners of parent              | 5,145                               | 6,421                               |

# Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

|  | Six months ended<br>August 31, 2018 | Six months ended<br>August 31, 2019 |
|--|-------------------------------------|-------------------------------------|
| Profit   | 5,145                               | 6,421                               |
| Other comprehensive income                                     |                                     |                                     |
| Valuation difference on available-for-sale securities          | (54)                                | (48)                                |
| Deferred gains or losses on hedges                             | (10)                                | (9)                                 |
| Foreign currency translation adjustment                        | —                                   | 7                                   |
| Total other comprehensive income                               | (65)                                | (50)                                |
| Comprehensive income   | 5,079                               | 6,370                               |
| Comprehensive income attributable to                           |                                     |                                     |
| Comprehensive income attributable to owners of parent          | 5,079                               | 6,370                               |
| Comprehensive income attributable to non-controlling interests | —                                   | —                                   |

## Consolidated statements of cash flows

(Millions of yen)

|  | Six months ended<br>August 31, 2018 | Six months ended<br>August 31, 2019 |
|--|-------------------------------------|-------------------------------------|
| Cash flows from operating activities   |                                     |                                     |
| Profit before income taxes   | 7,710                               | 9,623                               |
| Depreciation   | 5,035                               | 5,330                               |
| Amortization of goodwill   | 54                                  | 258                                 |
| Increase (decrease) in provision for directors' bonuses                      | (179)                               | (189)                               |
| Increase(decrease) in Provision for loss on voluntary recall of goods        | (75)                                | (116)                               |
| Gain on Cancellation of Guaranteed Deposits Received                         | (307)                               | (2)                                 |
| Impairment loss  | 2,372                               | 1,603                               |
| Interest and dividend income   | (64)                                | (59)                                |
| Interest expenses  | 1,163                               | 1,186                               |
| Decrease (increase) in notes and accounts receivable - trade                 | (1,038)                             | (1,622)                             |
| Decrease (increase) in inventories   | (1,982)                             | (1,969)                             |
| Increase (decrease) in notes and accounts payable - trade                    | 5,392                               | 5,140                               |
| Increase (decrease) in accrued consumption taxes                             | 888                                 | 122                                 |
| Other, net   | (1,016)                             | 621                                 |
| Subtotal   | 17,953                              | 19,927                              |
| Interest and dividend income received  | 26                                  | 30                                  |
| Interest expenses paid   | (1,163)                             | (1,202)                             |
| Income taxes (paid) refund   | (2,731)                             | (4,241)                             |
| Net cash provided by (used in) operating activities                          | 14,085                              | 14,513                              |
| Cash flows from investing activities   |                                     |                                     |
| Purchase of property, plant and equipment                                    | (18,437)                            | (3,855)                             |
| Proceeds from sales of property, plant and equipment                         | 1,960                               | —                                   |
| Purchase of intangible assets  | (289)                               | (298)                               |
| purchase of investment in acquisition of new consolidated subsidiary company | —                                   | (23,283)                            |
| Purchase of investment securities  | (1,034)                             | —                                   |
| Payments for guarantee deposits  | (845)                               | (851)                               |
| Proceeds from collection of guarantee deposits                               | 2,548                               | 783                                 |
| Proceeds from guarantee deposits received                                    | 303                                 | 107                                 |
| Repayments of guarantee deposits received                                    | (465)                               | (320)                               |
| Payments for asset retirement obligations                                    | (270)                               | (5)                                 |
| Other, net   | (231)                               | (145)                               |
| Net cash provided by (used in) investing activities                          | (16,761)                            | (27,869)                            |
| Cash flows from financing activities   |                                     |                                     |
| Increase in short-term loans payable   | —                                   | 59,550                              |
| Decrease in short-term loans payable   | (1,500)                             | (42,750)                            |
| Proceeds from long-term loans payable  | 30,500                              | 18,500                              |
| Repayments of long-term loans payable  | (13,965)                            | (16,092)                            |
| Repayments of lease obligations  | (853)                               | (1,051)                             |
| Repayments of installment payables   | (1,209)                             | (1,023)                             |
| Cash dividends paid  | (863)                               | (896)                               |
| Other, net   | (0)                                 | (0)                                 |
| Net cash provided by (used in) financing activities                          | 12,107                              | 16,235                              |
| Effect of exchange rate change on cash and cash equivalents                  | —                                   | (13)                                |
| Net increase (decrease) in cash and cash equivalents                         | 9,431                               | 2,865                               |
| Cash and cash equivalents at beginning of period                             | 6,544                               | 7,840                               |
| Increase in cash and cash equivalents from newly consolidated subsidiary     | —                                   | 513                                 |
| Cash and cash equivalents at end of period                                   | 15,975                              | 11,219                              |