

Translation

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**Summary of Consolidated Financial Results
for the Year Ended February 28, 2018
(Based on Japanese GAAP)**

April 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 of ordinary general meeting of shareholders: May 24, 2018
 Scheduled date to file Securities Report: May 25, 2018
 Scheduled date to commence dividend payments: May 25, 2018
 Preparation of supplementary material on financial results: Yes
 Holding of financial results meeting: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the year ended February 28, 2018 (from March 1, 2017 to February 28, 2018)

(1) Consolidated operating results

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 | % |
| Year ended February 28, 2018 | 316,081 | - | 17,372 | - | 16,170 | - | 10,031 | - |
| Year ended February 28, 2017 | - | - | - | - | - | - | - | - |

| | Earnings per share | Diluted earnings per share | Profit attributable to owners of parent/equity | Ordinary profit/total assets | Operating profit/net sales |
|------------------------------|--------------------|----------------------------|--|------------------------------|----------------------------|
| | Yen | Yen | % | % | % |
| Year ended February 28, 2018 | 290.91 | 290.83 | 9.9 | 5.5 | 5.7 |
| Year ended February 28, 2017 | - | - | - | - | - |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|-------------------------|-----------------|-----------------|--------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| As of February 28, 2018 | 299,278 | 105,375 | 35.2 | 3,056.00 |
| As of February 28, 2017 | - | - | - | - |

(3) Consolidated cash flows

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of period |
|------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Year ended February 28, 2018 | 19,501 | (14,426) | (4,272) | 6,544 |
| Year ended February 28, 2017 | - | - | - | - |

2. Cash dividends

| | Annual dividends per share | | | | | Total cash dividends (Total) | Dividend payout ratio (Consolidated) | Ratio of dividends to net assets (Consolidated) |
|--|----------------------------|-----------------|-----------------|-----------------|-------|------------------------------|--------------------------------------|---|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Fiscal year-end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Millions of yen | % | % |
| Year ended February 28, 2017 | - | 22.00 | - | 22.00 | 44.00 | 1,521 | - | - |
| Year ended February 28, 2018 | - | 25.00 | - | 25.00 | 50.00 | 1,724 | 17.2 | 1.7 |
| Year ending February 28, 2019 (Forecast) | - | 25.00 | - | 25.00 | 50.00 | | 16.9 | |

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 |
| Six months ending August 31, 2018 | 166,350 | 3.2 | 10,830 | 5.1 | 10,130 | 3.7 | 5,620 | (6.7) | 162.98 |
| 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 year ended February 28, 2018

(changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) 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

(3) Number of issued shares (common shares)

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

| | | | |
|-------------------------|-------------------|-------------------------|-------------------|
| As of February 28, 2018 | 34,682,113 shares | As of February 28, 2017 | 34,682,113 shares |
|-------------------------|-------------------|-------------------------|-------------------|

Number of treasury shares at the end of the period

| | | | |
|-------------------------|----------------|-------------------------|----------------|
| As of February 28, 2018 | 200,473 shares | As of February 28, 2017 | 201,616 shares |
|-------------------------|----------------|-------------------------|----------------|

Average number of shares during the period

| | | | |
|------------------------------|-------------------|------------------------------|-------------------|
| Year ended February 28, 2018 | 34,481,270 shares | Year ended February 28, 2017 | 34,661,478 shares |
|------------------------------|-------------------|------------------------------|-------------------|

Consolidated financial statements
Consolidated balance sheets

(Millions of yen)

As of February 28, 2018

| Assets | |
|--|---------|
| Current assets | |
| Cash and deposits | 6,563 |
| Accounts receivable - trade | 4,380 |
| Merchandise and finished goods | 62,510 |
| Raw materials and supplies | 791 |
| Advance payments - trade | 19 |
| Prepaid expenses | 3,828 |
| Deferred tax assets | 1,458 |
| Other | 1,661 |
| Allowance for doubtful accounts | (288) |
| Total current assets | 80,925 |
| Non-current assets | |
| Property, plant and equipment | |
| Buildings and structures, net | 95,518 |
| Machinery, equipment and vehicles, net | 882 |
| Tools, furniture and fixtures, net | 3,481 |
| Land | 38,633 |
| Leased assets, net | 23,898 |
| Construction in progress | 977 |
| Total property, plant and equipment | 163,391 |
| Intangible assets | |
| Goodwill | 900 |
| Leasehold right | 4,468 |
| Software | 1,110 |
| Other | 72 |
| Total intangible assets | 6,552 |
| Investments and other assets | |
| Investment securities | 2,398 |
| Long-term loans receivable | 92 |
| Long-term prepaid expenses | 1,958 |
| Guarantee deposits | 43,297 |
| Deferred tax assets | 685 |
| Other | 0 |
| Allowance for doubtful accounts | (25) |
| Total investments and other assets | 48,408 |
| Total non-current assets | 218,352 |
| Total assets | 299,278 |

(Millions of yen)

As of February 28, 2018

| Liabilities | |
|---|----------------|
| Current liabilities | |
| Accounts payable - trade | 22,031 |
| Electronically recorded obligations - operating | 1,813 |
| Short-term loans payable | 2,500 |
| Current portion of long-term loans payable | 27,624 |
| Lease obligations | 1,657 |
| Accounts payable - other | 6,174 |
| Accrued expenses | 1,720 |
| Income taxes payable | 3,444 |
| Accrued consumption taxes | 272 |
| Unearned revenue | 1,126 |
| Provision for bonuses | 1,457 |
| Provision for directors' bonuses | 179 |
| Other | 778 |
| Total current liabilities | <u>70,779</u> |
| Non-current liabilities | |
| Long-term loans payable | 65,262 |
| Lease obligations | 26,338 |
| Guarantee deposits received | 12,276 |
| Long-term accounts payable - other | 10,713 |
| Provision for loss on voluntary recall of goods | 1,469 |
| Asset retirement obligations | 6,462 |
| Other | 600 |
| Total non-current liabilities | <u>123,122</u> |
| Total liabilities | <u>193,902</u> |
| Net assets | |
| Shareholders' equity | |
| Capital stock | 17,658 |
| Capital surplus | 17,921 |
| Retained earnings | 69,935 |
| Treasury shares | (415) |
| Total shareholders' equity | <u>105,099</u> |
| Accumulated other comprehensive income | |
| Valuation difference on available-for-sale securities | 311 |
| Deferred gains or losses on hedges | (35) |
| Total accumulated other comprehensive income | <u>276</u> |
| Total net assets | <u>105,375</u> |
| Total liabilities and net assets | <u>299,278</u> |

Consolidated statements of income and consolidated statements of comprehensive income
Consolidated statements of income

(Millions of yen)

| | Fiscal year ended February 28, 2018 |
|--|--|
| Net sales | 302,207 |
| Cost of sales | 190,738 |
| Gross profit | 111,468 |
| Operating revenue | 13,874 |
| Selling, general and administrative expenses | 107,970 |
| Operating profit | 17,372 |
| Non-operating income | |
| Interest and dividend income | 116 |
| Insurance income | 118 |
| Foreign exchange gains | 289 |
| Gain on investments in silent partnership | 266 |
| Other | 279 |
| Total non-operating income | 1,070 |
| Non-operating expenses | |
| Interest expenses | 2,110 |
| Other | 162 |
| Total non-operating expenses | 2,273 |
| Ordinary profit | 16,170 |
| Extraordinary income | |
| Gain on Cancellation of Guaranteed Deposits Received | 377 |
| Other | 36 |
| Total extraordinary income | 413 |
| Extraordinary losses | |
| Impairment loss | 1,892 |
| Other | 25 |
| Total extraordinary losses | 1,917 |
| Profit before income taxes | 14,666 |
| Income taxes - current | 5,083 |
| Income taxes - deferred | (448) |
| Total income taxes | 4,635 |
| Profit | 10,031 |
| Profit attributable to owners of parent | 10,031 |

Consolidated statements of comprehensive income

(Millions of yen)

| | Fiscal year ended February 28, 2018 |
|--|--|
| Profit | 10,031 |
| Other comprehensive income | |
| Valuation difference on available-for-sale securities | 25 |
| Deferred gains or losses on hedges | (15) |
| Total other comprehensive income | 10 |
| Comprehensive income | 10,041 |
| Comprehensive income attributable to | |
| Comprehensive income attributable to owners of parent | 10,041 |
| Comprehensive income attributable to non-controlling interests | — |

Consolidated statements of changes in equity

Fiscal year ended February 28, 2018

(Millions of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 17,658 | 17,921 | 61,524 | (417) | 96,686 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | (1,620) | | (1,620) |
| Profit attributable to owners of parent | | | 10,031 | | 10,031 |
| Purchase of treasury shares | | | | (1) | (1) |
| Disposal of treasury shares | | 0 | | 3 | 3 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | – | 0 | 8,410 | 2 | 8,412 |
| Balance at end of current period | 17,658 | 17,921 | 69,935 | (415) | 105,099 |

| | Accumulated other comprehensive income | | | Total net assets |
|--|---|------------------------------------|--|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Total accumulated other comprehensive income | |
| Balance at beginning of current period | 286 | (20) | 266 | 96,952 |
| Changes of items during period | | | | |
| Dividends of surplus | | | | (1,620) |
| Profit attributable to owners of parent | | | | 10,031 |
| Purchase of treasury shares | | | | (1) |
| Disposal of treasury shares | | | | 3 |
| Net changes of items other than shareholders' equity | 25 | (15) | 10 | 10 |
| Total changes of items during period | 25 | (15) | 10 | 8,423 |
| Balance at end of current period | 311 | (35) | 276 | 105,375 |

Consolidated statements of cash flows

(Millions of yen)

| | Fiscal year ended February 28, 2018 |
|--|--|
| Cash flows from operating activities | |
| Profit before income taxes | 14,666 |
| Depreciation | 9,604 |
| Amortization of goodwill | 233 |
| Increase (decrease) in provision for directors' bonuses | 73 |
| Increase(decrease) in Provision for loss on voluntary recall of goods | (446) |
| Gain on Cancellation of Guaranteed Deposits Received | (377) |
| Impairment loss | 1,892 |
| Interest and dividend income | (116) |
| Interest expenses | 2,110 |
| Decrease (increase) in notes and accounts receivable - trade | (281) |
| Decrease (increase) in inventories | (1,831) |
| Increase (decrease) in notes and accounts payable - trade | 1,327 |
| Increase (decrease) in accrued consumption taxes | (1,218) |
| Other, net | 776 |
| Subtotal | <u>26,413</u> |
| Interest and dividend income received | 18 |
| Interest expenses paid | (2,073) |
| Income taxes (paid) refund | (4,857) |
| Net cash provided by (used in) operating activities | <u>19,501</u> |
| Cash flows from investing activities | |
| Purchase of property, plant and equipment | (16,114) |
| Proceeds from sales of property, plant and equipment | 742 |
| Purchase of intangible assets | (211) |
| purchase of investment in acquisition of new consolidated subsidiary company | (133) |
| Proceeds from withdrawal of investments in silent partnership | 450 |
| Payments for guarantee deposits | (2,729) |
| Proceeds from collection of guarantee deposits | 4,329 |
| Proceeds from guarantee deposits received | 236 |
| Repayments of guarantee deposits received | (604) |
| Other, net | (390) |
| Net cash provided by (used in) investing activities | <u>(14,426)</u> |
| Cash flows from financing activities | |
| Increase in short-term loans payable | 42,815 |
| Decrease in short-term loans payable | (47,465) |
| Proceeds from long-term loans payable | 24,000 |
| Repayments of long-term loans payable | (26,806) |
| Repayments of lease obligations | (1,424) |
| Collection of Accounts Receivable Installment and others on Sales of Assets | 8,445 |
| Repayments of installment payables | (2,215) |
| Cash dividends paid | (1,619) |
| Other, net | (1) |
| Net cash provided by (used in) financing activities | <u>(4,272)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>803</u> |
| Cash and cash equivalents at beginning of period | <u>5,741</u> |
| Cash and cash equivalents at end of period | <u>6,544</u> |