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October 13, 2016

Summary of Financial Results of the First Quarter of the Fiscal Year ending May 31, 2017
[Japanese standards] (Consolidated)

Company name: SHINWA ART AUCTION CO., LTD.

Stock Exchange listings: Tokyo

Securities code: 2437

URL: <http://www.shinwa-art.com>

Representative: Yoichiro Kurata, President and Representative Director

Contact: Yoshiharu Masudo, Accounting Manager

Tel: +81-3-5537-8024

Scheduled date of filing of quarterly report: October 14, 2016

Scheduled date of payment of dividend: N/A

Preparation of supplementary references regarding quarterly results: No

Holding the briefing of quarterly results: No

(All amounts are rounded down to the nearest million yen)
 (△ means negative)

1. Financial Results of the First Quarter of the Fiscal Year ending May 31, 2017 (Jun. 1, 2016 – August 31, 2016)

(1) Consolidated results of operations (cumulative total)

(Percentages represent changes from previous year)

	Net sales		Operating income		Ordinary income		Income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1Q FY05/2017	1,071	135.1	5	—	△2	—	△10	—
1Q FY05/2016	455	73.8	△47	—	△51	—	△35	—

(Note) Comprehensive income 1Q FY05/2017: △11 million yen (—%)

1Q FY05/2016: △35 million yen (—%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
1Q FY05/2017	△1.76	—
1Q FY05/2016	△6.16	—

(Note) Amounts of "Diluted quarterly net income per share" are not disclosed because, although there were residual securities, net loss per share has been posted.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
1Q FY05/2017	3,925	1,722	43.7	299.08
FY05/2016	3,959	1,772	44.6	307.93

(Reference) Shareholders equity: 1Q FY05/2017: 1,714 million yen
 FY05/2016: 1,765 million yen

2. Dividends

	Annual dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY05/2016	—	0.00	—	7.00	7.00
FY05/2017	—				
FY05/2017 (forecasts)		0.00	—	7.00	7.00

(NOTE) Revisions to dividend forecasts published most recently: No

3. Consolidated performance forecasts for the Fiscal Year ending May 31, 2017
(Jun. 1, 2016 – May 31, 2017)

(Percentages represent changes from previous year)

	Net sales		Operating income		Ordinary income		Income attributable to owners of parent		Net profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
2Q (cumulative total)	2,069	19.9	176	4.0	160	△0.0	98	1.4	17.12
Full term	4,299	10.3	417	17.1	382	15.2	225	37.2	39.29

(NOTE) Revisions to performance forecasts published most recently: No

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***Notes**

- (1) Changes in important subsidiaries during the current consolidated cumulative period: No
(changes in specific subsidiaries resulting in modifications of the consolidation scope)
- (2) Application of special accounting methods to the preparation of quarterly financial statement: No
- (3) Changes in accounting principles, changes and restatements of accounting estimates
- 1) Changes in accounting principles caused by revision of accounting standards: No
 - 2) Changes other than 1): No
 - 3) Changes in accounting estimates: No
 - 4) Restatements: No
- (4) Number of outstanding shares (common shares)
- 1) Number of shares outstanding at the end of the period (including treasury stock)
 - 1Q FY05/2017: 6,594,900 shares
 - FY05/2016: 6,594,900 shares
 - 2) Number of treasury stock at the end of the period
 - 1Q FY05/2017: 862,800 shares
 - FY05/2016: 862,800 shares
 - 3) Average number of shares outstanding during the period (quarterly cumulative)
 - 1Q FY05/2017: 5,732,100 shares
 - 1Q FY05/2016: 5,708,100 shares

*** Presentation concerning implementation status of quarterly review procedures**

These quarterly financial results are not the subject of a quarterly review procedure based on the Financial Instruments and Exchange Act, and at the time of disclosing these quarterly financial results, review procedures regarding the quarterly financial statements based on the Financial Instruments and Exchange Act had not been completed.

*** Explanation regarding appropriate use of the earnings forecast and other special notes**

Descriptions about the future such as performance forecasts contained in this document are based on information currently available to the Company and certain presumptions considered to be reasonable, and therefore actual business performance and other elements may differ substantially due to various factors. For preconditions for performance forecasts and precaution statements in using such forecasts, please see the appendix, page 3, "1. Qualitative Information regarding the Current Quarter: (3) Descriptions regarding future prospects such as consolidated performance forecasts".

1. Qualitative Information regarding the Current Quarter**(1) Descriptions regarding operating results**

During the current first quarter consolidated cumulative period (Jun. 1, 2016 - Aug. 31, 2016), Japanese economy has shown gradual upswing, in conjunction with improved environment for employment/earning and effects of various governmental policies. However, overseas, economic slowdown in Asian emerging countries and natural resources exporting countries, notably China, has been increasingly significant, which has become a risk factor for Japanese economy being continuously depressed along with sharp fluctuation of currency exchange and stock market due to geopolitical risks and impacts of concerns about so-called Brexit.

Amid such environment, the Group has endeavored to offer excellent articles including mainly high-priced art objects to auctions as part of its main business of auction related business, and to recommend art collectors comprising mainly of wealthy class that they should participate in auctions. In addition, the Group concentrated its efforts in its energy related business to sales of low-pressure type photovoltaic installations, while preparing for full-blown operation of medical tourism as part of the business category of supporting medical institutions, so that the Group could build up its structure to ensure stable profitability at an early stage.

The operating results for each business segment are as follows.

① Auction related business

In the current first quarter consolidated cumulative period, handling volume was 299,967,000 yen (down 52.9% YoY), net sales was 134,578,000 yen (down 10.0% YoY), and segment loss was 96,386,000 yen (51,163,000 yen in the corresponding period of previous year).

The operating results for each business category are as follows.

Category	1Q FY05/2017 (consolidated cumulative period) June 1, 2016 - August 31, 2016							
	Volume (thousand yen)	YoY (%)	Net sales (thousand yen)	YoY (%)	Auction(s) held	Items offered	Successful bids	Sell through rate (%)
Modern Art Auction	76,320	△81.9	15,589	△80.3	1	79	60	75.9
Modern Ceramics Auction	65,245	△17.2	13,051	△15.2	1	169	153	90.5
Modern Art Part II Auction	38,445	3.2	9,190	9.1	1	271	252	93.0
Other auctions	18,395	△65.1	4,318	△62.8	1	422	206	48.8
Auctions business - total	198,405	△66.4	42,150	△63.2	4	941	671	71.3
Private sale	73,085	193.8	64,382	255.9				
Others	28,477	32.7	28,045	65.0				
Other auction related business - total	101,562	119.2	92,428	163.4				
Auction related business - total	299,967	△52.9	134,578	△10.0				

(Note) 1. One of major factors causing divergence with respect to YoY ratios of handling volume and of net sales is increase/decrease in merchandise sales. Merchandise sales constitute the Group's net sales, like commission income on successful auction bid price, income from catalog sales and annual membership fee do, and therefore if an article is sold from our stock, its sales price (successful bid price in case of being sold by auction) shall be allocated to net sales, as merchandise sales.

2. As part of the structure of auction-related business, many of auctions would be held during second and fourth quarter periods each year, and therefore there appear some seasonal fluctuations in performance for each quarter consolidated fiscal period.

i) Auction business

During the current first quarter consolidated cumulative period, the Company held Modern Art Auction, Modern Ceramics Auction, Modern Art Part II Auction, and Bags/Jewellery & Watches Auction, each of which was held once, four occasions in total. At the Modern Art Auction being our principal one, high-valued items were handled which led to increase in sales amount in the previous first quarter consolidated cumulative period. In addition, Post-War & Contemporary Art Auctions that had been included in Modern Art Auction until the previous first quarter consolidated cumulative period have been held as separate ones since the previous second quarter consolidated cumulative period, and therefore handling volume, net sales, and numbers of items offered and of successful bids of Modern Art Auction in the current first quarter consolidated cumulative period have substantially decreased as compared to the previous year.

ii) Other auction related business

Private Sale department put continuous efforts to deal actively during the current first quarter consolidated cumulative period. Elsewhere, services for purchasing precious metals were also carried out actively, leading to increase in both handling volume and net sales as compared to previous year.

② Energy related business

With respect to sales of low-pressure type photovoltaic power generation installations of 50 kW class, demands aiming at making use of the taxation system for promoting investment on productivity improvement equipment are still high, resulting in 40 of those sold during the current first quarter consolidated cumulative period (13 sold during the previous first quarter consolidated cumulative period). In addition, electric power selling business by using its own photovoltaic installations and wind power installations has contributed to the Group's performance, leading to net sales of 936,287,000 yen (increase by 205.9% YoY) and segment income of 102,534,000 yen (increase by 97,840,000 yen YoY) in the current first quarter consolidated cumulative period.

③ Others

In the business category of supporting medical institutions, platform with functionality for settlement with UnionPay cards has been in operation in Hong Kong for inbound tourists from China and other Asian countries so that it could be a profitability pillar of our medical tourism business, as well as putting our efforts into promoting subscriptions to the platform by affiliated medical institutions and clinics in Japan. Moreover, the Group started to sell new supplement product named "Plasmalogen Premium" as its original brand of "A|A|A|A" (Asian Anti-Aging Alliance).

In such context, performance of the current first quarter consolidated cumulative period was as follows: net sales of 1,071,426,000 yen (increase by 135.1% and 615,762,000 yen YoY), operating income of 5,677,000 yen (increase by 53,629,000 yen from the ordinary loss of 47,952,000 yen in the previous year), ordinary loss of 2,540,000 yen (decrease by 48,555,000 yen from the same of 51,096,000 yen in the previous year), and quarterly net loss attributable to owners of parent of 10,112,000 yen (decrease by 25,050,000 yen from the same of 35,163,000 yen in the previous year). These actual performance values are, however, due to seasonal variable factors in that many of auctions are held in the second quarter and the fourth quarter of auction related business, and as such those values are as having been anticipated within the range of performance forecasts for the current consolidated fiscal year.

(2) Descriptions regarding financial position

(Assets)

Total assets was 3,925,237,000 yen at the end of the current first quarter consolidated fiscal period, i.e. decrease by 33,949,000 yen as compared to the end of previous consolidated fiscal year. It comprises mainly decrease in cash and deposits by 763,369,000 yen, decrease in accounts receivable-other from auction business by 224,468,000 yen, decrease in accounts receivable - trade by 81,282,000 yen, increase in advance payment by 343,675,000 yen, increase in merchandise by 212,794,000 yen, and increase in construction in progress 440,154,000 yen.

(Liabilities)

Total liabilities was 2,202,716,000 yen at the end of the current first quarter consolidated fiscal period, i.e. increase by 16,503,000 yen as compared to the end of the previous consolidated fiscal year. It comprises mainly decrease in accounts payable - auction business by 348,367,000 yen and increase in accounts payable - trade by 97,829,000 yen.

(Net assets)

Total net assets was 1,722,521,000 yen at the end of the current first quarter consolidated fiscal period, i.e. decrease by 50,452,000 yen as compared to the end of previous consolidated fiscal year. It comprises mainly decrease in retained earnings by 40,124,000 yen due to paying dividends.

(3) Descriptions regarding future prospects such as consolidated performance forecasts

There is no change in consolidated performance forecasts for the second quarter consolidated cumulative period and for the full term, as announced in the "Summary of Financial Results of the Fiscal Year ending May 31, 2016" published on July 13, 2016.

2. Matters regarding Summary Information (Notes)

(1) Changes in important subsidiaries during the current consolidated cumulative period

Not applicable.

(2) Application of special accounting methods to the preparation of quarterly consolidated financial statement

Not applicable.

(3) Changes in accounting principles, changes and restatements of accounting estimates

Not applicable.

(4) Additional information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan Guidance No. 26 of March 28, 2016) since the current first quarter consolidated fiscal period.

3. Quarterly Consolidated Financial Statements**(1) Quarterly Consolidated Balance Sheets**

	Previous consolidated fiscal year (May 31, 2016)	(Thousand yen; △ means negative) Current first quarter consolidated fiscal period (August 31, 2016)
Assets		
Current assets		
Cash and deposits	2,065,625	1,302,256
Accounts receivable - trade	256,556	175,274
Accounts receivable - other from auction business	228,001	3,533
Merchandise	626,822	839,616
Work in process	5,990	5,990
Advance payments	199,085	542,760
Other	184,530	210,342
Allowance for doubtful accounts	△412	△44
Total current assets	3,566,198	3,079,728
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	4,269	3,922
Machinery, equipment and vehicles (net)	252,465	266,324
Land	30,500	30,900
Construction in progress	—	440,154
Other (net)	2,331	2,310
Total property, plant and equipment	289,566	743,611
Intangible assets		
Software	5,741	5,416
Total intangible assets	5,741	5,416
Investments and other assets		
Other	111,544	110,308
Allowance for doubtful accounts	△13,864	△13,826
Total investments and other assets	97,680	96,481
Total non-current assets	392,988	845,509
Total assets	3,959,187	3,925,237
Liabilities		
Current liabilities		
Accounts payable - trade	65,219	163,049
Accounts payable - other from auction business	350,817	2,449
Short-term loans payable	982,500	1,252,894
Current portion of long-term loans payable	61,172	61,172
Income taxes payable	98,438	39,334
Provision for bonuses	18,675	14,425
Provision for directors' bonuses	58,232	10,556
Other	143,419	266,452
Total current liabilities	1,778,474	1,810,333
Non-current liabilities		
Long-term loans payable	327,556	312,263
Liabilities on retirement benefits	42,550	43,450
Other	37,632	36,669
Total non-current liabilities	407,738	392,382
Total liabilities	2,186,212	2,202,716

	(Thousand yen; △ means negative)	
	Previous consolidated fiscal year (May 31, 2016)	Current first quarter consolidated fiscal period (August 31, 2016)
Net assets		
Shareholders' equity		
Capital stock	930,457	930,457
Capital surplus	535,740	535,740
Retained earnings	524,385	474,147
Treasury shares	△223,655	△223,655
Total shareholders' equity	1,766,928	1,716,690
Accumulated other comprehensive income		
Foreign currency translation adjustment	△1,864	△2,306
Total accumulated other comprehensive income	△1,864	△2,306
Subscription rights to shares	5,210	5,893
Non-controlling interests	2,699	2,244
Total net assets	1,772,974	1,722,521
Total liabilities and net assets	3,959,187	3,925,237

(2) Quarterly Consolidated Statements of Income and Statement of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the first quarter consolidated cumulative period)

	(Thousand yen; △ means negative)	
	Previous first quarter consolidated cumulative period (June 1, 2015 - August 31, 2015)	Current first quarter consolidated cumulative period (June 1, 2016 - August 31, 2016)
Net sales	455,664	1,071,426
Cost of sales	303,702	842,152
Gross profit	151,961	229,273
Selling, general and administrative expenses	199,913	223,596
Operating income or loss (△)	△47,952	5,677
Non-operating income		
Interest income	94	158
Compensation income for valuation service	113	—
Gain on forfeiture of unclaimed dividends	160	68
Gain on valuation of derivatives	—	505
Reversal of allowance for doubtful accounts	391	405
Other	37	551
Total non-operating income	796	1,689
Non-operating expenses		
Interest expenses	3,392	7,850
Foreign exchange losses	148	2,056
Other	400	—
Total non-operating expenses	3,940	9,907
Ordinary loss (△)	△51,096	△2,540
Extraordinary income		
Gain on reversal of subscription rights to shares	2,279	—
Total extraordinary income	2,279	—
Net loss before income taxes and minority interests (△)	△48,816	△2,540
Income taxes - current	1,305	33,143
Income taxes - deferred	△14,497	△25,417
Total income taxes	△13,191	7,726
Net loss (△)	△35,625	△10,267
Net loss attributable to non-controlling shareholders (△)	△461	△154
Net loss attributable to owners of parent (△)	△35,163	△10,112

(Quarterly Consolidated Statement of Comprehensive Income)
(For the first quarter consolidated cumulative period)

	(Thousand yen; △ means negative)	
	Previous first quarter consolidated cumulative period (June 1, 2015 - August 31, 2015)	Current first quarter consolidated cumulative period (June 1, 2016 - August 31, 2016)
Net loss (△)	△35,625	△10,267
Other comprehensive income		
Foreign currency translation adjustment	—	△742
Total other comprehensive income	—	△742
Comprehensive income	△35,625	△11,010
(detail)		
Comprehensive income attributable to owners of parent	△35,163	△10,555
Comprehensive income attributable to non-controlling interests	△461	△455

(3) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Notes in Case of Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Segment Information, etc.)

【Segment Information】

I. Previous first quarter consolidated cumulative period (June 1, 2015 - August 31, 2015)

1. Information on amount of net sales and of income or loss for each reportable segment.

(Thousand yen)

	Reportable segments			Others (see Note)	Total
	Auction related business	Energy related business	Subtotal		
Net sales	149,606	306,057	455,664	—	455,664
Segment income or loss (△)	△51,163	4,693	△46,469	△1,482	△47,952

(Note) The category "Others" refers to business segment not included in the reportable segments, which includes the business category of supporting medical institutions.

2. Difference between the total amount of income/loss of reportable segments and the amount presented on the Quarterly Consolidated Statements of Income; and main contents of said difference (items in relation to adjustment of difference)

Total amount of Segment income or loss (△) is in agreement with the operating loss (△) presented on the Quarterly Consolidated Statements of Income.

3. Information on impairment loss of non-current assets or goodwill, etc. for each reportable segment.
Not applicable.

II. Current first quarter consolidated cumulative period (June 1, 2016 - August 31, 2016)

1. Information on amount of net sales and of income/loss for each reportable segment.

(Thousand yen)

	Reportable segments			Others (see Note 2)	Total
	Auction related business	Energy related business (see Note 1)	Subtotal		
Net sales	134,578	936,287	1,070,866	560	1,071,426
Segment income or loss (△)	△96,386	102,534	6,147	△470	5,677

(Note) The category "Others" refers to business segment not included in the reportable segments, which includes the business category of supporting medical institutions.

2. Difference between the total amount of income/loss of reportable segments and the amount presented on the Quarterly Consolidated Statements of Income; and main contents of said difference (items in relation to adjustment of difference)

Total amount of Segment income or loss (△) is in agreement with the operating loss (△) presented on the Quarterly Consolidated Statements of Income.

3. Information on impairment loss of non-current assets or goodwill, etc. for each reportable segment.
Not applicable.

(Important events that occurred after the balance sheet date)

APEC CO., LTD., a consolidated subsidiary of SHINWA (hereinafter, "APEC"), on September 20, 2016, resolved that it should enter into a syndicated loan agreement with Sumitomo Mitsui Banking Corporation as its arranger and that it would borrow funds as detailed below. Both parties entered into such agreement and executed borrowing accordingly.

1. Purpose of the syndicated loan agreement
Mainly to appropriate the funds to operate APEC's primary business of selling low-pressure type photovoltaic power generation installations
2. Overview of the syndicated loan agreement
 - (1) Arranged amount: 1,350,000,000 yen
 - (2) Date: September 29, 2016
 - (3) Facility: committed syndicated loan
 - (4) Term: from September 30, 2016 to September 29, 2017
(including 6 months of commitment)
 - (5) Applicable interest rate: basic interest rate plus spread
 - (6) Collateral provided: time deposit
 - (7) Arranger & agent: Sumitomo Mitsui Banking Corporation
 - (8) Participants: Sumitomo Mitsui Banking Corporation and others
3. Overview of the funds borrowed
 - (1) Lenders: Higashi-Nippon Bank, Ltd., and 2 other banks and governmental financial institution(s)
 - (2) Total amount: 224,500,000 yen
 - (3) Date of initial borrowing executed: September 28, 2016
 - (4) Final date of repayment: October 2, 2017

Note: Interest rate is within common borrowing rates.