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January 12, 2017

Summary of Financial Results of the Second 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
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 Scheduled date of filing of quarterly report: January 13, 2017
 Scheduled date of payment of dividend: N/A
 Preparation of supplementary references regarding quarterly results: Yes
 Holding the briefing of quarterly results: Yes (For institutional investors and analysts)

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

1. Financial Results of the Second Quarter of the Fiscal Year ending May 31, 2017 (Jun. 1, 2016 – Nov. 30, 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	%
2Q FY05/2017	1,794	3.9	△0	—	△36	—	△37	—
2Q FY05/2016	1,726	111.5	169	—	160	—	96	—

(Note) Comprehensive income 2Q FY05/2017: △40 million yen (—%)
 2Q FY05/2016: 96 million yen (—%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
2Q FY05/2017	△6.53	—
2Q FY05/2016	16.95	16.91

(Note) Amounts of "Diluted quarterly net income per share" of 2Q FY05/2017 is 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
2Q FY05/2017	5,599	1,804	32.1	296.72
FY05/2016	3,959	1,772	44.6	307.93

(Reference) Shareholders equity: 2Q FY05/2017: 1,799 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	—	0.00	—	—	—
FY05/2017 (forecasts)	—	—	—	7.00	7.00

(NOTE) Revisions to dividend forecasts published most recently: None

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
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: None

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***Notes**

- (1) Changes in important subsidiaries during the current consolidated cumulative period: None
(changes in specific subsidiaries resulting in modifications of the consolidation scope)
- (2) Application of special accounting methods to the preparation of quarterly financial statement: None
- (3) Changes in accounting principles, changes and restatements of accounting estimates
- 1) Changes in accounting principles caused by revision of accounting standards: None
 - 2) Changes other than 1): None
 - 3) Changes in accounting estimates: None
 - 4) Restatements: None
- (4) Number of outstanding shares (common shares)
- 1) Number of shares outstanding at the end of the period (including treasury stock)
 - 2Q FY05/2017: 6,926,900 shares
 - FY05/2016: 6,594,900 shares
 - 2) Number of treasury stock at the end of the period
 - 2Q FY05/2017: 862,800 shares
 - FY05/2016: 862,800 shares
 - 3) Average number of shares outstanding during the period (quarterly cumulative)
 - 2Q FY05/2017: 5,763,477 shares
 - 2Q FY05/2016: 5,711,913 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".

(How to obtain supplementary references regarding quarterly results)

The Company will hold a briefing for institutional investors and analysts on January 25, 2017 (Wed.). Documentations used in this briefing will be posted on our website immediately thereafter.

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

During the current second quarter consolidated cumulative period (Jun. 1, 2016 - Nov. 30, 2016), Japanese economy has shown gradual upswing, in conjunction with improved environment for employment/earning and effects of various governmental policies. However, there are so many uncertain elements in the arena of overseas politics and financial/capital markets including so-called "Brexit", implying unknown consequences in the future.

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 second quarter consolidated cumulative period, handling volume was 1,324,804,000 yen (down 39.0% YoY), net sales was 391,989,000 yen (down 27.9% YoY), and segment loss was 101,529,000 yen (segment income of 43,316,000 yen in the corresponding period of previous year).

The operating results for each business category are as follows.

Category	2Q FY05/2017 (consolidated cumulative period) June 1, 2016 - November 30, 2016							
	Volume (thousand yen)	YoY (%)	Net sales (thousand yen)	YoY (%)	Auction(s) held	Items offered	Successful bids	Sell through rate (%)
Modern Art Auction	663,960	△40.8	131,656	△45.7	3	341	267	78.3
Modern Ceramics Auction	125,575	△45.1	26,945	△43.0	2	480	452	94.2
Modern Art Part II Auction	111,525	△36.8	26,643	△31.8	3	767	693	90.4
Other auctions	255,360	△48.5	59,641	△39.1	5	1,717	1,123	65.4
Auctions business - total	1,156,420	△42.8	244,887	△42.6	13	3,305	2,535	76.7
Private sale	114,336	2.7	98,530	9.6				
Others	54,047	38.0	48,570	79.4				
Other auction related business - total	168,384	11.9	147,101	25.7				
Auction related business - total	1,324,804	△39.0	391,989	△27.9				

(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. "Other auctions" are held from time to time depending on how many items are offered.

i) Auction business

During the current second quarter consolidated cumulative period, the Company held Modern Art Auctions and Modern Art Part II Auctions three times respectively; Modern Ceramics Auctions and Bags/Jewellery & Watches Auctions twice respectively; as well as Western Art Auctions, Wine Auctions and Post-War & Contemporary Art Auction once respectively; so thirteen occasions in total.

During the corresponding period of previous year, Modern Ceramics Auction (including antique art) and Bags/Jewellery & Watches Auction were held once respectively in November for the sake of schedule, and one special auction was also held, meaning sixteen occasions in total. Fewer auctions in the current period resulted in decreased overall handling volume as compared to the previous year. In addition, during the current second quarter consolidated cumulative period, average successful bid value largely slowed down as compared to the previous year and our core business of Modern Art Auction could not eventually cover such slowdown in the achievements of auctions held in July.

In terms of other auctions, Post-War & Contemporary Art Auction held in October resulted in much lower achievement as compared to the previous year, affected by the slump in overseas auction markets.

ii) Other auction related business

Private Sale department put continuous efforts to deal actively during the current second quarter consolidated cumulative period, and achieved almost same level as the previous year. By and large, both handling volume and net sales increased as compared to the 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 robust, resulting in 61 of those sold during the current second quarter consolidated cumulative period (34 sold during the previous second quarter consolidated cumulative period). In addition, Chichibu-Oonohara Photovoltaic Station (2 MW) owned by the Group started its operation in October, which, together with other electric power selling business by using its own photovoltaic installations and wind power installations, contributed to the Group's performance, leading to net sales of 1,398,436,000 yen (increase by 18.3% YoY) and segment income of 101,096,000 yen (decrease by 21.3% YoY) in the current second quarter consolidated cumulative period. It should be noted that, during the previous second quarter consolidated cumulative period, Hokita Photovoltaic Station was sold, so there are considerable differences in composition of sales and in profit rate between the current period and the previous period. Segment income decreased as compared to the previous year.

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 second quarter consolidated cumulative period was as follows: net sales of 1,794,510,000 yen (increase by 3.9% and 68,107,000 yen YoY), operating loss of 934,000 yen (decrease by 170,626,000 yen as compared to operating income of 169,692,000 yen in the previous year), ordinary loss of 36,371,000 yen (decrease by 197,093,000 yen as compared to ordinary income of 160,722,000 yen in the previous year), and quarterly net loss attributable to owners of parent of 37,635,000 yen (decrease by 134,433,000 yen as compared to net income attributable to owners of parent of 96,798,000 yen in the previous year).

(2) Descriptions regarding financial position**(Assets)**

Total assets was 5,599,655,000 yen at the end of the current second quarter consolidated fiscal period, i.e. increase by 1,640,468,000 yen as compared to the end of the previous consolidated fiscal year. It comprises mainly increase in merchandise by 201,964,000 yen, increase in advance payments by 984,990,000 yen, increase in machinery by 743,291,000 yen, decrease in cash and deposits by 215,839,000 yen, and decrease in accounts receivable - trade by 207,346,000 yen.

(Liabilities)

Total liabilities was 3,795,110,000 yen at the end of the current second quarter consolidated fiscal period, i.e. increase by 1,608,898,000 yen as compared to the end of the previous consolidated fiscal year. It comprises mainly increase in short-term loans payable by 1,024,800,000 yen, increase in current portion of long-term loans payable by 75,000,000 yen, increase in long-term accounts payable-installment purchase by 638,267,000 yen, decrease in accounts payable - other from auction business by 80,577,000 yen, and decrease in income taxes payable by 58,568,000 yen.

(Net assets)

Total net assets was 1,804,544,000 yen at the end of the current second quarter consolidated fiscal period, i.e. increase by 31,570,000 yen as compared to the end of the previous consolidated fiscal year. It comprises mainly increase in capital stock by 56,724,000 yen, increase in capital surplus by 56,724,000 yen, and decrease in retained earnings by 77,759,000 yen.

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

Differences between performance forecasts and actual achievements in the current second quarter consolidated cumulative period are as described in "Notices concerning differences between performance forecasts and actual achievements for the second quarter cumulative period of FY05/2017" published on this day, January 12, 2017.

There is no change in consolidated performance forecasts for the full term of FY05/2017, 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

(Thousand yen; △ means negative)

	Previous consolidated fiscal year (May 31, 2016)	Current second quarter consolidated fiscal period (November 30, 2016)
Assets		
Current assets		
Cash and deposits	2,065,625	1,849,785
Accounts receivable - trade	256,556	49,209
Accounts receivable - other from auction business	228,001	120,138
Merchandise	626,822	828,786
Work in process	5,990	5,990
Advance payments	199,085	1,184,075
Other	184,530	291,548
Allowance for doubtful accounts	△412	△251
Total current assets	3,566,198	4,329,283
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	4,269	3,575
Machinery, equipment and vehicles (net)	252,465	995,756
Land	30,500	119,740
Other (net)	2,331	2,162
Total property, plant and equipment	289,566	1,121,234
Intangible assets		
Software	5,741	5,091
Total intangible assets	5,741	5,091
Investments and other assets		
Other	111,544	157,991
Allowance for doubtful accounts	△13,864	△13,946
Total investments and other assets	97,680	144,045
Total non-current assets	392,988	1,270,371
Total assets	3,959,187	5,599,655
Liabilities		
Current liabilities		
Accounts payable - trade	65,219	29,695
Accounts payable - other from auction business	350,817	270,240
Short-term loans payable	982,500	2,007,300
Current portion of long-term loans payable	61,172	136,172
Income taxes payable	98,438	39,870
Provision for bonuses	18,675	33,323
Provision for directors' bonuses	58,232	21,519
Other	143,419	216,945
Total current liabilities	1,778,474	2,755,066
Non-current liabilities		
Long-term loans payable	327,556	321,970
Liabilities on retirement benefits	42,550	44,100
Long-term accounts payable-installment purchase	—	638,267
Other	37,632	35,707
Total non-current liabilities	407,738	1,040,044
Total liabilities	2,186,212	3,795,110

(Thousand yen; △ means negative)

	Previous consolidated fiscal year (May 31, 2016)	Current second quarter consolidated fiscal period (November 30, 2016)
Net assets		
Shareholders' equity		
Capital stock	930,457	987,181
Capital surplus	535,740	592,464
Retained earnings	524,385	446,625
Treasury shares	△223,655	△223,655
Total shareholders' equity	1,766,928	1,802,616
Accumulated other comprehensive income		
Foreign currency translation adjustment	△1,864	△3,267
Total accumulated other comprehensive income	△1,864	△3,267
Subscription rights to shares	5,210	3,616
Non-controlling interests	2,699	1,579
Total net assets	1,772,974	1,804,544
Total liabilities and net assets	3,959,187	5,599,655

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

	(Thousand yen)	
	Previous second quarter consolidated cumulative period (June 1, 2015 - November 30, 2015)	Current second quarter consolidated cumulative period (June 1, 2016 - November 30, 2016)
Net sales	1,726,403	1,794,510
Cost of sales	1,082,831	1,329,165
Gross profit	643,571	465,344
Selling, general and administrative expenses	473,879	466,279
Operating income or loss (Δ)	169,692	Δ 934
Non-operating income		
Interest income	263	328
Refunded consumption taxes	918	—
Gain on forfeiture of unclaimed dividends	160	68
Gain on valuation of derivatives	—	2,313
Reversal of allowance for doubtful accounts	—	405
Other	278	709
Total non-operating income	1,620	3,824
Non-operating expenses		
Interest expenses	8,154	16,082
Loss on valuation of derivatives	1,125	—
Commission fee	—	23,178
Other	1,311	1
Total non-operating expenses	10,591	39,261
Ordinary income or loss (Δ)	160,722	Δ 36,371
Extraordinary income		
Gain on reversal of subscription rights to shares	3,474	1,592
Total extraordinary income	3,474	1,592
Net income or loss (Δ) before income taxes and minority interests	164,196	Δ 34,779
Income taxes - current	73,830	30,617
Income taxes - deferred	Δ 5,805	Δ 27,603
Total income taxes	68,025	3,013
Net income or loss (Δ)	96,170	Δ 37,792
Net income or loss (Δ) attributable to non-controlling shareholders	Δ 627	Δ 157
Net income or loss (Δ) attributable to owners of parent	96,798	Δ 37,635

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

(Thousand yen; △ means negative)

	Previous second quarter consolidated cumulative period (June 1, 2015 - November 30, 2015)	Current second quarter consolidated cumulative period (June 1, 2016 - November 30, 2016)
Net income or loss (△)	96,170	△37,792
Other comprehensive income		
Foreign currency translation adjustment	—	△2,365
Total other comprehensive income	—	△2,365
Comprehensive income	96,170	△40,158
(detail)		
Comprehensive income attributable to owners of parent	96,798	△39,037
Comprehensive income attributable to non-controlling interests	△627	△1,120

(3) Quarterly Consolidated Cash flow Statement

(Thousand yen)

	Previous second quarter consolidated cumulative period (June 1, 2015 - November 30, 2015)	Current second quarter consolidated cumulative period (June 1, 2016 - November 30, 2016)
Cash flow from operating activities		
Income or loss (Δ) before income taxes and minority interests	164,196	Δ 34,779
Depreciation	17,828	17,775
Increase or decrease (Δ) in allowance for doubtful accounts	Δ 12	Δ 78
Increase or decrease (Δ) in provision for bonuses	32,187	14,648
Increase or decrease (Δ) in provision for directors' bonuses	45,526	Δ 36,713
Increase or decrease (Δ) in liabilities for retirement benefits	2,050	1,550
Interest and dividends income	Δ 263	Δ 328
Interest expenses	8,154	16,082
Gain on reversal of subscription rights to shares	Δ 3,474	Δ 1,592
Decrease or increase (Δ) in notes and accounts receivable - trade	Δ 54,831	207,346
Decrease or increase (Δ) in accounts receivable - other from auction business	Δ 11,859	107,862
Decrease or increase (Δ) in inventories	Δ 45,744	Δ 201,964
Decrease or increase (Δ) in advance payments	Δ 111,460	Δ 984,990
Increase or decrease (Δ) in notes and accounts payable-trade	28,647	Δ 35,523
Increase or decrease (Δ) in accounts payable - other from auction business	271,187	Δ 80,577
Loss or gain (Δ) on valuation of derivatives	1,125	Δ 2,313
Other	79,430	Δ 16,819
Subtotal	422,688	Δ 1,030,416
Interest and dividends income received	292	377
Interest expenses paid	Δ 8,106	Δ 16,269
Income taxes paid	Δ 40,792	Δ 99,535
Net cash provided by or used in (Δ) operating activities	374,082	Δ 1,145,843
Cash flow from investing activities		
Collection of loans receivable	8,951	—
Purchase of property, plant and equipment	Δ 24,108	Δ 848,793
Payments into time deposits	Δ 425,000	Δ 961,525
Proceeds from withdrawal of time deposits	375,000	826,640
Payments for investments in capital	Δ 20	—
Payments for lease and guarantee deposits	Δ 2,404	—
Proceeds from collection of lease and guarantee deposits	245	—
Net cash provided by or used in (Δ) investing activities	Δ 67,336	Δ 983,679
Cash flows from financing activities		
Net increase or decrease (Δ) in short-term loans payable	32,500	1,005,443
Proceeds from long-term loans payable	—	100,000
Repayments of long-term loans payable	Δ 268,301	Δ 30,586
Proceeds from issuance of common shares	6,560	113,446
Purchase of treasury stock	Δ 2,125	—
Cash dividends paid	Δ 33,956	Δ 39,687
Proceeds from sale and installment back deal	—	800,280
Payments for sale and installment back deal	—	Δ 168,620
Proceeds from issuance of subscription rights to shares	450	—
Net cash provided by or used in (Δ) financing activities	Δ 264,872	1,780,276
Effect of exchange rate change on cash and cash equivalents	Δ 546	Δ 1,478
Net increase or decrease (Δ) in cash and cash equivalents	41,326	Δ 350,725
Cash and cash equivalents at beginning of period	971,531	1,277,375
Cash and cash equivalents at the end of period	1,012,857	926,650

(4) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

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

The Company received payment for third party allocation of new shares from ELITE FAME INVESTMENTS LIMITED, effective on November 14, 2016. This resulted in increase in both capital stock of 56,430,000 yen and legal capital surplus of 56,430,000 yen in the current second quarter consolidated cumulative period. In addition, execution of subscription rights to shares resulted in capital stock of 987,181,000 yen and legal capital surplus of 591,931,000 yen at the end of the current second quarter consolidated fiscal period.

(Segment Information, etc.)

【Segment Information】

I. Previous second quarter consolidated cumulative period (June 1, 2015 - November 30, 2015)

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

	Reportable segments			Others (see Note)	Total
	Auction related business	Energy related business	Subtotal		
Net sales	543,653	1,182,090	1,725,743	659	1,726,403
Segment income or loss (Δ)	43,316	128,437	171,754	Δ 2,061	169,692

(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 (Δ) is in agreement with the operating income 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 second quarter consolidated cumulative period (June 1, 2016 - November 30, 2016)

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

	Reportable segments			Others (see Note)	Total
	Auction related business	Energy related business	Subtotal		
Net sales	391,989	1,398,436	1,790,425	4,085	1,794,510
Segment income or loss (Δ)	Δ 101,529	101,096	Δ 433	Δ 501	Δ 934

(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 (Δ) is in agreement with the operating loss (Δ) 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.