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October 12, 2017

Summary of Financial Results of the First Quarter of the Fiscal Year ending May 31, 2018
[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: October 13, 2017

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, 2018 (Jun. 1, 2017 – August 31, 2017)

(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 FY05/2018 | 301 | △71.8 | △153 | — | △163 | — | △108 | — |
| 1Q FY05/2017 | 1,071 | 135.1 | 5 | — | △2 | — | △10 | — |

(Note) Comprehensive income 1Q FY05/2018: △108 million yen (—%)

1Q FY05/2017: △11 million yen (—%)

| | Quarterly net income per share | Diluted quarterly net income per share |
|--------------|--------------------------------|--|
| | Yen | Yen |
| 1Q FY05/2018 | △17.74 | — |
| 1Q FY05/2017 | △1.76 | — |

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|--------------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| 1Q FY05/2018 | 5,670 | 1,993 | 35.1 | 316.28 |
| FY05/2017 | 6,432 | 2,010 | 31.2 | 330.56 |

(Reference) Shareholders equity: 1Q FY05/2018: 1,988 million yen

FY05/2017: 2,004 million yen

2. Dividends

| | Annual dividend per share | | | | |
|-----------------------|---------------------------|--------|--------|----------|-------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| FY05/2017 | — | 0.00 | — | 7.20 | 7.20 |
| FY05/2018 | — | | | | |
| FY05/2018 (forecasts) | | 0.00 | — | 7.20 | 7.20 |

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

3. Consolidated performance forecasts for the Fiscal Year ending May 31, 2018

(Jun. 1, 2017 – May 31, 2018)

(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) | 2,249 | 25.4 | 139 | — | 102 | — | 59 | — | 9.88 |
| Full term | 5,960 | 11.5 | 432 | 18.6 | 374 | 23.5 | 227 | 37.0 | 37.58 |

(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 FY05/2018: 7,150,900 shares
 - FY05/2017: 6,926,900 shares
 - 2) Number of treasury stock at the end of the period
 - 1Q FY05/2018: 862,800 shares
 - FY05/2017: 862,800 shares
 - 3) Average number of shares outstanding during the period (quarterly cumulative)
 - 1Q FY05/2018: 6,137,252 shares
 - 1Q FY05/2017: 5,732,100 shares

* Quarterly summary of financial results is not covered by quarterly review.

*** 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 as reasonable, and those are not intended to indicate the Company should assure that it would realize such forecasts. Meanwhile, actual performance in the future may differ substantially, influenced by a wide variety of factors.

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

During the current first quarter consolidated cumulative period (Jun. 1, 2017 - Aug. 31, 2017), 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", as well as impacts of global geopolitical risks, 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 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 in order for preparation of starting-up its new business, and put its efforts into building up the entire Group's 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 427,442,000 yen (up 42.5% YoY), net sales was 159,982,000 yen (up 18.9% YoY), and segment loss was 113,025,000 yen (in comparison, it was 96,386,000 yen in the same period of 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.

The operating results for each business category are as follows.

| Category | 1Q FY05/2018 (consolidated cumulative period) June 1, 2017 - August 31, 2017 | | | | | | | |
|---|---|------------|--------------------------------|------------|--------------------|------------------|--------------------|-----------------------------|
| | Volume (thousand yen) | YoY (%) | Net sales (thousand yen) | YoY (%) | Auction(s) held | Items offered | Successful bids | Sell through rate (%) |
| Modern Art Auction | 178,030 | 133.3 | 46,746 | 199.9 | 1 | 100 | 79 | 79.0 |
| Modern Ceramics Auction | 90,455 | 38.6 | 17,501 | 34.1 | 1 | 179 | 173 | 96.7 |
| Modern Art Part II Auction | 44,565 | 15.9 | 10,754 | 17.0 | 1 | 292 | 258 | 88.4 |
| Other auctions | 30,590 | 66.3 | 6,730 | 55.9 | 1 | 616 | 327 | 53.1 |
| Auctions business - total | 343,640 | 73.2 | 81,733 | 93.9 | 4 | 1,187 | 837 | 70.5 |
| Private sale | 64,946 | △11.1 | 58,692 | △8.8 | | | | |
| Others | 18,856 | △33.8 | 19,556 | △30.3 | | | | |
| Other auction related business - total | 83,802 | △17.5 | 78,249 | △15.3 | | | | |
| Auction related business - total | 427,442 | 42.5 | 159,982 | 18.9 | | | | |

(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 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.

Modern Art Auction has seen increase in numbers of items offered by 26.6% YoY and increase in numbers of successful bids by 31.7% YoY, and ratio of successful bid value relative to the estimated minimum sum was as high as 109.8% on average, with average successful bid value increased by 76.8% YoY.

Modern Ceramics Auction has seen, because of constantly good performance of auctions held in July including antique arts, increase in numbers of items offered by 5.9% YoY and increase in numbers of successful bids by 13.1% YoY, and ratio of successful bid value relative to the estimated minimum sum was as high as 169.6% on average.

As for Modern Art Part II Auction, both numbers of items offered and of successful bids increased by 7.7% and 2.4%, respectively YoY. Average successful bid value increased by 13.1% YoY, and ratio of successful bid value relative to the estimated minimum sum was as high as 169.2% on average.

ii) Other auction related business

Private Sale department put continuous efforts to deal actively during the current first quarter consolidated cumulative period, but experienced decrease both in handling volume and net sales as compared to the previous year. It should be noted that during the first quarter consolidated cumulative period the Company established its wholly-owned subsidiary being specialized in gallery business, named Shinwa Prive Co., Ltd, taking into account the global trends for auction companies to have separately gallery function, that led to building up its preparedness to respond customers' needs with fine and careful consideration.

② Energy related business

With respect to sales of low-pressure type photovoltaic power generation installations of 50 kW class, demands shifted from those aiming at making use of the taxation system for promoting investment on productivity improvement equipment to those aiming at investment yield, and therefore the Company has, during the current first quarter consolidated cumulative period, concentrated its efforts to purchasing photovoltaic installations for investment with a perspective of profitability, and accordingly only four installations were sold during the current first quarter consolidated cumulative period. In Malaysia, PKS business was started in full scale, and efforts were made to develop routes for purchase and sales activities. In addition, electric power selling business by using its own photovoltaic installations has contributed to the Group's performance, leading to net sales of 134,252,000 yen (decrease by 85.7% YoY) and segment loss of 42,689,000 yen (as opposed to segment income of 102,534,000 yen in the same period of the previous year) in the current first quarter consolidated cumulative period.

③ Others

APEC CO., LTD., a subsidiary of SHINWA, entered into wealth management business centered on interfacing overseas real-estate sales activities, and started its business of finding out individuals in Japan who wish to buy second-hand real-estate located in Texas, USA, and making referral to local real-estate dealers for them. Also, SHINWA MICROFINANCE COMPANY LIMITED, a sub-subsidiary of SHINWA, obtained a microfinance license in Republic of the Union of Myanmar and started preparation for its microfinance business to be started as soon as possible.

In such context, performance of the current first quarter consolidated cumulative period was as follows: net sales of 301,778,000 yen (decrease by 71.8% YoY), operating loss of 153,140,000 yen (as opposed to operating income of 5,677,000 yen in the previous year), ordinary loss of 163,937,000 yen (in comparison, it was 2,540,000 yen in the same period of the previous year), and quarterly net loss attributable to owners of parent of 108,886,000 yen (in comparison, it was 10,112,000 yen in the same period of the previous year).

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

Total assets was 5,670,212,000 yen at the end of the current first quarter consolidated fiscal period, i.e. decrease by 761,998,000 yen as compared to the end of previous consolidated fiscal year. It comprises mainly decrease in accounts payable - other from auction business by 127,673,000 yen, decrease in accounts receivable - trade by 1,196,009,000 yen, increase in advance payment by 315,553,000 yen, and increase in other current assets by 177,299,000 yen.

(Liabilities)

Total liabilities was 3,676,260,000 yen at the end of the current first quarter consolidated fiscal period, i.e. decrease by 745,593,000 as compared to the end of previous consolidated fiscal year. It comprises mainly decrease in accounts payable - other from auction business by 272,253,000 yen and decrease in short-term loans payable by 373,200,000 yen.

(Net assets)

Total net assets was 1,993,952,000 yen at the end of the current first quarter consolidated fiscal period, i.e. decrease by 16,405,000 yen as compared to the end of previous consolidated fiscal year. It comprises mainly increase in capital stock by 68,365,000 yen, increase in capital surplus by 68,365,000 yen, and decrease in retained earnings by 152,547,000 yen.

(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, 2017" published on July 14, 2017.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousand yen; △ means negative)

| | Previous consolidated fiscal year (May 31, 2017) | Current first quarter consolidated fiscal period (August 31, 2017) |
|---|--|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,617,433 | 1,669,682 |
| Accounts receivable - trade | 1,957,424 | 761,415 |
| Accounts receivable - other from auction business | 134,285 | 6,612 |
| Merchandise | 884,064 | 881,054 |
| Work in process | 600 | 600 |
| Advance payments | 95,777 | 411,330 |
| Other | 337,308 | 514,608 |
| Allowance for doubtful accounts | △453 | △103 |
| Total current assets | 5,026,441 | 4,245,200 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures (net) | 3,344 | 3,148 |
| Machinery, equipment and vehicles (net) | 979,832 | 966,631 |
| Land | 122,760 | 122,760 |
| Other (net) | 10,401 | 10,389 |
| Total property, plant and equipment | 1,116,339 | 1,102,929 |
| Intangible assets | | |
| Software | 4,441 | 15,231 |
| Total intangible assets | 4,441 | 15,231 |
| Investments and other assets | | |
| Stocks of subsidiaries and affiliates | 102,657 | 108,186 |
| Other | 196,251 | 212,536 |
| Allowance for doubtful accounts | △13,921 | △13,870 |
| Total investments and other assets | 284,988 | 306,851 |
| Total non-current assets | 1,405,769 | 1,425,012 |
| Total assets | 6,432,210 | 5,670,212 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 119,855 | 52,775 |
| Accounts payable - other from auction business | 274,696 | 2,442 |
| Short-term loans payable | 2,226,035 | 1,852,835 |
| Current portion of long-term loans payable | 287,972 | 358,172 |
| Income taxes payable | 6,201 | 2,497 |
| Provision for bonuses | 42,094 | 6,751 |
| Provision for directors' bonuses | 57,255 | 6,608 |
| Other | 257,940 | 296,161 |
| Total current liabilities | 3,272,049 | 2,578,243 |
| Non-current liabilities | | |
| Long-term loans payable | 334,584 | 302,791 |
| Liabilities on retirement benefits | 46,600 | 45,650 |
| Long-term accounts payable-installment purchase | 611,304 | 597,822 |
| Other | 157,315 | 151,752 |
| Total non-current liabilities | 1,149,803 | 1,098,016 |
| Total liabilities | 4,421,853 | 3,676,260 |

(Thousand yen; △ means negative)

| | Previous consolidated fiscal year (May 31, 2017) | Current first quarter consolidated fiscal period (August 31, 2017) |
|--|--|--|
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 987,181 | 1,055,546 |
| Capital surplus | 592,464 | 660,830 |
| Retained earnings | 650,576 | 498,028 |
| Treasury shares | △223,655 | △223,655 |
| Total shareholders' equity | 2,006,566 | 1,990,749 |
| Accumulated other comprehensive income | | |
| Foreign currency translation adjustment | △2,035 | △1,932 |
| Total accumulated other comprehensive income | △2,035 | △1,932 |
| Subscription rights to shares | 3,616 | 2,862 |
| Non-controlling interests | 2,210 | 2,273 |
| Total net assets | 2,010,357 | 1,993,952 |
| Total liabilities and net assets | 6,432,210 | 5,670,212 |

(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, 2016 - August 31, 2016) | Current first quarter consolidated cumulative period (June 1, 2017 - August 31, 2017) |
| Net sales | 1,071,426 | 301,778 |
| Cost of sales | 842,152 | 187,749 |
| Gross profit | 229,273 | 114,028 |
| Selling, general and administrative expenses | 223,596 | 267,169 |
| Operating income or loss (△) | 5,677 | △153,140 |
| Non-operating income | | |
| Interest income | 158 | 118 |
| Foreign exchange gains | — | 258 |
| Gain on forfeiture of unclaimed dividends | 68 | 137 |
| Gain on valuation of derivatives | 505 | 419 |
| Reversal of allowance for doubtful accounts | 405 | 400 |
| Other | 551 | 495 |
| Total non-operating income | 1,689 | 1,830 |
| Non-operating expenses | | |
| Interest expenses | 7,850 | 8,532 |
| Foreign exchange losses | 2,056 | — |
| Commission fee | — | 4,094 |
| Total non-operating expenses | 9,907 | 12,627 |
| Ordinary loss (△) | △2,540 | △163,937 |
| Net loss before income taxes and minority interests (△) | △2,540 | △163,937 |
| Income taxes - current | 33,143 | △1,031 |
| Income taxes - deferred | △25,417 | △54,011 |
| Total income taxes | 7,726 | △55,043 |
| Net loss (△) | △10,267 | △108,894 |
| Net loss attributable to non-controlling shareholders (△) | △154 | △7 |
| Net loss attributable to owners of parent (△) | △10,112 | △108,886 |

(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, 2016 - August 31, 2016) | Current first quarter consolidated cumulative period (June 1, 2017 - August 31, 2017) |
|--|--|---|
| Net loss (△) | △10,267 | △108,894 |
| Other comprehensive income | | |
| Foreign currency translation adjustment | △742 | 173 |
| Total other comprehensive income | △742 | 173 |
| Comprehensive income | △11,010 | △108,720 |
| (detail) | | |
| Comprehensive income attributable to owners of parent | △10,555 | △108,783 |
| Comprehensive income attributable to non-controlling interests | △455 | 63 |

(3) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)
Not applicable.

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

During the current first quarter consolidated cumulative period, execution of subscription rights to shares resulted in increase in number of outstanding shares by 224,000 shares. This has led to increase both in capital stock and capital surplus by 68,365,000 yen respectively, and thus at the end of the current first quarter consolidated fiscal period capital stock was 1,055,546,000 yen and capital surplus was 660,830,000 yen.

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

Since the current first quarter consolidated fiscal period, Shinwa Prive Co., Ltd. has been established and included in the scope of consolidation. Also, as part of preparation for the Group's transition to a holding company scheme, it has established its wholly-owned split preparation company named Shinwa Auction Co., Ltd., which has been included in the scope of consolidation since the current first quarter consolidated fiscal period.

(Segment Information, etc.)

【Segment Information】

I. Previous first quarter consolidated cumulative period (June 1, 2016 - August 31, 2016)

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 | 134,578 | 936,287 | 1,070,866 | 560 | 1,071,426 |
| Segment income or loss (Δ) | Δ 96,386 | 102,534 | 6,147 | Δ 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 (Δ) 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, 2017 - August 31, 2017)

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 | 159,982 | 134,252 | 294,234 | 7,543 | 301,778 |
| Segment income or loss (Δ) | Δ 113,025 | Δ 42,689 | Δ 155,714 | 2,574 | Δ 153,140 |

(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 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.