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April 12, 2017

Summary of Financial Results of the Third 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: April 14, 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 Third Quarter of the Fiscal Year ending May 31, 2017 (Jun. 1, 2016 – Feb. 28, 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	%
3Q FY05/2017	2,207	△10.2	△67	—	△112	—	△100	—
3Q FY05/2016	2,456	88.0	134	—	115	—	33	—

(Note) Comprehensive income 3Q FY05/2017: △100 million yen (—%)
 3Q FY05/2016: 33 million yen (—%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
3Q FY05/2017	△17.20	—
3Q FY05/2016	5.89	5.85

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
3Q FY05/2017	5,911	1,743	29.4	286.58
FY05/2016	3,959	1,772	44.6	307.93

(Reference) Shareholders equity: 3Q FY05/2017: 1,737 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)
 - 3Q FY05/2017: 6,926,900 shares
 - FY05/2016: 6,594,900 shares
 - 2) Number of treasury stock at the end of the period
 - 3Q FY05/2017: 862,800 shares
 - FY05/2016: 862,800 shares
 - 3) Average number of shares outstanding during the period (quarterly cumulative)
 - 3Q FY05/2017: 5,862,583 shares
 - 3Q FY05/2016: 5,718,617 shares

*** These quarterly financial results are not the subject of a quarterly review procedure.**

*** 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 third quarter consolidated cumulative period (Jun. 1, 2016 – Feb. 28, 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", 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 third quarter consolidated cumulative period, handling volume was 1,882,284,000 yen (down 27.5% YoY), net sales was 551,580,000 yen (down 19.6% YoY), and segment loss was 154,337,000 yen (40,035,000 yen in the corresponding period of previous year).

The operating results for each business category are as follows.

Category	3Q FY05/2017 (consolidated cumulative period) June 1, 2016 - February 28, 2017							
	Volume (thousand yen)	YoY (%)	Net sales (thousand yen)	YoY (%)	Auction(s) held	Items offered	Successful bids	Sell through rate (%)
Modern Art Auction	875,490	△33.2	197,707	△31.8	4	436	347	79.6
Modern Ceramics Auction	263,325	5.1	52,910	3.4	3	651	616	94.6
Modern Art Part II Auction	150,095	△29.0	35,753	△25.0	4	1,062	952	89.6
Other auctions	374,820	△36.8	85,473	△27.3	8	3,182	1,932	60.7
Auctions business - total	1,663,730	△29.7	371,844	△26.6	19	5,331	3,847	72.2
Private sale	147,208	△14.1	122,961	△9.8				
Others	71,346	18.2	56,774	30.4				
Other auction related business - total	218,554	△5.7	179,736	△0.0				
Auction related business - total	1,882,284	△27.5	551,580	△19.6				

(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 cumulative fiscal period.

i) Auction business

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

During the corresponding period of previous year, number of Modern Ceramics Auctions (including antique art) held was higher by one, and one special auction was also held, meaning 21 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 third 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, 2016.

In terms of other auctions, Post-War & Contemporary Art Auction held in October, 2016, 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 third quarter consolidated cumulative period. Elsewhere, services for purchasing precious metals were also carried out actively, which unfortunately resulted in slight decrease in both handling volume and net sales 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 72 of those sold during the current third quarter consolidated cumulative period (60 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, contributed to the Group's performance, leading to net sales of 1,651,434,000 yen (decrease by 6.6% YoY) and segment income of 87,669,000 yen (decrease by 50.1% YoY) in the current third 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. In addition, business of selling supplement foods also started.

In such context, performance of the current third quarter consolidated cumulative period was as follows: net sales of 2,207,153,000 yen (decrease by 10.2% YoY), operating loss of 67,712,000 yen (as opposed to operating income of 134,350,000 yen in the previous year), ordinary loss of 112,760,000 yen (as opposed to ordinary income of 115,575,000 yen in the previous year), and quarterly net loss attributable to owners of parent of 100,808,000 yen (as opposed to net income attributable to owners of parent of 33,687,000 yen in the previous year).

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

Total assets was 5,911,453,000 yen at the end of the current third quarter consolidated fiscal period, i.e. increase by 1,952,266,000 yen as compared to the end of previous consolidated fiscal year. It comprises mainly decrease in cash and deposits by 358,575,000 yen, decrease in accounts receivable-other from auction business by 204,445,000 yen, decrease in accounts receivable - trade by 204,605,000 yen, increase in advance payment by 1,460,240,000 yen, increase in machinery, equipment and vehicles by 743,080,000 yen, increase in merchandise by 145,436,000 yen, increase in current liabilities - other by 157,966,000 yen, and increase in investment and other assets - other by 114,006,000 yen.

(Liabilities)

Total liabilities was 4,167,470,000 yen at the end of the current third quarter consolidated fiscal period, i.e. increase by 1,981,257,000 yen as compared to the end of previous consolidated fiscal year. It comprises mainly decrease in accounts payable - auction business by 276,664,000 yen, increase in long-term loans payable (including current portion) by 254,121,000 yen, increase in short-term loans payable 1,300,000,000 yen, and increase in long-term accounts payable-installment purchase by 624,785,000 yen.

(Net assets)

Total net assets was 1,743,983,000 yen at the end of the current third quarter consolidated fiscal period, i.e. decrease by 28,990,000 yen as compared to the end of 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 140,933,000 yen.

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

With respect to performance forecasts for the fiscal year ending May 31, 2017, upon consideration of actual results of the current third quarter consolidated cumulative period and the present business circumstances and business environment at this point, current financial position is largely within the performance forecasts as announced on July 13, 2016, and there is no change in such forecasts at this point.

Meanwhile, actual performance in the future may differ from these forecasts, influenced by a wide variety of factors.

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 third quarter consolidated fiscal period (February 28, 2017)
Assets		
Current assets		
Cash and deposits	2,065,625	1,707,050
Accounts receivable - trade	256,556	51,950
Accounts receivable - other from auction business	228,001	23,555
Merchandise	626,822	772,258
Work in process	5,990	7,800
Advance payments	199,085	1,659,325
Other	184,530	342,496
Allowance for doubtful accounts	△412	△102
Total current assets	3,566,198	4,564,334
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	4,269	3,228
Machinery, equipment and vehicles (net)	252,465	995,546
Land	30,500	121,560
Other (net)	2,331	10,412
Total property, plant and equipment	289,566	1,130,747
Intangible assets		
Software	5,741	4,766
Total intangible assets	5,741	4,766
Investments and other assets		
Other	111,544	225,551
Allowance for doubtful accounts	△13,864	△13,946
Total investments and other assets	97,680	211,605
Total non-current assets	392,988	1,347,119
Total assets	3,959,187	5,911,453
Liabilities		
Current liabilities		
Accounts payable - trade	65,219	3,895
Accounts payable - other from auction business	350,817	74,153
Short-term loans payable	982,500	2,282,500
Current portion of long-term loans payable	61,172	271,172
Income taxes payable	98,438	1,279
Provision for bonuses	18,675	9,992
Provision for directors' bonuses	58,232	24,669
Other	143,419	428,361
Total current liabilities	1,778,474	3,096,022
Non-current liabilities		
Long-term loans payable	327,556	371,677
Liabilities on retirement benefits	42,550	45,000
Long-term accounts payable-installment purchase	—	624,785
Other	37,632	29,984
Total non-current liabilities	407,738	1,071,447
Total liabilities	2,186,212	4,167,470

(Thousand yen; △ means negative)

	Previous consolidated fiscal year (May 31, 2016)	Current third quarter consolidated fiscal period (February 28, 2017)
Net assets		
Shareholders' equity		
Capital stock	930,457	987,181
Capital surplus	535,740	592,464
Retained earnings	524,385	383,452
Treasury shares	△223,655	△223,655
Total shareholders' equity	1,766,928	1,739,442
Accumulated other comprehensive income		
Foreign currency translation adjustment	△1,864	△1,620
Total accumulated other comprehensive income	△1,864	△1,620
Subscription rights to shares	5,210	3,616
Non-controlling interests	2,699	2,544
Total net assets	1,772,974	1,743,983
Total liabilities and net assets	3,959,187	5,911,453

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

	(Thousand yen; △ means negative)	
	Previous third quarter consolidated cumulative period (June 1, 2015 - February 29, 2016)	Current third quarter consolidated cumulative period (June 1, 2016 - February 28, 2017)
Net sales	2,456,618	2,207,153
Cost of sales	1,648,632	1,604,419
Gross profit	807,986	602,734
Selling, general and administrative expenses	673,636	670,446
Operating income or loss (△)	134,350	△67,712
Non-operating income		
Interest income	463	435
Refunded consumption taxes	222	—
Gain on forfeiture of unclaimed dividends	160	68
Gain on valuation of derivatives	—	3,222
Reversal of allowance for doubtful accounts	411	227
Other	267	1,231
Total non-operating income	1,526	5,184
Non-operating expenses		
Interest expenses	12,480	23,422
Loss on valuation of derivatives	4,824	—
Commission fee	—	26,309
Foreign exchange losses	1,598	—
Other	1,397	501
Total non-operating expenses	20,301	50,232
Ordinary income or loss (△)	115,575	△112,760
Extraordinary income		
Gain on reversal of subscription rights to shares	3,474	1,592
Total extraordinary income	3,474	1,592
Extraordinary losses		
Provision of allowance for doubtful accounts	27,534	—
Loss on valuation of investment securities	—	9,055
Total extraordinary losses	27,534	9,055
Net income or loss (△) before income taxes and minority interests	91,515	△120,223
Income taxes - current	71,958	18,989
Income taxes - deferred	△13,752	△38,070
Total income taxes	58,205	△19,080
Net income or loss (△)	33,309	△101,142
Net income or loss (△) loss attributable to non-controlling shareholders	△377	△334
Net income or loss (△) attributable to owners of parent	33,687	△100,808

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

(Thousand yen; △ means negative)

	Previous third quarter consolidated cumulative period (June 1, 2015 - February 29, 2016)	Current third quarter consolidated cumulative period (June 1, 2016 - February 28, 2017)
Net income or loss (△)	33,309	△101,142
Other comprehensive income		
Foreign currency translation adjustment	—	423
Total other comprehensive income	—	423
Comprehensive income	33,309	△100,719
(detail)		
Comprehensive income attributable to owners of parent	33,687	△100,564
Comprehensive income attributable to non-controlling interests	△377	△155

(3) 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 capital surplus of 56,430,000 yen in the current third quarter consolidated cumulative period. In addition, execution of subscription rights to shares resulted in capital stock of 987,181,000 yen and capital surplus of 592,464,000 yen at the end of the current third quarter consolidated fiscal period.

(Segment Information, etc.)

【Segment Information】

I. Previous third quarter consolidated cumulative period (June 1, 2015 - February 29, 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	686,210	1,767,870	2,454,080	2,538	2,456,618
Segment income or loss (△)	△40,035	175,524	135,489	△1,138	134,350

(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 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 third quarter consolidated cumulative period (June 1, 2016 - February 28, 2017)

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

(Thousand yen)

	Reportable segments			Others (see Note)	Total
	Auction related business	Energy related business	Subtotal		
Net sales	551,580	1,651,434	2,203,015	4,137	2,207,153
Segment income or loss (△)	△154,337	87,669	△66,667	△1,044	△67,712

(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.