

DISCLAIMER

This English translation is only for reference purpose. When there are any discrepancies between original Japanese version and English translation version, the original Japanese version always prevails.

October 10, 2019

Summary of Financial Results of the First Quarter of the Fiscal Year ending May 31, 2020
[Japanese standards] (Consolidated)

Company name: SHINWA WISE HOLDINGS CO., LTD. Stock Exchange listings: Tokyo
 Securities code: 2437 URL: <http://www.shinwa-wise.com>
 Representative: Shinji Hasada, President and Representative Director
 Contact: Yoshiharu Masudo, Executive Officer and Accounting Manager Tel: +81-3-5537-8024
 Scheduled date of filing of quarterly report: October 11, 2019
 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)
 (Δ means negative)

1. Financial Results of the First Quarter of the Fiscal Year ending May 31, 2020 (Jun. 1, 2019 – August 31, 2019)

(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 FY05/2020	270	Δ69.8	Δ164	—	Δ175	—	Δ123	—
1Q FY05/2019	894	196.5	Δ3	—	Δ11	—	Δ26	—

(Note) Comprehensive income 1Q FY05/2020: Δ121 million yen (—%)
 1Q FY05/2019: Δ28 million yen (—%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
1Q FY05/2020	Δ18.74	—
1Q FY05/2019	Δ4.07	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
1Q FY05/2020	4,314	1,842	42.7	269.89
FY05/2019	4,735	1,895	40.0	287.83

(Reference) Shareholders equity: 1Q FY05/2020: 1,842 million yen
 FY05/2019: 1,895 million yen

2. Dividends

	Annual dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY05/2019	—	0.00	—	3.00	3.00
FY05/2020	—	—	—	—	—
FY05/2020 (forecasts)	—	0.00	—	3.00	3.00

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

3. Consolidated performance forecasts for the Fiscal Year ending May 31, 2020
(Jun. 1, 2019 – May 31, 2020)

(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)	1,148	Δ41.5	Δ58	—	Δ69	—	Δ68	—	Δ10.32
Full term	2,726	Δ7.0	79	—	34	—	22	—	3.34

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

FOR TRANSLATION PURPOSE ONLY

***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 FY05/2020: 7,439,900 shares
 - FY05/2019: 7,439,900 shares
 - 2) Number of treasury stock at the end of the period
 - 1Q FY05/2020: 612,862 shares
 - FY05/2019: 852,800 shares
 - 3) Average number of shares outstanding during the period (quarterly cumulative)
 - 1Q FY05/2020: 6,613,174 shares
 - 1Q FY05/2019: 6,448,379 shares

* Quarterly summary of financial results is not included in a quarterly review by a certified public accountant or an auditing firm.

*** 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. For preconditions for performance forecasts and precaution statements in using such forecasts, please see the appendix, page 2, "1. Qualitative information regarding the financial results for 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, 2019 - Aug. 31, 2019), Japanese economy has shown gradual upswing, in conjunction with improved environment for employment/earning and effects of various governmental policies. However, many concerns have become stronger about overseas political/economic uncertainties, fluctuations in the financial capital markets, etc., due to U.S.-China trade conflicts, so-called "Brexit" and others, implying unknown consequences in the future.

In these situations, Japanese domestic art markets have experienced sharp fall in mid/low price range of modern arts and substantial decrease in distribution volume of art markets as a whole, which our auction-related business segment could not disregard.

In the energy related business segment, with respect to large-scale businesses like us, abolishment of the Feed-in Tariff scheme as set out by the Ministry of Economy, Trade and Industry is now under consideration and therefore it has been hard for the sales business of low-pressure type photovoltaic installations to secure new projects from a viewpoint of profitability. On the other hand, PKS business segment in Malaysia continued to put its efforts to higher profitability.

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 436,506,000 yen (down 40.9% YoY), net sales was 232,286,000 yen (down 61.6% YoY), and segment loss was 130,126,000 yen (conversely, segment income of 18,968,000 yen in the corresponding period of previous year).

The operating results for each business category are as follows.

Category	1Q FY05/2020 (consolidated cumulative period) June 1, 2019 - August 31, 2019							
	Volume (thousand yen)	YoY (%)	Net sales (thousand yen)	YoY (%)	Auction(s) held	Items offered	Successful bids	Sell through rate (%)
Modern Art Auction (see Note1)	43,120	—	8,374	—	1	56	42	75.0
Modern Ceramics Auction	119,090	Δ16.0	20,532	Δ29.2	1	183	160	87.4
Modern Art Part II Auction (see Note1)	47,975	—	10,491	—	1	192	176	91.7
Other auctions (see Note 1, 2)	24,770	—	5,436	—	1	552	166	30.1
Auctions business - total	234,955	71.0	44,836	54.3	4	983	544	55.3
Private sale	200,926	Δ66.5	180,209	Δ68.4				
Others (see Note4)	624	Δ16.5	7,240	43.3				
Other auction related business - total	201,551	Δ66.5	187,450	Δ67.4				
Auction related business - total	436,506	Δ40.9	232,286	Δ61.6				

(Note) 1. The previous term (1Q FY05/2019) was mostly overlapped by renovation work of auction venue and construction work of new gallery space for Shinwa Prive Co., Ltd., during which accordingly only one event of Modern Ceramics Auction could be held. As such, records of increase/decrease YoY for other auctions are omitted this time.

- "Other auctions" are held from time to time depending on how many items are offered.
- 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.
- Reversal phenomenon as can be seen in Volume and Net sales of the category "Others" is due to allocating income from catalogues.

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, namely four occasions in total.

As for Modern Ceramics Auction, both numbers of items offered and of successful bids decreased by 13.7% and 16.7%, respectively YoY. Auctions including antique arts continuously achieved good performance, resulting in average successful bid value increased by 1.7% YoY, and ratio of successful bid value relative to the estimated minimum sum was as 128.2%. Elsewhere, ratios of successful bid value relative to the estimated minimum sum were 64.2% for Modern Art Auction and 231.8% for Modern Art Part II Auction, respectively.

Private Sale department has established its preparedness to respond with fine and careful consideration to customers' needs making use of the gallery space created for Shinwa Prive Co., Ltd., proactively dealing with high-valued items and having maintained steady performance. However, both handling volume and net sales decreased as compared to the same period of the previous year during which extraordinarily high-valued items were traded. Elsewhere, business segment of selling high-value diamonds also maintained stable net sales.

② Energy related business

PKS business in Malaysia continued to put its efforts to higher profitability, as well as to exploiting new customers. In addition, electric power selling business by using photovoltaic installations owned by a subsidiary has contributed to the Group's performance, leading to net sales of 35,351,000 yen (decrease by 86.8% YoY) and segment loss of 5,864,000 yen (in comparison, it was 8,675,000 yen in the same period of the previous year) in the current first quarter consolidated cumulative period.

Moreover, efforts were put to improvement in order for the entire Group to become more profitable, such as reexamination of SG&A expenses in each business segment. In such context, the performance of the current first quarter consolidated cumulative period was as follows: net sales of 270,663,000 yen (decrease by 69.8% YoY), operating loss of 164,379,000 yen (in comparison, it was 3,499,000 yen in the same period of the previous year), ordinary loss of 175,470,000 yen (in comparison, it was 11,367,000 yen in the same period of the previous year), and quarterly net loss attributable to owners of parent of 123,903,000 yen (in comparison, it was 26,235,000 yen in the same period of the previous year).

(2) Descriptions regarding financial position

(Assets)

Total assets was 4,314,096,000 yen at the end of the current first quarter consolidated fiscal period, i.e. decrease by 421,580,000 yen as compared to the end of previous consolidated fiscal year. It comprises mainly decrease in cash and deposits by 474,650,000 yen, decrease in accounts receivable - other from auction business by 189,048,000 yen, decrease in advance payments by 60,457,000 yen, and increase in merchandise by 394,521,000 yen.

(Liabilities)

Total liabilities was 2,471,554,000 yen at the end of the current first quarter consolidated fiscal period, i.e. decrease by 368,184,000 as compared to the end of previous consolidated fiscal year. It comprises mainly decrease in accounts payable - auction business by 271,701,000 yen, decrease in short-term loans payable by 366,732,000 yen, and increase in accounts payable by 379,236,000 yen.

(Net assets)

Total net assets was 1,842,542,000 yen at the end of the current first quarter consolidated fiscal period, i.e. decrease by 53,395,000 yen as compared to the end of previous consolidated fiscal year. It comprises mainly increase in capital surplus by 34,747,000 yen, decrease in capital stock by 62,185,000 yen, and decrease in retained earnings by 152,285,000 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, 2019" published on July 12, 2019.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousand yen; Δ means negative)

	Previous consolidated fiscal year (May 31, 2019)	Current first quarter consolidated fiscal period (August 31, 2019)
Assets		
Current assets		
Cash and deposits	1,223,162	748,512
Accounts receivable - trade	19,121	14,096
Accounts receivable - other from auction business	190,609	1,561
Merchandise	1,297,117	1,691,638
Advance payments	147,991	87,533
Other	360,347	251,426
Allowance for doubtful accounts	$\Delta 2$	$\Delta 2$
Total current assets	3,238,348	2,794,765
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	68,388	65,660
Machinery, equipment and vehicles (net)	847,594	830,950
Land	121,760	121,760
Other (net)	30,282	28,790
Total property, plant and equipment	1,068,025	1,047,160
Intangible assets		
Software	25,937	26,228
Total intangible assets	25,937	26,228
Investments and other assets		
Stocks of subsidiaries and affiliates	74,873	64,873
Other	343,842	396,405
Allowance for doubtful accounts	$\Delta 15,351$	$\Delta 15,337$
Total investments and other assets	403,365	445,941
Total non-current assets	1,497,328	1,519,330
Total assets	4,735,676	4,314,096
Liabilities		
Current liabilities		
Accounts payable - trade	109,600	488,836
Accounts payable - other from auction business	274,563	2,861
Short-term loans payable	1,112,542	745,810
Current portion of bonds	44,000	44,000
Current portion of long-term loans payable	147,932	129,932
Income taxes payable	63,972	3,798
Provision for bonuses	14,971	6,529
Other	175,209	189,669
Total current liabilities	1,942,791	1,611,437
Non-current liabilities		
Bonds payable	40,000	40,000
Long-term loans payable	215,340	193,407
Liabilities on retirement benefits	15,480	15,675
Provision for directors' retirement benefits	36,000	36,500
Long-term accounts payable-installment purchase	503,451	489,970
Other	86,676	84,564
Total non-current liabilities	896,948	860,116
Total liabilities	2,839,739	2,471,554

(Thousand yen; Δ means negative)

	Previous consolidated fiscal year (May 31, 2019)	Current first quarter consolidated fiscal period (August 31, 2019)
Net assets		
Shareholders' equity		
Capital stock	1,133,142	1,133,142
Capital surplus	739,381	774,128
Retained earnings	247,529	95,244
Treasury shares	Δ 221,063	Δ 158,878
Total shareholders' equity	1,898,990	1,843,637
Accumulated other comprehensive income		
Foreign currency translation adjustment	Δ 3,052	Δ 1,095
Total accumulated other comprehensive income	Δ 3,052	Δ 1,095
Total net assets	1,895,937	1,842,542
Total liabilities and net assets	4,735,676	4,314,096

(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; Δ means negative)	
	Previous first quarter consolidated cumulative period (June 1, 2018 - August 31, 2018)	Current first quarter consolidated cumulative period (June 1, 2019 - August 31, 2019)
Net sales	894,887	270,663
Cost of sales	636,529	226,090
Gross profit	258,357	44,573
Selling, general and administrative expenses	261,857	208,952
Operating income or loss (Δ)	Δ3,499	Δ164,379
Non-operating income		
Interest income	93	241
Foreign exchange gains	3,281	—
Gain on forfeiture of unclaimed dividends	133	204
Gain on valuation of derivatives	932	183
Other	1,168	478
Total non-operating income	5,609	1,107
Non-operating expenses		
Interest expenses	10,346	4,206
Foreign exchange losses	—	4,861
Commission fee	3,131	3,131
Total non-operating expenses	13,477	12,198
Ordinary income or loss (Δ)	Δ11,367	Δ175,470
Extraordinary income		
Gain on sales of non-current assets	156	—
Total extraordinary income	156	—
Extraordinary losses		
Loss on retirement of non-current assets	155	—
Total extraordinary losses	155	—
Net income or loss (Δ) before income taxes and minority interests	Δ11,366	Δ175,470
Income taxes - current	52,960	2,176
Income taxes - deferred	Δ38,968	Δ53,743
Total income taxes	13,991	Δ51,567
Net income or loss (Δ)	Δ25,358	Δ123,903
Net income or loss (Δ) attributable to non-controlling shareholders	876	—
Net income or loss (Δ) attributable to owners of parent	Δ26,235	Δ123,903

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

(Thousand yen; Δ means negative)

	Previous first quarter consolidated cumulative period (June 1, 2018 - August 31, 2018)	Current first quarter consolidated cumulative period (June 1, 2019 - August 31, 2019)
Net loss (Δ)	$\Delta 25,358$	$\Delta 123,903$
Other comprehensive income		
Foreign currency translation adjustment	$\Delta 2,704$	1,957
Total other comprehensive income	$\Delta 2,704$	1,957
Comprehensive income	$\Delta 28,063$	$\Delta 121,946$
(detail)		
Comprehensive income attributable to owners of parent	$\Delta 29,423$	$\Delta 121,946$
Comprehensive income attributable to non-controlling interests	1,360	—

(3) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Additional information)

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

Since the current first quarter consolidated fiscal period, SHINWA CREATE CO., LTD., which had previously been a non-consolidated subsidiary but became more important, has been accordingly included in the scope of consolidation.

(Segment Information)

【Segment Information】

I. Previous first quarter consolidated cumulative period (June 1, 2018 - August 31, 2018)

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

(Thousand yen)

	Reportable segments			Others (see Note 1)	Total	Adjustment (see Note 2)	Amount allocated to the current quarterly consolidated financial statements
	Auction related business	Energy related business	Subtotal				
Net sales	604,637	267,766	872,403	22,484	894,887	—	894,887
Segment income or loss (Δ)	18,968	Δ8,675	10,292	13,917	24,209	Δ27,709	Δ3,499

(Note) 1. The category "Others" refers to business segment not included in the reportable segments, which includes the business categories of supporting medical institutions, overseas real-estate, and microfinance.

2. Adjusted Segment income or loss (Δ) means corporate expenses not allocated to individual reportable segments of Δ27,709,000 yen.

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, 2019 - August 31, 2019)

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

(Thousand yen)

	Reportable segments			Others (see Note 1)	Total	Adjustment (see Note 2)	Amount allocated to the current quarterly consolidated financial statements
	Auction related business	Energy related business	Subtotal				
Net sales	232,286	35,351	267,638	3,025	270,663	—	270,663
Segment income or loss (Δ)	Δ130,126	Δ5,864	Δ135,991	1,189	Δ134,801	Δ29,578	Δ164,379

(Note) 1. The category "Others" refers to business segment not included in the reportable segments, which includes the business categories of supporting medical institutions and real estate business.

2. Adjusted Segment income or loss (Δ) means corporate expenses not allocated to individual reportable segments of Δ29,578,000 yen. Corporate expenses comprises mainly of general and administrative expenses not attributable to reportable segments.

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.