Consolidated Financial Results
for the Six Months Ended September 30, 2019
[IFRS]

November 8, 2019

Company name: Shinwa Co., Ltd.
Stock exchange listing: Tokyo Stock Exchange and Nagoya Stock Exchange
Code number: 3447
URL: http://www.shinwa-jp.com/en/relation/index.html
Representative: Hiroshi Yamada, President and Representative Director
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Scheduled date of filing the quarterly securities report: November 8, 2019
Scheduled date of commencing dividend payments: —
Availability of supplementary briefing material on quarterly financial results: Yes
Schedule of quarterly financial results briefing session: Yes (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended September 30, 2019 (April 1, 2019 to September 30, 2019)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2019	9,370	8.7	1,222	21.7	1,186	21.8	814	29.9
September 30, 2018	8,624	7.0	1,004	(17.3)	974	(17.5)	627	(18.1)

	Profit attributable to owners of parent		Comprehensive income	
Six months ended	Million yen	%	Million yen	%
September 30, 2019	814	29.9	814	29.6
September 30, 2018	627	(18.1)	628	(18.2)

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2019	58.25	57.84
September 30, 2018	45.50	45.14

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Equity attributable to owners of parent to total assets
	Million yen	Million yen	Million yen	%
As of September 30, 2019	21,625	13,071	13,071	60.4
As of March 31, 2019	21,172	12,859	12,859	60.7

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	–	0.00	–	44.00	44.00
Fiscal year ending March 31, 2020	–	0.00			
Fiscal year ending March 31, 2020 (Forecast)			–	44.00	44.00

Note: Revision to the dividends forecast announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Full year	17,000	(2.9)	2,060	4.9	1,990	5.0	1,400	5.1

	Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Yen
Full year	1,400	5.1	100.08

Note: Revision to the financial results forecast announced most recently: No

*** Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in change in scope of consolidation): No

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting policies required by IFRS: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

(Note) For the details, please refer to (5) Notes to Condensed Quarterly Consolidated Financial Statements (Changes in accounting policies) in 2. Condensed Quarterly Consolidated Financial Statements and Primary Notes on page 13 of the Attachment.

(3) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

September 30, 2019: 13,988,800 shares

March 31, 2019: 13,988,800 shares

2) Total number of treasury shares at the end of the period:

September 30, 2019: - shares

March 31, 2019: - shares

3) Average number of shares during the period:

Six months ended September 30, 2019: 13,988,800 shares

Six months ended September 30, 2018: 13,788,400 shares

*These consolidated financial results are outside the scope of quarterly review by Certified Public Accountants or auditing corporations.

*Explanation of the proper use of financial results forecast and other notes

Financial results forecasts were prepared based on information available at the time of the announcement of this document, and actual results may differ from the forecasts owing to a wide range of factors. For the conditions that form the assumptions for the financial results forecasts, please refer to (4) Explanation of Consolidated Financial Results Forecast and Other Forward-Looking Information in 1. Qualitative Information on Quarterly Financial Results for the Period under Review on page 5 of the Attachment.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

During the six months ended September 30, 2019, the Japanese economy was on a moderate recovery trend amid ongoing improvement in employment and income conditions backed by the government's economic policies. The overall environment, however, remains unpredictable due to the impact of increased tension regarding trade issues on the global economy, uncertainties in overseas economies, and the effect of fluctuations in financial and capital markets.

In the construction industry, which is the supply destination of products manufactured by the Company, total construction investments during the period from April to August 2019 were solid at ¥21,175.6 billion (up ¥486.0 billion year on year), according to the "Comprehensive construction statistics" published by the Ministry of Land, Infrastructure, Transport and Tourism.

In the field of construction sites, due to a serious labor shortage issue as well as work-style reforms and other initiatives, there is a need for improving construction work efficiency and for shortening construction periods. In addition, demand has been strong for safety equipment that will contribute to the accident prevention at construction sites in response to revisions of safety and health regulations.

In such a business environment, the Group has worked to increase the quality of the products and to expand their sales under its mission "We protect precious lives through our products and services."

Revenue for the six months ended September 30, 2019 amounted to ¥9,370 million (up 8.7% year on year) as a result of continuous revisions in sales prices, in addition to steady revenue mainly from wedge binding type scaffolding due to factors such as an increase in demand for repair work projects in local regions.

In terms of gross profit, although the costs of steel materials and other raw materials remained high, we strove to suppress rising procurement costs through utilizing a variety of procurement channels and negotiations with suppliers, and successfully kept procurement costs within an anticipated range.

As a result, the gross profit ratio for the six months ended September 30, 2019 came to 24.6%, improving by 1.9 percentage points year on year.

Operating profit for the six months ended September 30, 2019 was ¥1,222 million (up 21.7% year on year) and the operating profit ratio was 13.0% (improved by 1.4 percentage points year on year). This was attributable to an increase in gross profit that outweighed increased selling, general and administrative expenses such as shipping and delivery costs, taxes and dues associated with the application of sized-based business tax, and personnel expenses.

As a result, profit before tax for the six months ended September 30, 2019 amounted to ¥1,186 million (up 21.8% year on year), and profit attributable to owners of parent amounted to ¥814 million (up 29.9% year on year).

As the Group is comprised of a single business segment, information regarding the revenue of each Division is provided below.

1) Temporary Materials Division

The Temporary Materials Division manufactures and sells two product groups: “wedge binding type scaffolding” primarily targeted at low- to mid-rise structures such as detached housing; and “next generation scaffolding” for mid- to high-rise large structures and public works.

For wedge binding type scaffolding, construction demand was strong in both the public and private sectors on the back of restoration and reconstruction works that have continued in the wake of many natural disasters in the previous fiscal year and vigor in infrastructure maintenance and redevelopment projects in areas outside the Tokyo metropolitan area, while construction works related to the Tokyo Olympics and Paralympic Games have quieted down.

In next generation scaffolding, we have been conducting sales activities by focusing on areas outside the Tokyo metropolitan area where construction projects are expected to increase, and by acquiring new customers.

As a result of these factors, revenue for the Temporary Materials Division amounted to ¥8,064 million (up 15.6% year on year).

2) Distribution Equipment Division

In the Distribution Equipment Division, the number of completed construction projects in large-scale construction works, such as those for distribution warehouses, decreased in the six months ended September 30, 2019, compared to the previous fiscal year, becoming a factor that pushed down revenue.

As a result of these factors, revenue for the Distribution Equipment Division was ¥1,305 million (down 20.9% year on year).

(Thousand yen)

Name of product and service		For the six months ended September 30, 2018	For the six months ended September 30, 2019
Temporary Materials	Wedge binding type scaffolding	3,696,038	5,015,510
	Next generation scaffolding	1,605,077	1,172,177
	Other temporary materials	1,672,451	1,876,926
	Subtotal	6,973,568	8,064,614
Distribution Equipment	Pallets	1,650,578	1,305,857
	Subtotal	1,650,578	1,305,857
Total		8,624,146	9,370,471

(2) Explanation of Financial Position

(Assets)

Current assets at the end of the second quarter of the fiscal year under review increased by ¥254 million from the end of the previous fiscal year to ¥8,318 million, mainly due to factors such as an increase in trade and other receivables of ¥183 million and an increase in cash and cash equivalents of ¥120 million. Additionally, non-current assets increased by ¥198 million from the end of the previous fiscal year to ¥13,306 million. The increase was primarily attributable to factors such as the posting of right-of-use assets of ¥369 million in line with the application of IFRS 16 "Leases." As a result, total assets increased by ¥452 million from the end of the previous fiscal year to ¥21,625 million.

(Liabilities)

Current liabilities at the end of the second quarter of the fiscal year under review increased by ¥290 million from the end of the previous fiscal year to ¥2,468 million, mainly due to factors such as an increase in income taxes payable of ¥242 million. Additionally, non-current liabilities decreased by ¥50 million from the end of the previous fiscal year to ¥6,085 million. This was primarily attributable to a decrease in borrowings of ¥241 million, despite an increase in other financial liabilities of ¥212 million, mainly due to the application of IFRS 16 "Leases." As a result, total liabilities increased by ¥239 million from the end of the previous fiscal year to ¥8,553 million.

(Equity)

Total equity at the end of the second quarter of the fiscal year under review increased by ¥212 million from the end of the previous fiscal year to ¥13,071 million. This was mainly attributable to factors such as the posting of comprehensive income of ¥814 million and an increase in retained earnings of ¥194 million due to dividends paid of ¥615 million.

(3) Overview of Cash Flows

Cash and cash equivalents (hereinafter "cash") at the end of the second quarter of the fiscal year under review was ¥1,863 million, an increase of ¥120 million from the end of the previous fiscal year.

Cash flows from each activity for the six months ended September 30, 2019 and their primary factors are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities for the six months ended September 30, 2019 was ¥1,228 million, an increase of ¥1,430 million year on year. Factors affecting cash inflows are primarily related to profit before tax of ¥1,186 million and depreciation and amortization of ¥328 million. Factors affecting cash outflows are primarily related to an increase in trade and other receivables of ¥229 million, income taxes paid of ¥195 million, and an increase in inventories of ¥46 million.

(Cash flows from investing activities)

Net cash used in investing activities for the six months ended September 30, 2019 was ¥185 million, a decrease of ¥172 million year on year. The main factor affecting cash outflows is purchase of property, plant and equipment of ¥235 million.

(Cash flows from financing activities)

Net cash used in financing activities for the six months ended September 30, 2019 was ¥921 million, an increase of ¥957 million year on year. The main factor affecting cash outflows is dividends paid of ¥612 million.

(4) Explanation of Consolidated Financial Results Forecast and Other Forward-Looking Information

With regard to the forecast for the fiscal year ending March 31, 2020, no change has been made to the full-year consolidated financial results forecast, which was announced in the consolidated financial results on May 10, 2019.

With regard to the forecast for the fiscal year ending March 31, 2020, in the metal products manufacturing industry in which the Group operates, we understand the possibility that costs of raw materials such as steel materials and zinc will remain at high levels, putting pressure on corporate profits.

In the construction industry, which is the principal supply destination of products manufactured by the Company, there is concern over a decrease in large-scale construction works in the Tokyo metropolitan area with the Olympic year near at hand. Meanwhile, in local regions, as demand is expected to increase for maintenance and repair works for social infrastructure and for house renovation, total construction investments is expected to remain steady.

Meanwhile, a recent rise in logistics costs and social issues such as labor shortages will have an impact on the Group's operations, and we are aware that the situation is still unpredictable.

Under these circumstances, the Group will implement flexible measures integrating its manufacturing and sales skills in order to expand profits while slashing costs.

1) Temporary Materials Division

The Temporary Materials Division develops two product groups: "wedge binding type scaffolding" targeted at low- to mid-rise structures such as detached housing; and "next generation scaffolding" for mid- to high-rise large structures and public works.

In wedge binding type scaffolding, revenue is projected to be strong with demand expected to increase for house renovation and for maintenance and repair works for social infrastructure.

In next generation scaffolding, despite concern over a decrease in large-scale construction works, needs for raising productivity and enhancing safety to cope with a serious labor shortage will continue, bringing about greater demand for switching from traditional frame scaffolding to next generation scaffolding. Taking this shift as a significant opportunity, the Company will continue to work on mass production and sales expansion of next generation scaffolding.

In addition, to contribute to the earliest possible restoration and recovery from damages caused by Typhoon Faxai (Typhoon No. 15) in September and Typhoon Hagibis (Typhoon No. 19) in October of this year that primarily affected the Tohoku and Kanto-Koshinetsu regions, the Group will focus on supplying temporary materials by taking advantage of its high production capability.

As a result, for the Temporary Materials Division, we anticipate revenue of ¥14,363 million (up 0.6% year on year).

2) Distribution Equipment Division

The Distribution Equipment Division has offered made-to-order products to a wide range of businesses and industries, in addition to the construction industry. Our products include pallets for the automobile industry, pallets for the electrical machinery and precision machinery industries, racks for distribution warehouses, and those for the agriculture and fishery industries and chemical industry. The Group will continue to raise its name recognition and acquire personnel to enter into new industries. At the same time, by forming an alliance with distributors, we will aim to increase orders for general-purpose products and custom-order products.

In the fiscal year ending March 31, 2020, while demand for bulk container cages for liquid shipping is projected to continue expanding, we plan to examine orders for projects with low profitability. Also, large-scale projects for distribution warehouses, which were the driving force for the previous fiscal year's results, are expected to decrease.

As a result, for the Distribution Equipment Division, we anticipate revenue of ¥2,637 million (down

18.5% year on year).

Based on the above, for the fiscal year ending March 31, 2020, we anticipate revenue of ¥17,000 million (down 2.9% year on year), operating profit of ¥2,060 million (up 4.9% year on year), profit before tax of ¥1,990 million (up 5.0% year on year), and profit attributable to owners of parent of ¥1,400 million (up 5.1% year on year).

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Thousand yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and cash equivalents	1,742,662	1,863,642
Trade and other receivables	3,817,591	4,000,926
Inventories	2,382,330	2,429,098
Other financial assets	50,035	—
Other current assets	71,714	24,962
Total current assets	8,064,334	8,318,630
Non-current assets		
Property, plant and equipment	2,495,759	2,338,599
Right-of-use assets	–	369,344
Goodwill	9,221,769	9,221,769
Intangible assets	1,276,012	1,267,202
Other financial assets	83,382	73,284
Deferred tax assets	18,118	23,665
Other non-current assets	13,079	12,865
Total non-current assets	13,108,122	13,306,731
Total assets	21,172,457	21,625,362

(Thousand yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	1,180,307	1,178,686
Borrowings	494,427	494,928
Income taxes payable	174,928	417,442
Other financial liabilities	33,612	83,384
Other current liabilities	293,947	293,601
Total current liabilities	2,177,223	2,468,042
Non-current liabilities		
Borrowings	5,685,822	5,444,468
Provisions	45,588	45,596
Other financial liabilities	42,725	255,570
Deferred tax liabilities	358,189	335,837
Other non-current liabilities	3,900	3,900
Total non-current liabilities	6,136,226	6,085,372
Total liabilities	8,313,449	8,553,415
Equity		
Share capital	150,125	150,125
Capital surplus	6,915,576	6,934,022
Retained earnings	5,793,305	5,987,799
Total equity attributable to owners of parent	12,859,007	13,071,947
Total equity	12,859,007	13,071,947
Total liabilities and equity	21,172,457	21,625,362

(2) Condensed Quarterly Consolidated Statements of Profit or Loss and Comprehensive Income
Condensed Quarterly Consolidated Statement of Profit or Loss
For the Six-Month Period

(Thousand yen)

	For the six months ended September 30, 2018	For the six months ended September 30, 2019
Revenue	8,624,146	9,370,471
Cost of sales	(6,666,506)	(7,063,265)
Gross profit	1,957,640	2,307,206
Selling, general and administrative expenses	(958,527)	(1,084,798)
Other income	6,903	2,926
Other expenses	(1,736)	(2,795)
Operating profit	1,004,279	1,222,539
Finance income	2,337	80
Finance costs	(32,383)	(35,989)
Profit before tax	974,233	1,186,630
Income tax expense	(346,819)	(371,822)
Profit	627,414	814,807
Profit attributable to		
Owners of parent	627,414	814,807
Profit	627,414	814,807
Earnings per share		
Basic earnings per share (yen)	45.50	58.25
Diluted earnings per share (yen)	45.14	57.84

Condensed Quarterly Consolidated Statement of Comprehensive Income
For the Six-Month Period

(Thousand yen)

	For the six months ended September 30, 2018	For the six months ended September 30, 2019
Profit	627,414	814,807
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	1,175	–
Total of items that will not be reclassified to profit or loss	1,175	–
Other comprehensive income	1,175	–
Comprehensive income	628,589	814,807
Comprehensive income attributable to		
Owners of parent	628,589	814,807
Comprehensive income	628,589	814,807

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

For the Six Months Ended September 30, 2018 (From April 1, 2018 to September 30, 2018)

(Thousand yen)

	Share capital	Capital surplus	Retained earnings	Other components of equity			Total equity attributable to owners of parent	Total equity
				Available-for-sale financial assets	Financial assets measured at fair value through other comprehensive income	Total other components of equity		
Balance at beginning of period	100,000	6,810,062	5,057,527	1,234	–	1,234	11,968,824	11,968,824
Cumulative effect of accounting change	–	–	(5,309)	(1,234)	1,234	–	(5,309)	(5,309)
Restated balance	100,000	6,810,062	5,052,218	–	1,234	1,234	11,963,515	11,963,515
Profit	–	–	627,414	–	–	–	627,414	627,414
Other comprehensive income	–	–	–	–	1,175	1,175	1,175	1,175
Comprehensive income	–	–	627,414	–	1,175	1,175	628,589	628,589
Dividends	–	–	(592,901)	–	–	–	(592,901)	(592,901)
Share-based remuneration transactions	–	29,486	–	–	–	–	29,486	29,486
Transfer from other components of equity to retained earnings	–	–	2,409	–	(2,409)	(2,409)	–	–
Total transactions with owners	–	29,486	(590,491)	–	(2,409)	(2,409)	(563,415)	(563,415)
Balance at end of period	100,000	6,839,548	5,089,141	–	–	–	12,028,690	12,028,690

For the Six Months Ended September 30, 2019 (From April 1, 2019 to September 30, 2019)

(Thousand yen)

	Share capital	Capital surplus	Retained earnings	Total equity attributable to owners of parent	Total equity
Balance at beginning of period	150,125	6,915,576	5,793,305	12,859,007	12,859,007
Cumulative effect of accounting change	–	–	(4,805)	(4,805)	(4,805)
Restated balance	150,125	6,915,576	5,788,499	12,854,201	12,854,201
Profit	–	–	814,807	814,807	814,807
Comprehensive income	–	–	814,807	814,807	814,807
Dividends	–	–	(615,507)	(615,507)	(615,507)
Share-based remuneration transactions	–	18,445	–	18,445	18,445
Total transactions with owners	–	18,445	(615,507)	(597,061)	(597,061)
Balance at end of period	150,125	6,934,022	5,987,799	13,071,947	13,071,947

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousand yen)

	For the six months ended September 30, 2018	For the six months ended September 30, 2019
Cash flows from operating activities		
Profit before tax	974,233	1,186,630
Depreciation and amortization	265,571	328,940
Finance income and finance costs	30,046	35,909
Loss (gain) on sale of fixed assets	(32)	(199)
Loss on disposal of property, plant and equipment	13	0
Share-based remuneration expenses	29,486	18,445
Decrease (increase) in inventories	(898,772)	(46,768)
Decrease (increase) in trade and other receivables	254,722	(229,941)
Increase (decrease) in trade and other payables	(450,133)	25,119
Other	(33,624)	77,710
Subtotal	171,508	1,395,845
Interest and dividends received	2,326	80
Interest paid	(26,691)	(21,044)
Income taxes paid	(349,275)	(195,667)
Income taxes refund	—	49,482
Net cash provided by (used in) operating activities	(202,131)	1,228,696
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	—	50,035
Proceeds from sale of property, plant and equipment	31	200
Purchase of property, plant and equipment	(354,445)	(235,097)
Purchase of intangible assets	(10,150)	(3,456)
Proceeds from sales of financial assets	14,271	—
Payments for acquisition of financial assets	(361)	—
Other	(7,606)	2,488
Net cash provided by (used in) investing activities	(358,259)	(185,830)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,030,000	–
Repayments of long-term borrowings	(385,000)	(250,000)
Payments of financial expenditures	(2,869)	(3,991)
Dividends paid	(587,086)	(612,364)
Repayments of lease liabilities	(19,269)	(55,529)
Net cash provided by (used in) financing activities	35,774	(921,885)
Net increase (decrease) in cash and cash equivalents	(524,616)	120,980
Cash and cash equivalents at beginning of period	1,507,883	1,742,662
Cash and cash equivalents at end of period	983,267	1,863,642

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Changes in accounting policies)

The principal standard that the Group has applied from the three months ended June 30, 2019 is as follows.

Standard	Title of the standard	Summary of new establishment/revision
IFRS 16	Leases	Revision in accounting treatment of leases

The details of the changes of this standard and their impact on the Group's condensed quarterly consolidated financial statements are described below.

IFRS 16 "Leases"

From the three months ended June 30, 2019, the Group has applied IFRS 16 "Leases" (issued in January 2016; hereinafter "IFRS 16"). In applying IFRS 16, the Group has elected to use a method, which is permitted as a transitional measure, whereby the cumulative effect of initially applying the standard is recognized at the date of initial application.

Upon the application of IFRS 16, in determining whether a contract contains a lease, we chose a practical expedient in paragraph C3 in IFRS 16 to maintain the judgments made under IAS 17 "Leases" (hereinafter "IAS 17") and IFRIC 4 "Determining whether an Arrangement contains a Lease." On or after the date of initial application, judgments are made pursuant to the provisions in IFRS 16.

For leases as a lessee that were previously classified as operating leases applying IAS 17, a right-of-use asset and lease liability are recognized at the date of initial application, except for short-term leases and leases of low-value assets.

A lease liability is measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application.

For leases as a lessee that were previously classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application are measured at the carrying amount of the lease asset and lease liability based on IAS 17 on the date immediately before the date of initial application.

As a result, at the date of initial application, the right-of-use asset and lease liability recognized in the condensed quarterly consolidated financial statements were ¥286,317 thousand and ¥293,175 thousand, respectively.

(Significant subsequent events)

There is no relevant information.