

Consolidated Financial Results for the Six Months Ended September 30, 2023 [IFRS]



November 10, 2023

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: Kurio Noritake, President and Representative Director

Contact: Mitsuyoshi Hirasawa, Director, Executive Officer, General Manager of Administration Headquarters

Phone: +81-584-66-4436

Scheduled date of filing the quarterly securities report: November 10, 2023

Scheduled date of commencing dividend payments: December 4, 2023

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, 2023

(April 1, 2023 to September 30, 2023)

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

	Revenue		Operating profit		Profit before tax		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
September 30, 2023	6,621	(25.7)	520	(53.2)	496	(53.9)	342	(54.5)
September 30, 2022	8,909	8.2	1,113	(11.2)	1,077	(11.5)	752	(10.7)

	Profit attributable to owners of parent		Comprehensive income		Basic earnings per share		Diluted earnings per share	
	Million yen	%	Million yen	%	Yen		Yen	
Six months ended								
September 30, 2023	339	(54.3)	345	(54.4)	24.43		-	
September 30, 2022	744	(12.1)	756	(10.6)	53.53		53.52	

(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, 2023	21,298		15,462		15,452		72.5	
As of March 31, 2023	21,294		15,552		15,545		73.0	

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2023	Yen -	Yen 0.00	Yen -	Yen 32.00	Yen 32.00
Fiscal year ending March 31, 2024	-	16.00			
Fiscal year ending March 31, 2024 (Forecast)			-	16.00	32.00

Note: Revision to the dividends forecast announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2024
(April 1, 2023 to March 31, 2024)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Full year	15,100	2.3	1,371	(8.7)	1,317	(8.2)	907	(8.0)

	Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Yen
Full year	907	(10.0)	65.24

Note: Revision to the financial results forecast announced most recently: None

*** Notes:**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in scope of consolidation): None
- (2) Changes in accounting policies and changes in accounting estimates
 - 1) Changes in accounting policies required by IFRS: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
- (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, 2023: 14,103,000 shares
 - March 31, 2023: 14,103,000 shares
 - 2) Total number of treasury shares at the end of the period:
 - September 30, 2023: 198,634 shares
 - March 31, 2023: 192,518 shares
 - 3) Average number of shares during the period:
 - Six months ended September 30, 2023: 13,906,438 shares
 - Six months ended September 30, 2022: 13,899,691 shares

*These quarterly 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 on page 4 of the attachments.

Table of Contents

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	4
(3) Overview of Cash Flows.....	4
(4) Explanation of Consolidated Financial Results Forecast and Other Forward-Looking Information.....	4
2. Condensed Quarterly Consolidated Financial Statements and Primary Notes	5
(1) Condensed Quarterly Consolidated Statement of Financial Position	5
(2) Condensed Quarterly Consolidated Statements of Profit or Loss and Comprehensive Income .	7
(3) Condensed Quarterly Consolidated Statement of Changes in Equity.....	9
(4) Condensed Quarterly Consolidated Statement of Cash Flows	10
(5) Notes to Condensed Quarterly Consolidated Financial Statements	11
(Notes on going concern assumption)	11
(Significant subsequent events).....	11

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the first six months of the current fiscal year, the Japanese economy was supported by a recovery of social activity following the end of the pandemic. Consumer spending, capital expenditures, jobs and other economic indicators are recovering. However, the outlook remains uncertain as there is still a risk of an economic downturn due to the prolonged Ukraine conflict, the extended weakness of the yen, inflation and the high cost of resources, and concerns about the outlook for the Chinese economy.

In the construction industry, which is the main source of demand for our products, construction investments were generally stable, amounting to ¥21.9 trillion between April and August 2023 (up 3.5% year on year), according to “Comprehensive Construction Statistics” published by the Ministry of Land, Infrastructure, Transport and Tourism. However, according to “Building Starts Statistics” by the said ministry, the number of residential and non-residential construction starts during the same period decreased 6.2% from one year earlier to 371,876 and the total floor area of construction starts was down 13.5% to 44,040 thousand square meters. The declines are caused by the continuing high cost of building materials and labor shortage. As a result, the business climate is very difficult. The Japanese government is firmly committed to making consistent and rapid progress with measures to increase the country’s resilience to disasters as unusual weather events become increasingly severe and frequent. Furthermore, large urban redevelopment projects are likely to continue for many more years.

Demand for safety equipment at scaffolding installation companies, which are the primary customers for wedge binding type scaffolding, continues to be strong. However, companies continued to rent rather than purchase scaffolding and there are delays at many construction projects. During the first six months of the previous fiscal year, shipments of scaffolding equipment were high because of a large volume of purchases in part due to the timing of a price increase. In the first six months of the current fiscal year, there were activities for selling as well as for renting scaffolding. Although a slow recovery started in September due to these activities, shipments in the fiscal year’s first six months were lower than one year earlier.

Despite these challenges, performance during the first six months was supported by installations of multi-level linked scaffolding, a new product that is ideal for high-rise buildings. In addition, preparations are proceeding for starting sales of Rapid Floor™, a suspended system scaffold for bridges that was developed with a large bridge construction company and a major temporary construction equipment rental company. During the first six months, progress continued with measures for the growth of sales of products where medium to long-term demand is expected and new products needed for projects to make Japan more resilient to natural disasters.

In the Logistics Equipment Division, as economic and corporate activities in Japan continue to recover, there are significant variations in different industries regarding the volume and timing of demand for transportation equipment. Demand for bulk containers for shipping liquids was strong in the previous fiscal year but is currently lower and the volume of shipments has decreased. Furthermore, in the first six months of the previous fiscal year, there were shipments of pallets and other products to transport materials for electrical equipment for a large one-time project. There were no large orders in this category in the first six months of the current fiscal year and consequently revenue in this division decreased. However, the performance of this division remains firm because of orders and construction involving large logistics warehouses.

Activities to hold down expenses are continuing. To maintain sound relationships with partner companies and a production framework capable of restoring the volume of products we supply, we responded to requests from these companies to revise prices in order to reflect their increasing expenses. Selling, general and administration expenses decreased because of a big downturn in shipping and delivery expenses due to the

smaller volume of products shipped. To maintain the soundness of our organization, we increased expenditures and benefits for employees. There were also expenses for the start of a shareholder benefit program as part of measures to distribute earnings to shareholders. Due to these activities, the operating margin was 7.9% in the first six months, 4.6 percentage points lower than one year earlier.

As a result, revenue for the first six months decreased 25.7% from one year earlier to ¥6,621 million. Operating profit was down 53.2% to ¥520 million, profit before tax was down 53.9% to ¥496 million, and profit attributable to owners of parent was down 54.3% to ¥339 million.

The following section explains the performance of business divisions because the Shinwa Group has one business segment.

1) Scaffolding Equipment Division

Customers are continuing to rent rather than purchase scaffolding equipment because of the high prices of materials and products since the third quarter of the previous fiscal year. There are also challenges due to postponements and delays of construction projects caused by the shortage of construction workers. Although demand for safety equipment has been consistently high, some customers are pushing back purchases of wedge binding type scaffolding. In addition, the sales volume decreased year on year because there was a large volume of purchases in the first six months of the previous fiscal year prior to price revisions. However, sales increased because performance benefited from demand for replacing pipe-frame scaffolding with next generation scaffolding and from the ability to receive substantial orders from customers that are expecting to start large-scale construction projects.

As a result, revenue for the first six months in the Scaffolding Equipment Division decreased 21.6% to ¥4,834 million.

2) Logistics Equipment Division

The Logistics Equipment Division received orders, primarily for large logistics warehouse equipment and other repeat projects, steadily during the first six months because of a higher level of production in many industries. However, the volume of orders for bulk containers for shipping liquids decreased and sales from pallets and other products to transport materials for electrical equipment was lower due to one-time sales of these pallets one year earlier.

As a result, revenue for the first six months in the Logistics Equipment Division decreased 34.8% to ¥1,787 million.

Name of product and service		(Thousand yen)	
		For the six months ended September 30, 2022	For the six months ended September 30, 2023
Scaffolding equipment	Wedge binding type scaffolding	3,883,619	2,465,675
	Next generation scaffolding	880,463	974,016
	Other scaffolding equipment	1,401,210	1,394,560
	Subtotal	6,165,293	4,834,252
Logistics equipment	Pallets	2,743,828	1,787,628
	Subtotal	2,743,828	1,787,628
Total		8,909,122	6,621,880

Note: Revenue stated in other scaffolding equipment and pallets includes revenue from leases under IFRS 16 of ¥263,269 thousand in the six months ended September 30, 2022 and ¥206,134 thousand in six months ended September 30, 2023.

(2) Explanation of Financial Position

(Assets)

Current assets at the end of the second quarter of the current fiscal year increased by ¥61 million from the end of the previous fiscal year to ¥8,023 million, mainly due to factors such as an increase in trade and other receivables of ¥763 million and an increase in cash and cash equivalents of ¥346 million despite a decrease in inventories of ¥1,037 million. Non-current assets decreased by ¥57 million from the end of the previous fiscal year to ¥13,275 million. The decrease was primarily attributable to a decrease in property, plant and equipment of ¥42 million. As a result, total assets increased by ¥4 million from the end of the previous fiscal year to ¥21,298 million.

(Liabilities)

Current liabilities at the end of the second quarter of the current fiscal year increased by ¥121 million from the end of the previous fiscal year to ¥5,362 million, mainly due to factors such as an increase in trade and other payables of ¥135 million. Non-current liabilities decreased by ¥27 million from the end of the previous fiscal year to ¥473 million. As a result, total liabilities increased by ¥94 million from the end of the previous fiscal year to ¥5,836 million.

(Equity)

Total equity at the end of the second quarter of the current fiscal year decreased by ¥90 million from the end of the previous fiscal year to ¥15,462 million. This was mainly attributable to factors such as the posting of profit attributable to owners of parent of ¥339 million and dividends paid of ¥445 million.

(3) Overview of Cash Flows

Cash and cash equivalents (hereinafter “cash”) at the end of the first six months of the current fiscal year was ¥2,409 million, an increase of ¥346 million from the end of the previous fiscal year.

Cash flows from each activity for the first six months of the current fiscal year and their primary factors are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities for the first six months of the current fiscal year was ¥1,316 million (¥473 million used in the same period of the previous fiscal year). Main factors affecting cash inflows were a decrease in inventories of ¥1,037 million, profit before tax of ¥496 million, and depreciation and amortization of ¥279 million. The main factors affecting cash outflows were an increase in trade and other receivables of ¥776 million and income taxes paid of ¥122 million.

(Cash flows from investing activities)

Net cash used in investing activities for the first six months of the current fiscal year was ¥226 million, a decrease of ¥265 million year on year. The main factors affecting cash outflows were purchase of property, plant and equipment of ¥229 million.

(Cash flows from financing activities)

Net cash used in financing activities for the first six months of the current fiscal year was ¥745 million, an increase of ¥119 million year on year. The main factor affecting cash outflows was dividends paid of ¥444 million and repayments of long-term borrowings of ¥250 million.

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

There are no revisions to the full year consolidated financial results forecasts announced in the consolidated financial results on May 12, 2023.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

	(Thousand yen)	
	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and cash equivalents	2,063,796	2,409,921
Trade and other receivables	2,450,073	3,213,987
Inventories	3,406,646	2,368,656
Other current assets	41,560	30,579
Total current assets	7,962,077	8,023,145
Non-current assets		
Property, plant and equipment	2,403,561	2,360,726
Right-of-use assets	240,048	226,748
Goodwill	9,221,769	9,221,769
Intangible assets	1,387,641	1,370,519
Other financial assets	68,259	85,082
Other non-current assets	11,537	10,923
Total non-current assets	13,332,817	13,275,771
Total assets	21,294,895	21,298,916

(Thousand yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	664,207	799,840
Borrowings	4,242,189	3,996,343
Income taxes payable	122,676	190,000
Other financial liabilities	89,510	75,753
Other current liabilities	122,936	300,991
Total current liabilities	<u>5,241,520</u>	<u>5,362,928</u>
Non-current liabilities		
Provisions	45,122	45,154
Other financial liabilities	170,269	158,884
Deferred tax liabilities	281,743	265,938
Other non-current liabilities	3,900	3,900
Total non-current liabilities	<u>501,035</u>	<u>473,878</u>
Total liabilities	<u>5,742,555</u>	<u>5,836,806</u>
Equity		
Share capital	153,576	153,576
Capital surplus	6,918,346	6,918,346
Retained earnings	8,621,667	8,516,295
Treasury shares	(151,505)	(151,505)
Other components of equity	3,710	15,524
Total equity attributable to owners of parent	<u>15,545,795</u>	<u>15,452,238</u>
Non-controlling interests	6,543	9,871
Total equity	<u>15,552,339</u>	<u>15,462,109</u>
Total liabilities and equity	<u>21,294,895</u>	<u>21,298,916</u>

(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, 2022	For the six months ended September 30, 2023
Revenue	8,909,122	6,621,880
Cost of sales	(6,758,992)	(5,154,855)
Gross profit	2,150,130	1,467,025
Selling, general and administrative expenses	(1,026,445)	(944,691)
Other income	6,726	18,178
Other expenses	(17,390)	(19,813)
Operating profit	1,113,020	520,699
Finance income	265	473
Finance costs	(35,886)	(24,465)
Profit before tax	1,077,399	496,707
Income tax expense	(325,095)	(154,070)
Profit	752,303	342,637
Profit attributable to		
Owners of parent	744,058	339,763
Non-controlling interests	8,245	2,873
Profit	752,303	342,637
Earnings per share		
Basic earnings per share (yen)	53.53	24.43
Diluted earnings per share (yen)	53.52	-

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

(Thousand yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Profit	752,303	342,637
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	618	3,201
Total of items that will not be reclassified to profit or loss	618	3,201
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	3,680	925
Cash flow hedges	-	(1,636)
Total of items that may be reclassified to profit or loss	3,680	(710)
Other comprehensive income, net of tax	4,299	2,490
Comprehensive income	756,602	345,128
Comprehensive income attributable to		
Owners of parent	746,553	341,801
Non-controlling interests	10,048	3,327
Comprehensive income	756,602	345,128

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

For the Six Months Ended September 30, 2022 (From April 1, 2022 to September 30, 2022)

(Thousand yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity			Total	Total equity attributable to owners of parent	Non-controlling interests	Equity
					Financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign operations					
Balance at beginning of period	153,576	6,919,802	8,211,397	(163,101)	(138)	9,203	9,065	15,130,740	27,840	15,158,581	
Profit	-	-	744,058	-	-	-	-	744,058	8,245	752,303	
Other comprehensive income	-	-	-	-	618	1,877	2,495	2,495	1,803	4,299	
Comprehensive income	-	-	744,058	-	618	1,877	2,495	746,553	10,048	756,602	
Dividends	-	-	(597,517)	-	-	-	-	(597,517)	-	(597,517)	
Share-based payment transactions	-	(131)	-	7,971	-	-	-	7,839	-	7,839	
Total transactions with owners	-	(131)	(597,517)	7,971	-	-	-	(589,678)	-	(589,678)	
Balance at end of period	153,576	6,919,671	8,357,937	(155,130)	480	11,081	11,561	15,287,616	37,889	15,325,505	

For the Six Months Ended September 30, 2023 (From April 1, 2023 to September 30, 2023)

(Thousand yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity			Total	Total equity attributable to owners of parent	Non-controlling interests	Equity
					Financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign operations	Cash flow hedges				
Balance at beginning of period	153,576	6,918,346	8,621,667	(151,505)	2,025	9,825	(8,140)	3,710	15,545,795	6,543	15,552,339
Profit	-	-	339,763	-	-	-	-	-	339,763	2,873	342,637
Other comprehensive income	-	-	-	-	3,201	472	(1,636)	2,037	2,037	453	2,490
Comprehensive income	-	-	339,763	-	3,201	472	(1,636)	2,037	341,801	3,327	345,128
Dividends	-	-	(445,135)	-	-	-	-	-	(445,135)	-	(445,135)
Transfers to non-financial assets	-	-	-	-	-	-	9,777	9,777	9,777	-	9,777
Total transactions with owners	-	-	(445,135)	-	-	-	9,777	9,777	(435,357)	-	(435,357)
Balance at end of period	153,576	6,918,346	8,516,295	(151,505)	5,227	10,297	-	15,524	15,452,238	9,871	15,462,109

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousand yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Cash flows from operating activities		
Profit before tax	1,077,399	496,707
Depreciation and amortization	302,831	279,883
Finance income and finance costs	35,621	23,991
Loss (gain) on sale of fixed assets	(445)	(12,723)
Loss on disposal of property, plant and equipment	11	35
Share-based payment expenses	2,734	1,184
Decrease (increase) in inventories	(595,811)	1,037,990
Decrease (increase) in trade and other receivables	(1,188,642)	(776,844)
Increase (decrease) in trade and other payables	141,718	143,205
Other	193,061	259,098
Subtotal	(31,520)	1,452,530
Interest and dividends received	265	473
Interest paid	(24,526)	(14,241)
Income taxes paid	(418,163)	(122,669)
Net cash provided by (used in) operating activities	(473,944)	1,316,093
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	35	13,393
Purchase of property, plant and equipment	(461,213)	(229,131)
Purchase of intangible assets	(23,915)	(3,850)
Payments for acquisition of financial assets	(6,009)	(6,291)
Other	(3)	(164)
Net cash provided by (used in) investing activities	(491,106)	(226,043)
Cash flows from financing activities		
Proceeds from short-term borrowings	425,646	-
Repayments of short-term borrowings	(129,612)	-
Repayments of long-term borrowings	(250,000)	(250,000)
Payments of financial expenditures	(5,167)	(4,961)
Dividends paid	(598,248)	(444,669)
Repayments of lease liabilities	(68,599)	(45,375)
Net cash provided by (used in) financing activities	(625,982)	(745,006)
Effect of exchange rate changes on cash and cash equivalents	7,505	1,080
Net increase (decrease) in cash and cash equivalents	(1,583,528)	346,124
Cash and cash equivalents at beginning of period	3,460,569	2,063,796
Cash and cash equivalents at end of period	1,877,041	2,409,921

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Significant subsequent events)

There is no relevant information.