

# Summary of Business Results for the Second Quarter Ended September 30, 2018

## [Japan GAAP] (Consolidated)

Company Akatsuki Corp.

November 14, 2018

Stock Code 8737 URL <http://www.akatsuki-fg.com/>

Listed on the TSE

Representative Hideaki Shimane, President and Representative Director  
 Contact Masahiro Kawanaka, Executive Officer, Head of President office

TEL 03-6821-0606

Expected date of filing of quarterly report: November 14, 2018

Expected starting date of dividend payment: December 10, 2018

Preparation of quarterly supplementary financial document: None

Quarterly results briefing: None

(Rounded down to million yen)

### 1. Consolidated business results for the six months ended September 2018 (April 1, 2018 through September 30, 2018)

#### (1) Consolidated results of operations (% change from the previous corresponding period)

	Operating revenues		Net operating revenues		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Sep. 2018	15,270	61.7	4,633	10.4	351	△68.4	184	△86.7	139	△87.5
Six months ended Sep. 2017	9,442	299.1	4,198	143.0	1,109	—	1,381	178.6	1,118	—

(Note) Comprehensive income:

Six months ended Sep. 2018                      39 Million yen (△94.4%)  
 Six months ended Sep. 2017                      709 Million yen (78.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 2018	6.18	5.73
Six months ended Sep. 2017	66.72	60.81

#### (2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Sep. 2018	58,014	13,630	20.6	425.48
As of Mar. 2018	53,649	12,467	20.1	500.13

(Reference) Shareholders' equity:

As of Sep. 2018                      11,950 Million yen  
 As of Mar. 2018                      10,782 Million yen

### 2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended Mar. 2018	—	10.00	—	10.00	20.00
Year ending Mar. 2019	—	10.00			
Year ending Mar. 2019 (forecast)			—	—	—

(Note) Revisions to dividend forecast for the current quarter: None

Dividend forecasts for the fiscal year ending March 2019 have not yet been determined.

### 3. Forecast of consolidated business results for the fiscal year ending March 2019 (April 1, 2018 through March 31, 2019)

(% change from the previous corresponding period)

	Operating revenues		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ending Mar. 2019	37,000	63.4	2,100	29.9	1,600	△ 10.4	1,000	△ 41.7

(Note) Revisions to business forecast for the current quarter: None

※ **Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Applications of simplified accounting procedures and specific accounting procedures: None

(3) Changes in accounting policies, accounting estimates and restatement

① Changes in accounting policies associated with revision of accounting standards:	Yes
② Changes in accounting policies other than ①:	None
③ Changes in accounting estimates:	None
④ Restatement:	None

(4) Shares outstanding (common stock)

① Number of shares outstanding at the end of period (treasury stock included)	
As of September 2018	30,082,576 shares
As of March 2018	22,973,937 shares
② Treasury stock at the end of period	
As of September 2018	2,233,801 shares
As of March 2018	1,413,716 shares
③ Average number of stock during period (quarterly cumulative period)	
Six months ended September 2018	22,646,289 shares
Six months ended September 2017	16,769,410 shares

(Note) The number of treasury stock which is deducted for calculating the number of treasury stock during period and the average number of shares during the period includes the shares of the Company owned by the ESOP Trust Account and the BBT Trust Account.

※ **Quarterly financial summary is not subject to the quarterly review procedures by certified public accountants or auditing firms.**

※ **Explanation regarding appropriate use of business forecasts and other special instructions**

Forecasts regarding future performance in this material are based on information currently available to the company and certain assumptions that the company deems to be reasonable at the time this report was prepared. Actual results may differ significantly from the forecasts due to various factors.

## 1. Qualitative Information from the Recent Quarterly Closing

### (1) Explanation of Business Results

In the first half of the current fiscal year (April 1 to September 30, 2018), the group has taken following initiatives.

In the securities and related business, Akatsuki Securities has been expanding the customer base through our branch offices and independent financial advisor (IFA) channels. We also strengthened staff members and improved the wholesale business with an aim to increase the number of underwritings of initial public offerings (IPO). In the securities and related business segment, despite commission income decreasing because of the reduction in individual investors' trading activities in the domestic market, trading profit was expanded by the increase of the US stock trading in the OTC market. As a result, operating revenue increased slightly. However, this segment's profit decreased due to higher costs associated with various marketing campaigns to promote trading.

(Operating revenue and segment profit of the securities-related business)

(one million yen)

	Six months ended Sep. 2017	Six months ended Sep. 2018	Rate of change
Operating revenue	1,877	1,892	0.8%
Segment profit	234	144	▲38.5%

In the real estate related business segment, Total Estate, Inc. has been selling renovated condominiums mainly to first-time home buyers. In addition to our focus of buying vacant condominiums, we are strengthening our medium-to-long-term revenue base by the purchase of second-hand condominiums with existing lessees. The purchase of second-hand condominiums with lessees has been increasing steadily. In order to support the continuing purchase of condominiums, the Company launched a rights issue to stockholders. At the end of September, we have raised 1,407 million yen (representing 61.09% of rights issued). At the end of October, the corresponding numbers were 1,554 million yen and 67.47% respectively.

EW Asset Management Co., Ltd., a subsidiary company operating a healthcare fund, has commenced development of a senior housing project in Uruga (in Kanagawa pref.) and completion is expected in October 2019. EW Asset Management also owns 6 senior housing facilities where operation has already started.

In the real estate and related business segment, operating revenue contribution from second-hand condominiums sales by Total Estate Inc. was significant and the segment's operating revenues were steady. On the other hand, the segment profit decreased due to the sale of Wealth Management, Inc. last year which led to a decrease of 1,100 million yen in segment profit.

(Operating revenue and segment profit of the real estate related business)

(one million yen)

	Six months ended Sep. 2017	Six months ended Sep. 2018	Rate of change
Operating revenue	7,721	13,552	75.5%
Segment profit	1,422	870	▲38.8%

Based on these results, the Company's consolidated operating results in the first half of the current fiscal year are shown below.

(one million yen)

	Six months ended Sep. 2017	Six months ended Sep. 2018	Rate of change
Operating revenues	9,442	15,270	61.7%
Operating income	1,109	351	▲68.4%
Ordinary income	1,381	184	▲86.7%
Net income attributable to owners of parent	1,118	139	▲87.5%

The Company is expecting the sale of some large-scale projects in the real estate business segment in the remainder of the fiscal year. However, we are not amending the consolidated financial forecasts announced in June 2018.

(The consolidated financial forecasts for March 2019)

(one million yen)

	Operating revenues	Operating income	Ordinary income	Net income attributable to owners of parent
Year ending Mar. 2019	37,000	2,100	1,600	1,000

Total Estate, Inc.'s business result significantly affects the whole consolidated business performance. Therefore, we disclose the supplementary information below.

(Supplementary Information)

Total Estate, Inc. has been selling renovated condominiums to first-time buyers in the Tokyo metropolitan area around Tokyo and Kanagawa. Total Estate has two main sources to acquire condominiums.

- ① Existing vacant condominiums - we renovate and sell these as soon as possible. (Type A) and
- ② Existing occupied condominiums with lessees - we enjoy rental income during the lease term and after the tenant moves out, we renovate and sell (Type B).

(one million yen)

	Year ended Mar. 2018				Year ending Mar. 2018	
	1Q (Apr. ~Jun.)	2Q (Jul. ~Sep.)	3Q (Oct. ~Dec)	4Q (Jan. ~Mar.)	1Q (Apr. ~Jun.)	2Q (Jul. ~Sep.)
Sales	(*)	6,118	5,270	5,208	5,777	6,797
Ordinary income	(*)	268	285	184	334	385
Net income	(*)	192	383	115	336	261

(\*) We do not disclose results for the 1Q of the fiscal year ending Mar.2018 because they cannot be compared due to changes in accounting policy, etc., due to the joining of our consolidated group.

## (b) Number of units purchased

(units)

	Year ended Mar. 2018				Year ending Mar. 2018	
	1Q (Apr. ~Jun.)	2Q (Jul. ~Sep.)	3Q (Oct. ~Dec)	4Q (Jan. ~Mar.)	1Q (Apr. ~Jun.)	2Q (Jul. ~Sep.)
Type A	156	161	166	175	159 (+3)	147 (△14)
Type B	29	52	105	51	46 (+17)	50 (△2)
Total	185	213	271	226	205 (+20)	197 (△16)

## (c) Number of units sold

(units)

	Year ended Mar. 2018				Year ending Mar. 2018	
	1Q (Apr. ~Jun.)	2Q (Jul. ~Sep.)	3Q (Oct. ~Dec)	4Q (Jan. ~Mar.)	1Q (Apr. ~Jun.)	2Q (Jul. ~Sep.)
Sales units	114	170	137	147	162 (+48)	170 (-)

## (d) Inventory

(units)

	Year ended Mar. 2018				Year ending Mar. 2018	
	1Q (end of Jun)	2Q (end of Sep)	3Q (end of Dec)	4Q (end of Mar)	1Q (end of Jun)	2Q (end of Sep)
Type A	356	353	386	421	426	418
Type B	187	233	334	378	416	451
Total	543	586	720	799	842	869

Quarterly consolidated balance sheet

(Thousands of yen)

	As of March 31, 2018	As of September 30, 2018
<b>Assets</b>		
Current assets		
Cash and deposits	7,908,050	13,451,492
Cash segregated as deposits	5,700,000	5,000,000
Trading products	1,449,274	625,201
Margin transaction assets	5,166,609	4,189,031
Loans on margin transactions	5,127,261	4,066,781
Cash collateral pledged for securities borrowing on margin transactions	39,347	122,249
Guarantee deposits	330,458	330,452
Real estate for sale	21,044,583	22,403,868
Other	735,600	802,467
<b>Total current assets</b>	<b>42,334,578</b>	<b>46,802,513</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,945,925	4,980,581
Land	2,512,914	2,316,524
Construction in progress	558,086	51,289
Other	193,286	253,088
<b>Total property, plant and equipment</b>	<b>7,210,213</b>	<b>7,601,483</b>
Intangible assets		
Goodwill	2,230,632	2,126,407
Other	263,017	184,504
<b>Total intangible assets</b>	<b>2,493,649</b>	<b>2,310,912</b>
Investments and other assets		
Investment securities	483,691	408,105
Other	1,182,970	1,097,593
Allowance for doubtful accounts	△206,689	△206,369
<b>Total investments and other assets</b>	<b>1,459,972</b>	<b>1,299,328</b>
<b>Total non-current assets</b>	<b>11,163,834</b>	<b>11,211,724</b>
<b>Total assets</b>	<b>53,498,412</b>	<b>58,014,238</b>

(Thousands of yen)

As of March 31, 2018

As of September 30, 2018

	As of March 31, 2018	As of September 30, 2018
<b>Liabilities</b>		
Current liabilities		
Trading products	—	58,312
Trade date accrual	970,292	397,421
Margin transaction liabilities	2,052,195	1,569,144
Borrowings on margin transactions	1,977,525	1,419,297
Cash received for securities lending on margin transactions	74,670	149,846
Deposits received	5,180,429	5,282,311
Guarantee deposits received	470,482	464,692
Short-term bonds payable	4,000,000	3,000,000
Short-term loans payable	13,670,917	13,490,233
Current portion of long-term loans payable	465,632	652,921
Current portion of long-term non-recourse loans payable	101,720	109,220
Income taxes payable	421,429	164,624
Other	1,631,863	1,919,147
Total current liabilities	28,964,963	27,108,027
Non-current liabilities		
Bonds payable	1,000,000	3,000,000
Non-recourse Bond	100,000	99,000
Long-term loans payable	6,451,040	9,019,557
Non-recourse Long-term loans payable	3,354,035	3,836,425
Net defined benefit liability	219,201	217,913
Executive Share benefit reserve	429,832	558,452
Other	492,464	525,051
Total non-current liabilities	12,046,573	17,256,400
Reserves under special laws		
Reserve for financial products transaction liabilities	19,288	19,288
Total reserves under special laws	19,288	19,288
Total liabilities	41,030,825	44,383,716
Net assets		
Shareholders' equity		
Capital stock	4,560,012	5,273,359
Deposit for subscriptions to shares	—	101,991
Capital surplus	2,775,515	3,495,919
Retained earnings	4,052,873	3,963,074
Treasury shares	△674,389	△856,698
Total shareholders' equity	10,714,011	11,977,646
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	62,593	△33,725
Foreign currency translation adjustment	6,227	7,076
Total accumulated other comprehensive income	68,821	△26,649
Share acquisition rights	21,647	20,901
Non-controlling interests	1,663,106	1,658,624
Total net assets	12,467,587	13,630,522
Total liabilities and net assets	53,498,412	58,014,238

Quarterly consolidated statement of income (cumulative)

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Operating revenue		
Commission received	1,007,857	814,635
Net trading income	656,392	842,937
Financial revenue	55,595	47,363
Sales on real estate business	7,721,278	13,547,356
Other	1,161	18,687
Total operating revenue	9,442,285	15,270,980
Financial expenses	28,019	8,648
Cost of sales		
Cost of sales on real estate business	5,215,324	10,628,686
Total cost of sales	5,215,324	10,628,686
Net operating revenue	4,198,940	4,633,645
Selling, general and administrative expenses		
Trading related expenses	12,902	12,097
Personnel expenses	1,502,362	1,742,931
Real estate expenses	164,207	192,191
Office cost	250,041	242,012
Depreciation	61,546	86,650
Taxes and dues	150,363	382,095
Sales commission	195,209	463,885
Other	753,263	1,160,770
Total selling, general and administrative expenses	3,089,896	4,282,635
Operating profit	1,109,044	351,010
Non-operating income		
Gain on sales of investment securities	390,512	—
Foreign exchange gains	3,653	47,073
Penalty income	—	45,754
Share of profit of entities accounted for using equity method	207	154
Other	69,706	42,829
Total non-operating income	464,079	135,811
Non-operating expenses		
Interest expenses	128,775	240,829
Commission fee	42,803	40,309
Other	19,925	21,482
Total non-operating expenses	191,504	302,621
Ordinary profit	1,381,619	184,200



(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Extraordinary income		
Gain on sales of non-current assets	—	176,408
Other	500	7,191
Total extraordinary income	500	183,600
Extraordinary losses		
Loss on liquidation of subsidiaries and associates	—	7,874
Other	837	0
Total extraordinary losses	837	7,874
Profit before income taxes	1,381,282	359,926
Income taxes - current	268,727	207,596
Income taxes - deferred	15,744	16,940
Total income taxes	284,472	224,537
Profit	1,096,810	135,389
Loss attributable to non-controlling interests	△22,072	△4,486
Profit attributable to owners of parent	1,118,882	139,875

Quarterly consolidated statement of comprehensive income (cumulative)

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Profit	1,096,810	135,389
Other comprehensive income		
Valuation difference on available-for-sale securities	△387,560	△96,315
Share of other comprehensive income of entities accounted for using equity method	107	848
Total other comprehensive income	△387,453	△95,466
Comprehensive income	709,356	39,922
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	731,424	44,409
Comprehensive income attributable to non-controlling interests	△22,067	△4,486

Quarterly consolidated statement of cash flows

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	1,381,282	359,926
Depreciation	116,368	207,012
Amortization of goodwill	59,487	104,224
Increase (decrease) in provision for bonuses	34,979	△7,020
Increase or decrease the amount of officers stock benefit allowance	87,375	128,620
Increase (decrease) in net defined benefit liability	12,530	△1,287
Interest and dividend income	△46,021	△5,456
Interest expenses	128,775	241,006
Loss (gain) on sales of property, plant and equipment	—	△176,408
Decrease (increase) in real estate for sale	△939,852	△1,697,343
Decrease (increase) in trading products - assets (liabilities)	18,596	882,385
Decrease (increase) in trade date accruals	72,107	△572,870
Decrease (increase) in cash segregated as deposits	200,000	700,000
Decrease/increase in assets/liabilities for margin transaction	△193,229	494,526
Decrease/increase in advance paid/deposits received	732,386	96,398
Other, net	△421,929	631,724
Subtotal	1,242,855	1,385,438
Interest and dividend income received	45,450	17,503
Interest expenses paid	△111,204	△220,836
Income taxes (paid) refund	122,588	△619,973
Net cash provided by (used in) operating activities	1,299,689	562,131

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
<b>Cash flows from investing activities</b>		
Payments into time deposits	△35,000	△55,000
Proceeds from withdrawal of time deposits	—	10,006
Purchase of property, plant and equipment	△1,076,003	△779,895
Proceeds from sales of property, plant and equipment	—	649,556
Purchase of intangible assets	△30,651	△2,690
Purchase of investment securities	△2,074,705	△50,000
Proceeds from sales of investment securities	532,969	2,049
Proceeds from redemption of investment securities	6,005	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	△4,644,240	△3,744
Payments of loans receivable	△1,000	△38,804
Collection of loans receivable	1,255,136	21,934
Other, net	△48,492	209
Net cash provided by (used in) investing activities	△6,115,982	△246,379
<b>Cash flows from financing activities</b>		
Proceeds from loans payable	14,872,863	12,669,044
Repayments of loans payable	△11,063,982	△10,093,922
Proceeds from long-term non recourse loans payable	730,000	550,000
Repayment of long-term non recourse loans payable	△26,660	△60,110
Proceeds from issuance of bonds	4,991,172	4,990,150
Redemption of bonds	△4,000,000	△4,000,000
Proceeds from issuance of common shares	1,256,257	1,425,881
Proceeds from payment of new stock application margin	34,487	101,991
Proceeds from issuance of share acquisition rights	21,525	—
Proceeds from share issuance to non-controlling shareholders	345,600	—
Purchase of treasury shares	△1,659	△203,797
Cash dividends paid	△63,547	△229,674
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	△15,225	—
Other, net	△11,211	△14,556
Net cash provided by (used in) financing activities	7,069,619	5,135,004
Effect of exchange rate change on cash and cash equivalents	0	47,073
Net increase (decrease) in cash and cash equivalents	2,253,326	5,497,830
Cash and cash equivalents at beginning of period	6,571,534	6,567,542
Cash and cash equivalents at end of period	※ <sub>1</sub> 8,824,861	※ <sub>1</sub> 12,065,372

**disclaimer**

This material is an English translation of Japanese announcement made on the date above. Although the Company intended to faithfully translate Japanese document into English, the accuracy and correctness of this English translation is not guaranteed and thus you are encouraged to refer to the original Japanese document. This translation does not constitute, nor is it intended to be an offer to sell, or an invitation to subscribe for, or purchase, any securities in the Company.