

Consolidated Financial Results for the Nine Months of the Fiscal Year Ending March 31, 2017

February 10, 2017

SHINKAWA LTD.

(URL <http://www.shinkawa.com>)

Listing	First Section of Tokyo Stock Exchange
Security code	6274
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Scheduled date to file Quarterly Report	February 14, 2017
Scheduled date to commence dividend payments	—
Quarterly Results Supplemental Materials	Yes
Quarterly Results Presentation Meeting	None

1. Consolidated Financial Results for the Nine Months ended December 31, 2016 (from April 1, 2016 to December 31, 2016)

(Amounts are rounded off to nearest million yen.)

(1) Consolidated Operating Results

(% changes as compared with the corresponding period of the previous fiscal year)

	Net sales		Operating income (loss)		Ordinary income (loss)		Profit (loss) attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine Months ended December 31, 2016	11,105	16.2	(169)	-	(8)	-	(163)	-
Nine Months ended December 31, 2015	9,558	25.6	(425)	-	(590)	-	(770)	-

(Note) Comprehensive income : Nine Months ended December 31, 2016: 440 million yen
 Nine Months ended December 31, 2015: (1,080) million yen

	Net income (loss) per share	Diluted net income per share
	Yen	Yen
Nine Months ended December 31, 2016	(8.99)	-
Nine Months ended December 31, 2015	(42.34)	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2016	24,847	21,009	84.6
As of March 31, 2016	23,340	20,570	88.1

(Reference) Equity: As of December 31, 2016: 21,009 million yen As of March 31, 2016: 20,570 million yen

2. Dividends

	Cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2016	-	0.00	-	0.00	0.00
Fiscal year ending March 31, 2017	-	0.00	-		
Fiscal year ending March 31, 2017 (Forecast)				0.00	0.00

(Note) Revisions to the dividend forecasts announced recently: Yes

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2017

(from April 1, 2016 to March 31, 2017)

(% changes as compared with the corresponding period of the previous fiscal year)

	Net sales		Operating income (loss)		Ordinary income (loss)		Profit (loss) attributable to owners of parent		Net income (loss) per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2017	16,400	29.5	240	-	370	-	160	-	8.80

(Note) Revisions to the Forecast of Consolidated Financial Results announced recently : Yes

*** Notes**

(1) Changes in significant subsidiaries during the nine months of the fiscal year ending March 31, 2017
(Changes in specified subsidiaries that caused change in scope of consolidation) : None

(2) Application of an accounting procedure especially for the preparation of quarterly consolidated financial statements : Yes

(3) Changes in accounting policies, accounting estimates and restatement of the consolidated financial statements

1) Changes in accounting policies due to revision of accounting standards : None

2) Changes in matters other than 1) above : None

3) Changes in accounting estimates : None

4) Restatement : None

(4) Number of common shares issued

1) Number of shares issued at the end of periods (including treasury stock) :

As of December 31, 2016	20,047,500 shares
As of March 31, 2016	20,047,500 shares

2) Number of treasury stock at the end of periods:

As of December 31, 2016	1,873,896 shares
As of March 31, 2016	1,873,627 shares

3) Average number of shares during periods:

Nine months ended December 31, 2016	18,173,775 shares
Nine months ended December 31, 2015	18,173,943 shares

*** Notice regarding audit procedures for the quarterly financial results**

This quarterly financial results statement is exempt from the audit procedures based upon the Financial Instruments and Exchange Act. At the time of disclosure of this financial results statement, the audit procedure based upon the Financial Instruments and Exchange Act had not been completed.

*** Explanation regarding the appropriate use of projections and other special notes**

(Notes for the forward-looking statements)

The forward looking statements, including business results forecast, contained in this document are based on information available to the SHINKAWA Group and certain assumptions deemed reasonable as of the date of this document and the Company does not guarantee that such forecasts will be achieved. Actual business results may differ substantially due to a number of factors.

(Method to obtain supplemental materials for quarterly financial documents)

Supplemental materials for the quarterly financial documents is scheduled to be released on the Company's web site.

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

(1) Explanation of Operating Results

During the first nine months of the fiscal year ending March 31, 2017, the global economy maintained a recovery trend supported by the United States and Europe, with their robust domestic demand. Meanwhile, uncertainty continued due to concern about Brexit and the influence of the US presidential election, resulting in sudden changes in the financial market, as well as a slump in economic growth in China and other emerging countries.

In the electronics industry, along with the spread of IoT, the investment toward high-speed wireless communications continued, and capital investment for in-vehicle devices also grew favorably. In addition, the supply shortage of NAND-type flash memory has continued since the second quarter due to a trend of smartphones toward larger memory capacity and a shift of servers toward SSD-type, promoting aggressive capital investment by memory makers.

Under these circumstances, the SHINKAWA group has established a production system based on three Factories: the Thai factory, Japanese factory, and outsourced manufacturers, to respond promptly to changes in the market. The group has also carried out a sales plan targeting specific markets, and focused on obtaining qualification of new products from customers. As a result of these efforts, the sales of the Wire Bonder UTC-5000 series and the Die Bonder SPA-1000 contributed greatly to the net sales.

As for the consolidated performance of the Group for the first nine months of the fiscal year ending March 31, 2017, net sales of 11,105 million yen were posted (a 16.2% increase from the corresponding period of the previous fiscal year). An operating loss of 169 million yen was recorded (compared with an operating loss of 425 million yen for the corresponding period of the previous fiscal year). An ordinary loss of 8 million yen was recorded (compared with an ordinary loss of 590 million yen for the corresponding period of the previous fiscal year). As a result, loss attributable to owners of parent of 163 million yen was recorded (compared with loss attributable to owners of parent of 770 million yen for the corresponding period in the previous fiscal year).

(2) Explanation of Financial Position

Total assets at the end of the third quarter of the fiscal year ending March 31, 2017 increased by 1,508 million yen from the end of the previous fiscal year to 24,847 million yen. Major increase was 1,459 million yen in notes and accounts receivable-trade.

Total liabilities at the end of the third quarter of the fiscal year ending March 31, 2017 increased by 1,068 million yen from the end of the previous fiscal year to 3,838 million yen. Major increase was 940 million yen in accounts payable-trade.

Total net assets at the end of the third quarter of the fiscal year ending March 31, 2017 increased by 440 million yen from the end of the previous fiscal year to 21,009 million yen. Major increase was 559 million yen in valuation difference on available-for-sale securities.

As a result, the equity ratio fell from 88.1% at the end of the previous fiscal year to 84.6%.

(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements

1) Revision to full year consolidated financial results forecast

In light of the market environment and the status of orders received recently in the semiconductor industry, in which the Company operates, the Company conducted a detailed review of the earnings forecasts of the Group. Consequently, the Company has revised its earnings projections for the fiscal year ending March 31, 2017.

For details, please refer to the "Notice of Posting of Non-operating Income, Forecast of Consolidated Financial Results and Forecast Dividend for the Fiscal Year ending March 31, 2017" announced today (February 10, 2017).

2) Revision to dividends forecast

The Group regards the redistribution of the profit to shareholders as one of the most important corporate responsibilities, and continuous and stable dividend payments as a fundamental policy. At the same time, the Group would like to redistribute the profit according to its business performance.

However, we regrettably determined that we will not distribute dividends for the fiscal year ending March 31, 2017 to make it a priority to increase internal reserves upon comprehensive consideration of the business performance, financial situation and efforts to reform the earnings structure in the future.

2. Matters Related to Summary Information (Notes)

(1) Specific Accounting Procedure Applied for Preparation of Quarterly Consolidated Financial Statement Computation of Tax Expenses

In regards to tax expenses of consolidated subsidiaries, the effective tax rate after application of tax effect accounting for the income before income taxes and minority interests of the current fiscal year including the period under review is estimated through fair value, and the income before income taxes and minority interests is then multiplied by this amount.

Income taxes-deferred of consolidated subsidiaries are included in Income taxes-current.

(2) Additional Information

(Application of implementation guidance on recoverability of deferred tax assets)

The Company has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 dated March 28, 2016) from the first quarter of the fiscal year ending March 31, 2017, under review.

3. Notes on Important Events Related to the Going Concern Assumption

The Group has reported an operating loss, ordinary loss and loss attributable to owners of parent in recent fiscal years, mostly due to prolonged periods of product development and evaluation and a relatively high ratio of fixed cost to net sales.

Under such circumstances, the Company experienced important events relating to the going concern assumption. The Group will continue to take the following measures to solve the situation.

1) Improvement of operational efficiency

To respond to changes in global market trends in a timely and speedy manner, the Group has promoted the reorganizing of its sales, engineering and production systems.

With regard to sales activities, the Group respects the autonomy of its overseas sales offices to allow them to customize their activities to suit the local needs and maximize customer satisfaction.

The engineering force is not only strengthening ties with the production and quality assurance divisions to promote cost-cutting efforts starting at the product design and development stages, but also globalizing and optimizing its development and design systems. This is done by utilizing product platforms and enhancing the ability of overseas engineers, thereby improving profitability.

With regard to production, the Group seeks to ensure optimal production in the most suitable location at reduced costs. To achieve that, the manufacturing of some products has been outsourced, and the Group's production division is being decentralized into its subsidiaries to allow production activities to remain flexible and carefully tailored to customer needs. By encouraging the Thai factory, the domestic factory, and the outsourced manufacturers to establish a complementary relationship, we seek enhancement of production efficiency on a Group-wide basis.

2) Enhancement of product strengths to expand business opportunities

In the flip chip bonder market, which is expected to expand continually as a leading edge packaging method, various bonding processes are adopted including the currently mainstream mass reflow, also TCB and FO WLP.

Under such circumstances, the Group will aim for an early release of the high-productivity mass reflow machine, and will enhance the product lineup by developing equipment based on a new concept to satisfy a wide range of bonding needs with a single platform, for next generation package processing.

For wire bonders and die bonders, it is necessary to enhance not only bonding accuracy and performance for increasingly small and high density packaging, but also comprehensive support functions to satisfy various bonding needs and increase productivity. Such functions include a management function to support bonding application processes and to maximize machine productivity, as well as a maintenance support function. The Group strengthens its ability to make total solution proposals and enhance its competitive advantage under the concept of "Shinkawa Smart Bonding Solution".

The Group does not have borrowings from external entities. With the equity ratio of 84.6%, the Group possesses enough operating funds to promote businesses.

Accordingly, we judge any material uncertainty is not recognized related to the going concern assumption.

4. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheets

	Millions of yen	
	As of March 31, 2016	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	6,440	5,999
Notes and accounts receivable - trade	3,079	4,538
Merchandise and finished goods	2,901	2,642
Work in process	1,402	1,407
Raw materials and supplies	436	650
Other	712	678
Allowance for doubtful accounts	(1)	(2)
Total current assets	14,969	15,912
Non-current assets		
Property, plant and equipment		
Land	3,189	3,196
Other, net	2,166	2,049
Total property, plant and equipment	5,355	5,245
Intangible assets		
Other	53	50
Total intangible assets	53	50
Investments and other assets		
Investment securities	2,464	3,200
Other	498	440
Total investments and other assets	2,963	3,640
Total non-current assets	8,370	8,935
Total assets	23,340	24,847
Liabilities		
Current liabilities		
Accounts payable - trade	644	1,584
Income taxes payable	169	109
Provision	394	295
Other	401	488
Total current liabilities	1,608	2,475
Non-current liabilities		
Net defined benefit liability	880	913
Other	283	450
Total non-current liabilities	1,162	1,363
Total liabilities	2,770	3,838
Net assets		
Shareholders' equity		
Capital stock	8,360	8,360
Capital surplus	8,907	8,907
Retained earnings	5,483	5,320
Treasury shares	(3,150)	(3,150)
Total shareholders' equity	19,600	19,437
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	866	1,425
Foreign currency translation adjustment	166	163
Remeasurements of defined benefit plans	(63)	(16)
Total accumulated other comprehensive income	970	1,573
Total net assets	20,570	21,009
Total liabilities and net assets	23,340	24,847

(2) Consolidated Quarterly Statements of Income and Comprehensive Income
 Consolidated Quarterly Statements of Income
 Nine months ended December 31, 2015 and 2016

	Millions of yen	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	9,558	11,105
Cost of sales	6,330	7,627
Gross profit	3,228	3,478
Selling, general and administrative expenses	3,653	3,646
Operating loss	(425)	(169)
Non-operating income		
Interest income	5	5
Dividend income	61	62
Foreign exchange gains	—	76
Rent income	18	6
Other	16	13
Total non-operating income	100	162
Non-operating expenses		
Sales discounts	1	1
Foreign exchange losses	263	—
Cost of lease revenue	1	1
Other	1	0
Total non-operating expenses	266	2
Ordinary loss	(590)	(8)
Extraordinary income		
Gain on sales of non-current assets	—	4
Total extraordinary income	—	4
Extraordinary losses		
Loss on sales of non-current assets	3	1
Special retirement expenses	72	—
Total extraordinary losses	75	1
Loss before income taxes	(665)	(6)
Income taxes-current	136	146
Income taxes-deferred	(32)	11
Total income taxes	104	158
Loss	(770)	(163)
Loss attributable to owners of parent	(770)	(163)

Consolidated Quarterly Statements of Comprehensive Income
 Nine months ended December 31, 2015 and 2016

	Millions of yen	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Loss	(770)	(163)
Other comprehensive income		
Valuation difference on available-for-sale securities	(119)	559
Foreign currency translation adjustment	(146)	(3)
Remeasurements of defined benefit plans, net of tax	(46)	47
Total other comprehensive income	(310)	603
Comprehensive income	(1,080)	440
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(1,080)	440
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes to Quarterly Financial Statements
 (Notes on Going Concern Assumption)
 Not applicable

(Notes to Significant Changes in the Amounts of Shareholders' Equity)
 Not applicable

5. Supplementary Information

Quarterly Consolidated Performance

Fiscal year ended March 31, 2016 (consolidated)

(Millions of Yen, except "Net Income (loss) per Share")

	1Q ended June 30, 2015	2Q ended September 30, 2015	3Q ended December 31, 2015	4Q ended March 31, 2016	FY ended March 31, 2016
Net sales	4,690	2,973	1,895	3,104	12,662
Gross profit	1,628	972	628	626	3,854
Operating income (loss)	400	(240)	(585)	(610)	(1,035)
Ordinary income (loss)	429	(485)	(534)	(853)	(1,444)
Income (loss) before income taxes and minority interests	357	(489)	(534)	(1,079)	(1,744)
Profit (loss) attributable to owners of parent	325	(532)	(563)	(1,080)	(1,849)
Net income (loss) per share (Yen)	17.89	(29.28)	(30.95)	(59.41)	(101.75)
Total assets	27,577	25,348	25,296	23,340	23,340
Net assets	23,912	22,571	22,256	20,570	20,570
Orders received	4,738	3,266	2,201	725	10,930

Fiscal year ending March 31, 2017 (consolidated)

(Millions of Yen, except "Net Income (loss) per Share")

	1Q ended June 30, 2016	2Q ended September 30, 2016	3Q ended December 31, 2016
Net sales	2,009	4,038	5,058
Gross profit	549	1,246	1,683
Operating income (loss)	(552)	46	338
Ordinary income (loss)	(920)	7	904
Income (loss) before income taxes and minority interests	(921)	7	908
Income (loss) attributable to owners of parent	(971)	(24)	831
Net income (loss) per share (Yen)	(53.43)	(1.29)	45.74
Total assets	21,620	22,901	24,847
Net assets	19,164	19,451	21,009
Orders received	3,026	5,441	5,765