

Consolidated Financial Results for the Three Months of the Fiscal Year Ending March 31, 2018

August 7, 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	August 10, 2017
Scheduled date to commence dividend payments	—
Quarterly Results Supplemental Materials	Yes
Quarterly Results Presentation Meeting	None

1. Consolidated Financial Results for the Three Months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

(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 loss		Ordinary loss		Loss attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2017	2,915	45.1	(412)	-	(363)	-	(428)	-
Three months ended June 30, 2016	2,009	(57.2)	(552)	-	(920)	-	(971)	-

(Note) Comprehensive income : Three months ended June 30, 2017: (485) million yen
Three months ended June 30, 2016: (1,405) million yen

	Loss per share	Diluted profit per share
	Yen	Yen
Three months ended June 30, 2017	(23.55)	-
Three months ended June 30, 2016	(53.43)	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2017	24,893	21,094	84.7
As of March 31, 2017	25,201	21,579	85.6

(Reference) Equity: As of June 30, 2017: 21,094 million yen As of March 31, 2017: 21,579 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, 2017	-	0.00	-	0.00	0.00
Fiscal year ending March 31, 2018	-				
Fiscal year ending March 31, 2018 (Forecast)		0.00	-	-	-

(Note) Revisions to the dividend forecasts announced recently: None
The dividend forecast for the fiscal year ending March 31, 2018 is undecided.

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2018

(from April 1, 2017 to March 31, 2018)

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

	Net sales		Operating profit (loss)		Ordinary profit (loss)		Profit (loss) attributable to owners of parent		Profit (loss) per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2017	7,900	30.7	(230)	-	(230)	-	(320)	-	(17.61)
Fiscal year ending March 31, 2018	18,900	15.0	310	5.3	360	(16.7)	210	(13.6)	11.56

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

*** Notes**

(1) Changes in significant subsidiaries during the three months of the fiscal year ending March 31, 2018
(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 June 30, 2017	20,047,500 shares
As of March 31, 2017	20,047,500 shares

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

As of June 30, 2017	1,873,982 shares
As of March 31, 2017	1,873,982 shares

3) Average number of shares during periods:

Three months ended June 30, 2017	18,173,518 shares
Three months ended June 30, 2016	18,173,873 shares

*** This report is not subject to audit procedures***** 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 forecast 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 quarter of the fiscal year ending March 31, 2018, the global economy maintained a recovery trend supported by the steadily improved employment and income environment of the United States and Europe and their robust domestic demand despite uncertainties in policies of Western countries and China's financial situation. Economies of emerging countries are also gradually expanding with increases in exports to developed countries and expansion of domestic demand.

In the electronics industry, along with the spread of IoT, investments in high-speed wireless communications continued, and capital investment for automotive devices and discrete devices also grew favorably. On the other hand, despite vigorous demand for NAND flash supported by larger volume smartphone and SSD servers, capital investments by memory makers were delayed due to wafer shortages.

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 expanding the sales of the high-speed wafer bump bonder SBB-5200 which was introduced to the market in February.

As a result of these efforts, sales of the high-speed wafer bump bonder SBB-5200 grew favorably, but net sales were low due to memory makers' postponement of large capital investment.

As for the consolidated performance of the Group for the first quarter of the fiscal year ending March 31, 2018, net sales increased 45.1% from the corresponding period of the previous fiscal year to 2,915 million yen. An operating loss of 412 million yen was recorded compared with an operating loss of 552 million yen for the previous fiscal year and an ordinary loss of 363 million yen was posted compared with an ordinary loss of 920 million yen a year earlier. As a result, loss attributable to owners of parent of 428 million yen was recorded for the first quarter of the fiscal year ending March 31, 2018 compared with loss attributable to owners of parent of 971 million yen a year earlier.

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the fiscal year ending March 31, 2018 decreased by 308 million yen from the end of the previous fiscal year to 24,893 million yen. Major increases were 929 million yen in merchandise and finished goods, and major decreases were 1,015 million yen in cash and deposits, and 333 million yen in other current assets.

Total liabilities at the end of the first quarter of fiscal year increased 177 million yen from the end of the previous fiscal year to 3,800 million yen. Major increases were 274 million yen in accounts payable-trade and major decreases were 108 million yen in provision for bonuses.

Net assets at the end of the first quarter of the fiscal year decreased 485 million yen from the end of the previous fiscal year to 21,094 million yen. Major decreases were 428 million yen in retained earnings.

As a result, the equity ratio fell from 85.6% at the end of the previous fiscal year to 84.7%.

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

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, 2018.

For details, please refer to the "Notice of Revisions to the First Half and Full Year Consolidated Financial Forecasts for the Fiscal Year ending March 31, 2018" announced today (August 7, 2018).

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	Millions of yen	
	As of March 31, 2017	As of June 30, 2017
Assets		
Current assets		
Cash and deposits	4,849	3,834
Notes and accounts receivable - trade	6,363	6,511
Merchandise and finished goods	2,568	3,497
Work in process	1,061	1,119
Raw materials and supplies	595	683
Other	690	357
Allowance for doubtful accounts	(2)	(1)
Total current assets	16,124	15,999
Non-current assets		
Property, plant and equipment		
Land	3,198	3,202
Other, net	2,005	1,964
Total property, plant and equipment	5,204	5,166
Intangible assets		
Other	52	52
Total intangible assets	52	52
Investments and other assets		
Investment securities	3,365	3,307
Other	456	369
Total investments and other assets	3,821	3,676
Total non-current assets	9,077	8,894
Total assets	25,201	24,893
Liabilities		
Current liabilities		
Accounts payable - trade	1,163	1,437
Income taxes payable	172	64
Provision for bonuses	227	119
Provision for product warranties	284	324
Other	379	469
Total current liabilities	2,226	2,413
Non-current liabilities		
Net defined benefit liability	862	862
Other	534	524
Total non-current liabilities	1,397	1,387
Total liabilities	3,622	3,800
Net assets		
Shareholders' equity		
Capital stock	8,360	8,360
Capital surplus	8,907	8,907
Retained earnings	5,726	5,298
Treasury shares	(3,150)	(3,150)
Total shareholders' equity	19,843	19,415
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,535	1,487
Foreign currency translation adjustment	177	171
Remeasurements of defined benefit plans	24	21
Total accumulated other comprehensive income	1,736	1,679
Total net assets	21,579	21,094
Total liabilities and net assets	25,201	24,893

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
 Quarterly Consolidated Statements of Income
 Three months ended June 30, 2016 and 2017

	Millions of yen	
	Three months ended June 30, 2016	Three months ended June 30, 2017
Net sales	2,009	2,915
Cost of sales	1,459	1,960
Gross profit	549	956
Selling, general and administrative expenses	1,102	1,368
Operating loss	(552)	(412)
Non-operating income		
Interest income	2	3
Dividend income	26	26
Foreign exchange gains	-	18
Other	8	3
Total non-operating income	36	50
Non-operating expenses		
Interest expenses	-	1
Foreign exchange losses	402	-
Cost of lease revenue	0	-
Other	1	0
Total non-operating expenses	404	1
Ordinary loss	(920)	(363)
Extraordinary losses		
Loss on sales of non-current assets	1	-
Total extraordinary losses	1	-
Loss before income taxes	(921)	(363)
Income taxes - current	40	23
Income taxes - deferred	10	43
Total income taxes	50	65
Loss	(971)	(428)
Loss attributable to owners of parent	(971)	(428)

Quarterly Consolidated Statements of Comprehensive Income
 Three months ended June 30, 2016 and 2017

	Millions of yen	
	Three months ended June 30, 2016	Three months ended June 30, 2017
Loss	(971)	(428)
Other comprehensive income		
Valuation difference on available-for-sale securities	(265)	(48)
Foreign currency translation adjustment	(185)	(6)
Remeasurements of defined benefit plans, net of tax	15	(3)
Total other comprehensive income	(434)	(57)
Comprehensive income	(1,405)	(485)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,405)	(485)
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

(Notes to Significant Changes in the Amounts of Shareholders' Equity)

Not applicable

(Specific Accounting Procedure Applied for Preparation of Quarterly Consolidated Financial Statements)

Computation of Tax Expenses

In regards to tax expenses of consolidated overseas 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 overseas subsidiaries are included in income taxes-current.

(Additional Information)

Adoption of Consolidated Taxation System

The Company and its domestic consolidated subsidiary have adopted the consolidated taxation system since the first quarter of the fiscal year ending March 31, 2018, under review.

3. Other

(Notes on Important Events Related to the Going Concern Assumption)

The Group reported an operating loss, ordinary loss and loss attributable to owners of parent in the past consecutive fiscal years, mostly due to prolonged periods of product development and evaluation and a relatively high ratio of fixed cost to net sales. Despite the fact that a profit attributable to owners of parent was recorded for the group's consolidated performance the previous year, net loss is recorded in individual performance. Under such circumstances, the Company experienced important events relating to the going concern assumption.

In an attempt to resolve this situation, the Group established medium-term management plan namely "Challenge Shinkawa 2020" and will be involved in the following initiatives.

1) Growth in existing business

With the arrival of the IoT age, there are various changes in demand for semiconductor packages. The Group promotes the functional enhancement of wire bonders and die bonders to handle the use of SSD data storages and high-speed memories. The Group also promotes the development and sales expansion of flip chip bonders to handle advanced bonding processes such as thermal compression bonding for 3 and 2.5-dimensional bonding applications that are used for memory cubes and the latest CPUs. Furthermore, along with higher functionality of communication devices such as smartphones, the Group enhances the function of flip chip bonders for high-performance packages such as PoP (Package-on-package) and FO-WLP (Fan-out Wafer Level Package).

2) Creating new business value

The Group, under the concept of "Shinkawa Smart Bonding Solution," continues the development of solution technologies that incorporate the IoT function into the semiconductor assembly process. The Group will increase customer satisfaction and its associated value by promoting intelligent machines (with enhanced sensing function), intelligent networks (with enhanced data collection and analysis functions), and intelligent processes (with know-how embedded in software), as well as proposing solutions ahead of challenges triggered by progress of the IoT society.

3) Activating organization and fostering human resources

In order to transform the Group into an organization that demonstrates creativity, it is necessary to secure various talents. In addition to providing a stage where excellent talents from all over the world play an active role, the Group focuses on human resource development including raising employees' awareness.

The Group has an equity ratio of 84.7% and secures sufficient funds by signing an overdraft agreement with our bank to promote business operations in the current consolidated fiscal year. Accordingly, we judge any material uncertainty is not recognized related to the going concern assumption.

4. Supplementary Information

Quarterly Consolidated Performance

Fiscal year ended March 31, 2017 (consolidated)

(Millions of Yen, except "Profit (loss) per Share")

	1Q ended June 30, 2016	2Q ended September 30, 2016	3Q ended December 31, 2016	4Q ended March 31, 2017	FY ended March 31, 2017
Net sales	2,009	4,038	5,058	5,333	16,438
Gross profit	549	1,246	1,683	1,892	5,370
Operating profit (loss)	(552)	46	338	463	294
Ordinary profit (loss)	(920)	7	904	440	432
Profit (loss) before income taxes	(921)	7	908	484	478
Profit (loss) attributable to owners of parent	(971)	(24)	831	406	243
Profit (loss) per share (Yen)	(53.43)	(1.29)	45.74	22.36	13.37
Total assets	21,620	22,901	24,847	25,201	25,201
Net assets	19,164	19,451	21,009	21,579	21,579
Orders received	3,026	5,441	5,765	4,554	18,786

Fiscal year ending March 31, 2018 (consolidated)

(Millions of Yen, except "Profit (loss) per Share")

	1Q ended June 30, 2017
Net sales	2,915
Gross profit	956
Operating loss	(412)
Ordinary loss	(363)
Loss before income taxes	(363)
Loss attributable to owners of parent	(428)
Loss per share (Yen)	(23.55)
Total assets	24,893
Net assets	21,094
Orders received	3,136