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(Securities Code 6274)  
June 13, 2017

**To Shareholders with Voting Rights:**

Takashi Nagano  
President and CEO,  
Representative Director  
SHINKAWA LTD.  
2-51-1, Inadaira,  
Musashimurayama-shi, Tokyo

**NOTICE OF  
THE 59TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

You are cordially invited to attend the 59th Ordinary General Meeting of Shareholders of SHINKAWA LTD. (the "Company") to be held as described below.

Please note that the enclosed attendance card is not a postal card and should not be posted.

- 1. Date and Time:** Thursday, June 29, 2017, at 10 a.m. Japan time
- 2. Place:** Conference Room (Bldg. No. 8, 6F) at the Head Office of SHINKAWA LTD.  
2-51-1, Inadaira, Musashimurayama-shi, Tokyo
- 3. Meeting Agenda:**  
**Matters to be reported:** The Business Report, the Consolidated Financial Statements and the Non-Consolidated Financial Statements for the Company's 59th fiscal year (from April 1, 2016, to March 31, 2017) and results of audits by the Accounting Auditor and the Audit & Supervisory Board of the Consolidated Financial Statements

End

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1. When attending the meeting, please submit the enclosed attendance card at the reception desk.
  2. The Cool Biz (light clothing) dress code will be followed at the meeting. Shareholders who attend the meeting are encouraged to wear light clothing.
  3. Any updates to the Business Report, the Consolidated Financial Statements and/or the Non-Consolidated Financial Statements will be posted on the Company's Web site at <http://www.shinkawa.com>.
  4. An English translation of this notice of the general meeting of shareholders is available on the Company's Web site. The translation is provided for reference purposes only. Should any translation errors be found, they will be corrected immediately, but the Company assumes no responsibility for any problems arising from the translation.

(Appendix)

## **Business Report**

(April 1, 2016–March 31, 2017)

### **1. Overview of the Company Group**

#### **(1) The Status of Business for the Fiscal Year under Review**

##### 1) Business progress and results

During the fiscal year ended March 31, 2017, the global economy maintained a recovery trend, supported by solid domestic demand in the United States and Europe. Meanwhile, uncertainty about the future continued due to the deceleration of emerging economies, including China, and the growing uncertainty over the policies of the United States and European nations.

In the electronics industry, the spread of the Internet of Things (IoT) brought about continued investments for speeding up wireless communications and capital investments in the automotive and discrete semiconductor markets, which performed favorably. On the other hand, capital investments by memory manufacturers were limited due to the shortage of wafers, despite the brisk demand for NAND-type flash memories, owing to the growing capacity of smartphones and the growing number of servers with solid-state drives (SSDs).

In such a business climate, the SHINKAWA Group strove to swiftly accommodate changing market conditions by promoting the solidification of its production system with three locations—the Thai factory, the domestic factory and outsourced producers—as pillar production facilities, while carrying out sales plans targeted at prioritized markets and focusing on expanding sales of the SBB-5200 wide area handling high-speed wafer bonder marketed in February 2017.

As a result of these efforts, sales of the UTC-5000 Series wire bonders, the SPA-1000 die bonders for memories and the STC-800 die bonders for small chips contributed significantly to net sales of the Group, leading to profitability for the first time in nine fiscal periods.

As for the consolidated performance of the Group for the fiscal year ended March 31, 2017, net sales increased 29.8% from the previous fiscal year to ¥16,438 million. Operating income of ¥294 million was recorded compared with an operating loss of ¥1,035 million for the previous fiscal year, and ordinary income of ¥432 million was posted compared with an ordinary loss of ¥1,444 million a year earlier. As a result, profit attributable to owners of parent of ¥243 million was recorded for the fiscal year under review compared with a loss attributable to owners of parent of ¥1,849 million yen a year earlier.

Regarding dividends, we have unfortunately come to a decision to pass the payment of dividends for the fiscal year under review on a comprehensive examination of the Company's business results and financial standing for the fiscal year under review and efforts to be made for improving the earnings structure, as well as in line with the policy of increasing our internal reserve. We are deeply sorry for this decision, and determined to achieve the resumption of dividends as earlier as possible. We would appreciate the continued support and understanding of our shareholders.

##### 2) Capital investments

There were no noticeable items of capital investment made during the fiscal year under review.

##### 3) Financing activities

There were no new financing activities conducted during the fiscal year under review.

**(2) The Status of the Group's Assets and Profit or Loss**

(Millions of yen, except "Profit (loss) per share")

Category	The 56th fiscal year ended March 31, 2014	The 57th fiscal year ended March 31, 2015	The 58th fiscal year ended March 31, 2016	The 59th fiscal year ended March 31, 2017 (Year under review)
Orders received	8,728	13,112	10,930	18,786
Net sales	7,481	11,352	12,662	16,438
Profit (loss) attributable to owners of parent	(4,312)	(1,894)	(1,849)	243
Profit (loss) per share (Yen)	(237.27)	(104.19)	(101.75)	13.37
Net assets	24,402	23,336	20,570	21,579
Total assets	26,059	26,500	23,340	25,201

**(3) Principal Parent Company and Subsidiaries**

## 1) Parent company

Not applicable.

## 2) Principal subsidiaries

Company name	Capital	Ratio of voting rights held by the Company	Principal business
Shinkawa Technologies Ltd.	JPY 90,000 thousand	100.0%	Manufacturing, sales and maintenance of precision equipment in which semiconductors and/or other electronic components are applied
Shinkawa Korea Co., Ltd.	KRW 370,000 thousand	100.0%	Sales promotion and maintenance services for semiconductor manufacturing equipment
Shinkawa Taiwan Co., Ltd.	TWD 13,800 thousand	100.0%	Sales promotion and maintenance services for semiconductor manufacturing equipment
Shinkawa (Shanghai) Co., Ltd.	USD 200 thousand	100.0%	Sales promotion and maintenance services for semiconductor manufacturing equipment
Shinkawa Philippines, Inc.	PHP 10,523 thousand	100.0%	Maintenance services for semiconductor manufacturing equipment
Shinkawa Vietnam Co., Ltd.	USD 200 thousand	100.0%	Design and development of software for semiconductor manufacturing equipment
Shinkawa Singapore Pte. Ltd.	SGD 150 thousand	100.0%	Sales promotion and maintenance services for semiconductor manufacturing equipment
Shinkawa (Malaysia) Sdn. Bhd.	MYR 500 thousand	100.0%	Maintenance services for semiconductor manufacturing equipment
Shinkawa (Thailand) Co., Ltd.	THB 10,000 thousand	100.0%	Maintenance services for semiconductor manufacturing

			equipment
Shinkawa Manufacturing Asia Co., Ltd.	THB 343,000 thousand	100.0%	Manufacturing and sales of semiconductor manufacturing equipment
Shinkawa U.S.A., Inc.	USD 50 thousand	100.0%	Sales promotion and market research for semiconductor manufacturing equipment

Notes:

1. The voting rights in Shinkawa (Malaysia) Sdn. Bhd. are directly and indirectly held by the Company. Those held by the Company account for 60% and those held by Shinkawa Singapore Pte. Ltd. accounted for 40%.
2. The voting rights in Shinkawa (Thailand) Co., Ltd., are directly and indirectly held by the Company. Those held by the Company account for 97.3% and those held by Shinkawa Singapore Pte. Ltd. accounted for 2.7%.
3. Shinkawa Manufacturing Asia Co., Ltd., implemented a capital increase of THB 6,000 thousand for the fiscal year under review.
4. No subsidiary of the Company falls under the category of specified wholly owned subsidiaries.

#### (4) Our Tasks Ahead

To address the increasingly small, high-precision and low-cost semiconductor packaging, the Group has made focused efforts to reform its earnings structure. These include promoting the sales of cost-competitive and high-value-added products, acquiring new customers including major OSAT providers, and transferring production to the Thai factory. These measures have proceeded steadily, breaking a string of eight consecutive years in the red in the fiscal year ended March 31, 2017.

Recently, with a burgeoning IoT society, not only PCs and smartphones but also home electric appliances, automobiles, factory equipment and other various items have become connected to the Internet. Against a backdrop of growing expectations for the IoT field as a new driving force for the growth of the semiconductor market, the Group formulated a new medium-term management plan *Challenge Shinkawa 2020* through the fiscal year ending March 31, 2021 toward the arrival of a new era for the semiconductor market. Aiming at being a leading company in bonding technology, the Group will make consistent efforts to innovate packaging technology, thereby securing the sustainable growth of the Group.

Faced with such an environment, the Group is working on the following tasks.

##### 1) Enhancement of the existing businesses

The arrival of the IoT age has brought about various changes in the demands on semiconductor packages. To address the demands for SSD data storage and higher-speed memory, the Group will make continued efforts to enhance the functions of its wire and die bonders. In addition, to accommodate the 3 and 2.5-dimensional bonding applications required for memory cubes and the latest CPUs, we will promote the development and sales of flip-chip bonders that support the most advanced bonding processes such as Thermal Compression Bonding.

As the functions of communications devices, such as smartphones, are becoming increasingly advanced, the demand for high-performance packages, such as Package on Package (PoP) and Fan Out-Wafer Level Package (FO-WLP), is on the rise. To meet such demand, the Group has been promoting the functional enhancement of flip-chip bonders.

##### 2) Development of new business value

Under the concept of the Shinkawa Smart Bonding Solution, the Group is developing solution technologies that allow the IoT function to be incorporated into the semiconductor assembly process. We will promote efforts to offer “intelligent” bonders by reinforcing their sensing functions, “intelligent” networks by reinforcing the data gathering and analysis functions and “intelligent” processes by embedding know-how into software. By proposing solutions that anticipate the demand that may arise with the development of the IoT society, we will seek to enhance customer satisfaction and corporate value.

##### 3) Activation of the organization and development of human resources

To cause innovative changes to our organization so that it can produce creative solutions, a diverse range of human resources is required. The Group is making focused efforts to develop human resources by offering opportunities for talented persons from all over the world, while carrying out awareness-raising measures across the board.

We would greatly appreciate the continued understanding and support of our shareholders.

**(5) Principal Businesses (As of March 31, 2017)**

The Group consists of the Company and its 11 subsidiaries, mainly engaging in the development, manufacturing and sales of semiconductor manufacturing equipment for manufacturers of semiconductors and electronic components and offering maintenance services related to these businesses.

The Group's major products include wire bonders, die bonders and flip-chip bonders.

**(6) The Company Group's Principal Business Locations (As of March 31, 2017)**

1) The Company

Name	Location
Head Office and Factory	Musashimurayama-shi, Tokyo

2) Subsidiaries

Company name	Location
Shinkawa Technologies Ltd.	Musashimurayama-shi, Tokyo
Shinkawa Korea Co., Ltd.	Seoul, South Korea
Shinkawa Taiwan Co., Ltd.	New Taipei, Taiwan
Shinkawa (Shanghai) Co., Ltd.	Shanghai, China
Shinkawa Philippines, Inc.	Manila, Philippines
Shinkawa Vietnam Co., Ltd.	Ho Chi Minh City, Vietnam
Shinkawa Singapore Pte. Ltd.	Singapore
Shinkawa (Malaysia) Sdn. Bhd.	Subang Jaya, Malaysia
Shinkawa (Thailand) Co., Ltd.	Pathumthani, Thailand
Shinkawa Manufacturing Asia Co., Ltd.	Pathumthani, Thailand
Shinkawa U.S.A., Inc.	Gilbert, State of Arizona, U.S.A.

**(7) Employees (As of March 31, 2017)**

1) Employees of the Company Group

Number of employees	Increase from previous fiscal year-end
712	31

Note: The number of employees represents the number of people in service and includes 25 contract and part-time employees.

2) Employees of the Company

Number of employees	Increase from previous fiscal year-end	Average age	Average number of years in service
285	13	42.8	13.9

Note: The number of employees represents the number of people in service (excluding 15 employees on loan to subsidiaries and including two employees on loan from subsidiaries), and includes 15 contract and part-time employees.

**(8) Principal Lenders (As of March 31, 2017)**

Not applicable.

**(9) Other Important Information Concerning the Company Group**

Material issues, etc., on the going concern assumption

Partly due to its prolonged period of product development and evaluation, as well as the higher ratio of its fixed cost to net sales, the Group recorded an operating loss, an ordinary loss and a loss attributable to owners of parent for the past fiscal years. For the fiscal year under review, profit attributable to owners of parent was achieved on a consolidated basis, whereas a net loss was recorded on a non-consolidated basis. For these reasons, the Company has material issues, etc. on the going concern assumption.

To resolve such a situation, the Group formulated the medium-term management

plan *Challenge Shinkawa 2020*, as mentioned in (4) Our Tasks Ahead under 1. Overview of the Company Group, and has been working on the enhancement of the existing businesses, the development of new business value and the activation of the organization and development of human resources.

The Group does not have loans payable to external entities and its capital adequacy ratio is as high as 85.6%, meaning that it has sufficient working capital for operating its businesses.

For these reasons, we consider that a material uncertainty regarding the going concern assumption does not exist.

## 2. Current Status of the Company

### (1) Status of Shares (As of March 31, 2017)

- 1) Authorized shares: 80,000,000 shares
- 2) Issued and outstanding shares: 20,047,500 shares (including 1,873,982 treasury shares)
- 3) Number of shareholders: 7,946
- 4) Principal shareholders (top 10 shareholders):

Shareholder name	Number of shares held (Thousands)	Shareholding ratio (%)
Goldman Sachs International	1,067	5.87
Trust & Custody Services Bank, Ltd. (The Tokyo Tomin Bank, Limited. Retirement Benefit Trust Account re-entrusted by Mizuho Trust & Banking Co., Ltd.)	900	4.95
The Master Trust Bank of Japan, Ltd. (Trust Account)	710	3.91
SHINKAWA Business Partners Share-Holding Association	535	2.94
I & E Corporation	499	2.74
State Street Bank and Trust Company 505019	432	2.38
Japan Trustee Services Bank, Ltd. (Trust Account)	409	2.25
Tokyo TY Lease Co., Ltd.	405	2.23
Japan Trustee Services Bank, Ltd. (Trust Account 5)	320	1.76
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	293	1.61

- Notes:
1. Fractions less than the figures indicated above are truncated for the number of shares held and the shareholding ratio.
  2. The Company's treasury shares (1,873,982 shares) were excluded in the calculation of the shareholding ratio.

### (2) Share Subscription Rights

Not applicable.

### (3) Company Officers

#### 1) Directors and Audit & Supervisory Board Members (As of March 31, 2017)

Position in the Company	Name	Responsibility and significant concurrent positions
President and CEO, Representative Director	Takashi Nagano	
Chief Technical Officer, Director	Norimasa Nagata	Director in charge of Engineering Div. and Global Operation Div.
Chief Financial Officer, Director	Takuya Mori	Director in charge of Corporate Planning Dept., Personnel & Administration Dept. and Accounting Dept. General Manager, Corporate Planning Dept., and General Manager, Accounting Dept.
Operating Officer, Director	Noboru Fujino	General Manager, Engineering Div.
Director	Ichiro Anjo	Representative Director, Jisso Partners, Inc. Outside Director, INNOTECH CORPORATION
Director	Yuichi Kawakami	Outside Director, Inventit, Inc. Outside Director, Atonarp Inc. Adviser, NEC Capital Solutions Limited Executive Advisor & GM, Japan, OmniTier Storage, Inc.
Full-Time Audit & Supervisory Board Member	Koji Sekiguchi	
Audit & Supervisory Board Member	Masaki Yoshino	Representative Partner, Yoshino Law Office
Audit & Supervisory Board Member	Mariko Mitsuya	

- Notes:
1. Director Hiroshi Nishimura retired at the conclusion of the 58th Ordinary General Meeting of Shareholders held on June 29, 2016 due to expiration of his term of office.
  2. Directors Ichiro Anjo and Yuichi Kawakami are Outside Directors.
  3. Audit & Supervisory Board Members Koji Sekiguchi, Masaki Yoshino and Mariko Mitsuya are Outside Audit & Supervisory Board Members.
  4. The Company designates Directors Ichiro Anjo and Yuichi Kawakami and Audit & Supervisory Board Members Masaki Yoshino and Mariko Mitsuya as Independent Officers as set forth by the Tokyo Stock Exchange and has filed such notification with said Exchange.
  5. The Company has business transactions under a consulting contract with Jisso Partners, Inc., where Director Ichiro Anjo concurrently holds a position. However, the amount of such transactions for the fiscal year ended March 31, 2017, was insignificant at about one million yen. The Company has no special interest in INNOTECH CORPORATION, where Director Ichiro Anjo concurrently holds a position.
  6. The Company has no special interest in Inventit, Inc., Atonarp Inc., NEC Capital Solutions Limited or OmniTier Storage, Inc., in each of which Director Yuichi Kawakami concurrently holds a position.
  7. The Company has no special interest in Yoshino Law Office, where Audit & Supervisory Board Member Masaki Yoshino concurrently holds a position.
  8. Ms. Mariko Mitsuya is a Certified Public Accountant and has a significant amount of professional knowledge on financial and accounting matters.



9. Operating Officers who do not concurrently hold the position of Director are as follows.

Position in the Company	Name	Areas of responsibility
Operating Officer	Hirotoishi Tashima	General Manager, Sales Div., and General Manager, Global Sales Management Dept.
Operating Officer	Tetsuya Sakuma	General Manager, Global Operation Div.
Operating Officer	Fumihiko Ooka	President, Shinkawa Manufacturing Asia Co., Ltd. President, Shinkawa (Thailand) Co., Ltd.

## 2) Outline of limited liability agreements

- By making partial amendments to its Articles of Incorporation at the 57th Ordinary General Meeting of Shareholders held on June 26, 2015, the Company established a provision regarding a limited liability agreement with Directors (excluding Executive Directors) and Audit & Supervisory Board Members (Article 427, Paragraph 1, of the Companies Act). Pursuant to the Articles of Incorporation, the Company concludes a limited liability agreement with Directors Ichiro Anjo and Yuichi Kawakami and all Audit & Supervisory Board Members.
- The amount of liability for damages (as set forth in Article 423, Paragraph 1, of the Companies Act) under the agreement is up to the minimum liability amount stipulated by law.
- Said limitation of liability is allowed only if the Director or Audit & Supervisory Board Member acts in good faith and is not grossly negligent in performing the duties that caused the liability.

## 3) Remuneration for Directors and Audit & Supervisory Board Members

Classification	Directors (Outside Directors included)		Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members included)		Total (Outside Officers included)	
	Number of eligible persons	Amount of payment	Number of eligible persons	Amount of payment	Number of eligible persons	Amount of payment
Basic Remuneration	7 (2)	¥63 million (¥10 million)	3 (3)	¥23 million (¥23 million)	10 (5)	¥86 million (¥33 million)
Bonuses	—	—	—	—	—	—
Total		¥63 million (¥10 million)		¥23 million (¥23 million)		¥86 million (¥33 million)

- Notes:
1. The number of eligible persons for remuneration for Director includes one Director who retired due to expiration of term of office at the conclusion of the 58th Ordinary General Meeting of Shareholders held on June 29, 2016.
  2. The amount of payment for Directors does not include the portion of payment as employees if they concurrently serve as employees.
  3. At the 54th Ordinary General Meeting of Shareholders on June 28, 2012, a resolution was adopted to establish an upper limit on remuneration for Directors of ¥150 million per year (which does not include salaries as employees for Directors who concurrently serve as employees).
  4. At the 48th Ordinary General Meeting of Shareholders on June 29, 2006, a resolution was adopted to establish an upper limit on remuneration for Audit & Supervisory Board Members of ¥45 million per year.
  5. In addition to the above, directors' retirement benefits of ¥9 million were paid to one retiring Director in accordance with a resolution at the 48th Ordinary General Meeting of Shareholders held on June 29, 2006.

## 4) Outside Officers

### a. Significant concurrent positions

The status of significant concurrent positions is described on page 8.

b. Main activities during the fiscal year under review

Title	Name	Main activities
Director	Ichiro Anjo	Attended 19 out of 20 meetings of the Board of Directors held during the fiscal year under review. Based on his experience in management at other companies, he provided advice and suggestions to ensure the reasonability and appropriateness of decisions made by the Board of Directors.
Director	Yuichi Kawakami	Attended 15 out of 16 meetings of the Board of Directors held after he assumed office. Based on his experience in management at other companies, he provided advice and suggestions to ensure the reasonability and appropriateness of decisions made by the Board of Directors.
Full-Time Audit & Supervisory Board Member	Koji Sekiguchi	Attended all 20 meetings of the Board of Directors held and all 14 meetings of the Audit & Supervisory Board held during the fiscal year under review. Based on his significant experience and knowledge in the field of finance and accounting acquired through the financial business, he provided advice and suggestions to ensure the reasonability and appropriateness of decisions made by the Board of Directors.
Audit & Supervisory Board Member	Masaki Yoshino	Attended 17 out of 20 meetings of the Board of Directors and 13 out of 14 meetings of the Audit & Supervisory Board held during the fiscal year under review. Based on his professional perspective as a lawyer, he provided advice and suggestions to ensure the reasonability and appropriateness of decisions made by the Board of Directors.
Audit & Supervisory Board Member	Mariko Mitsuya	Attended 19 out of 20 meetings of the Board of Directors and all 14 meetings of the Audit & Supervisory Board held during the fiscal year under review. Based on her professional perspective as a Certified Public Accountant, she provided advice and suggestions to reinforce the supervision of management and internal control functions.

**(4) Accounting Auditor**

1) Accounting Auditor's Name: ARK MEIJI AUDIT & Co.

2) Accounting Auditor's Remuneration

	Amount of remuneration
Remuneration for the Accounting Auditor for the fiscal year ended March 31, 2017	¥36 million
Total amount of money and other financial benefits payable to the Accounting Auditor by the Company and its subsidiaries	¥36 million

Notes: 1. The audit agreement between the Company and the Accounting Auditor does not distinguish fees paid for the audit conducted in accordance with the Companies Act from fees paid for the audit conducted in accordance with the Financial Instruments and Exchange Act, and it is practically impossible to make such a distinction. Accordingly, the above amounts represent the aggregate amounts of fees for these two types of audits.

2. The Company's Audit & Supervisory Board examined the content of the Accounting Auditor's audit plans, its performance of duties in prior fiscal years and the basis for calculation of remuneration for the Accounting Auditor through the necessary documents received from the Board of Directors, related divisions of the Company and the Accounting Auditor, as well as necessary reports therefrom. Based on the results of the examination, the Company gave consent to the remuneration for the Accounting Auditor as stipulated in Article 399, Paragraph 1, of the Companies Act.

3) Audits of the Company's subsidiaries by auditing firms other than the Company's Accounting Auditor

The Company's overseas subsidiaries except Shinkawa U.S.A., Inc., are audited by auditing firms other than the Company's Accounting Auditor.

4) Non-auditing services

The Company does not commission the Accounting Auditor to perform any services other than the audit certification service as stipulated in Article 2, Paragraph 1, of the Certified Public Accountants Act.

5) Policy regarding determination of dismissal or non-reappointment of the Accounting Auditor

In the event that the Accounting Auditor is deemed to fall under any of the grounds set forth in the items of Article 340, Paragraph 1, of the Companies Act, the Audit & Supervisory Board shall consider the dismissal of said Accounting Auditor and terminate the appointment of the Accounting Auditor subject to the unanimous consent of the Audit & Supervisory Board Members. In that case, the dismissal of the Accounting Auditor and reasons therefor will be reported by an Audit & Supervisory Board Member designated by the Audit & Supervisory Board at the first General Meeting of Shareholders convened after the dismissal.

In addition, should the Accounting Auditor be deemed unable to execute its duties properly or it otherwise be deemed necessary to replace the Accounting Auditor upon consideration of any of the Accounting Auditor's acts in violation of the related laws and regulations, including the Companies Act, as well as the Accounting Auditor's independence, auditing quality and performance of duties, the Audit & Supervisory Board will determine the details of a proposal to dismiss or not to reappoint the Accounting Auditor and request the Board of Directors to submit it to the General Meeting of Shareholders.

**(5) Systems to Ensure the Appropriateness of the Business and the Status of Operation Thereof**

Details of the Group's resolution on the systems to ensure the conformity of performance of Directors' duties to laws, regulations and the Articles of Incorporation and other systems to ensure the appropriateness of the Company's businesses are as follows.

1) The system for securing job execution compliance by directors and employees with laws and regulations as well as the Company Statute

We shall establish the "Code of Conduct for the SHINKAWA Group" so that all the board members and employees of the entire Group shall perform their jobs in compliance with laws, regulations, Company Statute and the norms of society. In order to attain a thorough understanding, the president shall also control the Companywide promotion of compliance having instituted the basic rules of compliance. Moreover, the education of employees shall be conducted mainly through the Personnel & Administration Department. The Audit Department under the direct control of the president shall audit the degree of compliance in collaboration with the Personnel & Administration Department. We shall create an internal reporting system with the aim of deterring questionable behavior and conduct in terms of laws, regulations, Company Statute and the norms of society, prepare contact points for internal reporting both inside and outside the Company to allow all the board members and employees to report information directly, and ensure that reporters will not receive detrimental treatment because of such reporting.

By establishing and promoting these systems, we shall take organized responses to block any relationships with antisocial forces and organizations. In the face of unacceptable demands from antisocial forces and organizations, we shall strive to cut-off relations and prevent damage by cooperating with the police and other law enforcement authorities mainly through the Personnel & Administration Department as the controlling division.

2) Systems concerning the maintenance and control of information related to job execution by directors

We shall record and keep information related to decision making and job execution by directors in the form of printed or electronic documents (hereinafter collectively referred to as "documents") pursuant to the rules relating to document control. These documents shall be made available for inspection by directors and corporate auditors at any time pursuant to the rules relating to document control.

3) Regulations and other systems concerning the management of risk of loss

In accordance with the risk management rules, each department and each company of the

SHINKAWA Group shall manage any risks derived from the operations they are responsible for, whereas the status of cross-organizational risks and Companywide responses shall be managed by the Corporate Planning Department.

4) The system of ensuring that directors execute their duties in an efficient manner

We have adopted the operating officer system to ensure that decision-making is undertaken in a swift and agile manner and to clarify responsibilities with respect to the execution of duties. In the context of operating execution function in accordance with decisions of the Board of Directors, the rules relating to management authority clearly define the responsibilities and authority of each officer. In this manner, the Company has taken steps to build a system that is conducive to the appropriate and efficient execution of duties.

In addition, specific objectives and targets are set for each division and department. The Board of Directors regularly reviews the status of progress and results. This helps raise the probability of achieving established objectives and goals and securing efficient Group-wide operations.

5) System to secure the appropriateness of the Company's operations as well as of the Company Group including its subsidiaries

a. The department in charge of internal control for the entire Group shall be the Corporate Planning Department, which provides necessary guidance and support to each Group Company to enhance the effectiveness of internal control and the efficiency of business execution at each Group Company.

b. Regarding compliance and risk management, the Company's department in charge of compliance and risk management shall conduct activities covering the entire Group.

c. The internal reporting system shall be applied to each Group company.

d. The rules for decision making on business execution at the Company's subsidiaries shall be put in place, and the Company shall have its subsidiaries report the status of their business execution and financial position regularly.

6) In the event corporate auditors request that employees be assigned to assist in their duties; matters related to the relevant employees, matters related to the independence of such employees from directors, and matters related to ensuring the effectiveness of the instructions given to such employees

In the event employees are required to assist in the duties of corporate auditors, we shall assign employees who have the ability and knowledge to examine the operations of the Company. The employees shall not be subject to instruction and/or order of directors and others insofar as their capacity to assist in the duties of corporate auditors is concerned. Personnel transfers and other employees conditions regarding such employees shall be subject to prior approval by the board of corporate auditors.

7) Systems for directors and employees of the Company and its subsidiaries to report to corporate auditors, systems for other reporting to corporate auditors, and systems to ensure that reporters will not receive detrimental treatment because of such reporting

All the board members and employees of the SHINKAWA Group shall report to the board of corporate auditors without delay on important matters that have a significant impact on the Company and the Company Group, the degree to which internal audits have been implemented in addition to matters designated by law. Methods of reporting (reporter, recipient of report, timing of report, etc.) shall be determined through consultation between directors and the board of corporate auditors.

The SHINKAWA Group shall not treat reporters in a detrimental way because of their providing related information to the corporate auditors.

8) Other systems to secure the effective implementation of audits by corporate auditors

We shall provide active support for the preparation of an appropriate environment that allows audits by corporate auditors, and arrange regular meetings for the exchange of opinions between the board of corporate auditors and representative directors.

The Company shall cover the necessary expenses for audit duties such as using external advisors who support the corporate auditors' audit duties in case it is deemed necessary by the corporate auditors.

(Status of operation of the systems to ensure the appropriateness of the business)

The status of operation of the systems to ensure the appropriateness of the business is as follows.

1) Systems for ensuring compliance

The Code of Conduct for the SHINKAWA Group is internally viewable at all times, every opportunity is taken to disseminate said Code throughout the Company, and it is disclosed externally through the Company's Web site and other means. In accordance with the basic rules of compliance, self-checks on the status of compliance are regularly conducted by each department manager, with their results being reported to the Board of Directors and the Audit & Supervisory Board.

The internal reporting system in place provides more than one contact that receives reports, including an external lawyer, whereas the protection of reporters is stipulated in the relevant internal regulations.

2) Systems for risk management

A department manager of the Company and a person responsible for risk management at each Group company evaluate risks and review risk management measures at the beginning of each fiscal year, and confirm the measures taken at the year-end. The respective results thereof are reported to not only Directors but also at executive meetings attended by department managers and people in higher positions.

3) Systems for Directors' execution of duties

The Board of Directors holds meetings monthly and whenever the necessity arises where Directors deliberate and make decisions on important matters and supervise the status of execution of business operations. In addition, executive meetings are held twice a month to discuss important matters and share information.

4) Systems for the management of the Group companies

The Corporate Planning Department, which is in charge of internal controls at each Group company, has promoted the establishment and enhancement of the rules for the authority of management for each Group company in accordance with the rules for the management of subsidiaries and affiliates and the rules for the management of overseas businesses. In addition, said Department receives regular reports from each Group company on its status of business execution and financial position, and conducts audits of each Group company.

5) Systems to secure the effective implementation of audits by Audit & Supervisory Board Members

The Audit & Supervisory Board, which consists of three Outside Audit & Supervisory Board Members, determines the auditing policies and plans and deliberates on matters concerning important audit operations.

Representative Directors regularly meet with Audit & Supervisory Board Members to exchange opinions. Meanwhile, Audit & Supervisory Board Members attend Board of Directors' meetings, executive meetings and other meetings that are deemed important by Audit & Supervisory Board Members, through which necessary information is acquired from Directors and employees on the status of the Company and Group companies and opinions are offered from the auditors' standpoint. Directors and employees respond to a request for a survey or an interview whenever it is made by Audit & Supervisory Board Members.

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(Note) The amounts of money shown in this Business Report are rounded to the nearest unit.

## Consolidated Balance Sheet

(As of March 31, 2017)

(Millions of yen)

ASSETS		LIABILITIES	
Account	Amount	Account	Amount
<b>Current assets</b>	<b>16,124</b>	<b>Current liabilities</b>	<b>2,226</b>
Cash and deposits	4,849	Accounts payable—trade	1,163
Notes and accounts receivable—trade	6,363	Income taxes payable	172
Merchandise and finished goods	2,568	Provision for product warranties	284
Work in process	1,061	Provision for bonuses	227
Raw materials and supplies	595	Deferred tax liabilities	9
Deferred tax assets	49	Other	370
Other	641	<b>Non-current liabilities</b>	<b>1,397</b>
Allowance for doubtful accounts	(2)	Net defined benefit liability	862
<b>Non-current assets</b>	<b>9,077</b>	Deferred tax liabilities	528
<b>Property, plant and equipment</b>	<b>5,204</b>	Other	6
Buildings and structures, net	1,600	<b>Total liabilities</b>	<b>3,622</b>
Machinery, equipment and vehicles, net	236	NET ASSETS	
Land	3,198	<b>Shareholders' equity</b>	<b>19,843</b>
Construction in progress	73	<b>Capital stock</b>	<b>8,360</b>
Other	97	<b>Capital surplus</b>	<b>8,907</b>
<b>Intangible assets</b>	<b>52</b>	<b>Retained earnings</b>	<b>5,726</b>
Other	52	<b>Treasury shares</b>	<b>(3,150)</b>
<b>Investments and other assets</b>	<b>3,821</b>	<b>Accumulated other comprehensive income</b>	<b>1,736</b>
Investment securities	3,365	<b>Valuation difference on available-for-sale securities</b>	<b>1,535</b>
Long-term loans receivable	21	<b>Foreign currency translation adjustment</b>	<b>177</b>
Deferred tax assets	25	<b>Remeasurements of defined benefit plans</b>	<b>24</b>
Other	409	<b>Total net assets</b>	<b>21,579</b>
<b>Total assets</b>	<b>25,201</b>	<b>Total liabilities and net assets</b>	<b>25,201</b>

## Consolidated Statement of Income

(April 1, 2016–March 31, 2017)

(Millions of yen)

Account	Amount	
<b>Net sales</b>		<b>16,438</b>
<b>Cost of sales</b>		<b>11,068</b>
<b>Gross profit</b>		<b>5,370</b>
<b>Selling, general and administrative expenses</b>		<b>5,075</b>
<b>Operating income</b>		<b>294</b>
<b>Non-operating income</b>		
Interest income	9	
Dividend income	66	
Rent income	8	
Foreign exchange gains	41	
Other	16	140
<b>Non-operating expenses</b>		
Cost of lease revenue	1	
Sales discounts	1	
Other	0	2
<b>Ordinary income</b>		<b>432</b>
<b>Extraordinary income</b>		
Gain on sales of non-current assets	12	
Gain on sales of investment securities	35	47
<b>Extraordinary losses</b>		
Loss on sales of non-current assets	1	1
<b>Profit before income taxes</b>		<b>478</b>
Income taxes—current	194	
Income taxes—deferred	41	235
<b>Profit</b>		<b>243</b>
<b>Profit attributable to owners of parent</b>		<b>243</b>

## Consolidated Statement of Changes in Net Assets

(April 1, 2016–March 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	8,360	8,907	5,483	(3,150)	19,600
Changes of items during period					
Profit attributable to owners of parent			243		243
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	243	(0)	243
Balance at the end of current period	8,360	8,907	5,726	(3,150)	19,843

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at the beginning of current period	866	166	(63)	970	20,570
Changes of items during period					
Profit attributable to owners of parent					243
Purchase of treasury shares					(0)
Net changes of items other than shareholders' equity	669	11	87	766	766
Total changes of items during period	669	11	87	766	1,009
Balance at the end of current period	1,535	177	24	1,736	21,579



## Notes to Consolidated Financial Statements

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

### Basis of Preparing Consolidated Financial Statements

#### 1. Scope of Consolidation

Number of consolidated subsidiaries: 11

Names of consolidated subsidiaries: Shinkawa Technologies Ltd.  
Shinkawa Korea Co., Ltd.  
Shinkawa Taiwan Co., Ltd.  
Shinkawa (Shanghai) Co., Ltd.  
Shinkawa Philippines, Inc.  
Shinkawa Vietnam Co., Ltd.  
Shinkawa Singapore Pte. Ltd.  
Shinkawa (Malaysia) Sdn. Bhd.  
Shinkawa (Thailand) Co., Ltd.  
Shinkawa Manufacturing Asia Co., Ltd.  
Shinkawa U.S.A., Inc.

#### 2. Application of equity method

Not applicable.

#### 3. Fiscal year-ends of consolidated subsidiaries

Regarding Shinkawa (Shanghai) Co., Ltd., for which the balance sheet date is December 31, its financial statements as of December 31 are used for the preparation of the consolidated financial statements, with necessary adjustments being made for any important transactions that occur during the period between December 31 and the consolidated balance sheet date.

The balance sheet date of the other consolidated subsidiaries coincides with the consolidated balance sheet date.

### Accounting Policies

#### 1. Basis and methods of valuation of significant assets

##### (1) Securities

Available-for-sale securities

Securities with readily determinable market value

Stated at fair market value, based on market quotation at the balance sheet date.

(Valuation difference on available-for-sale securities is reported as a separate component of net assets. The cost of securities sold is computed using the moving-average method.)

Securities without readily determinable market value

Stated at cost determined by the moving-average method.

##### (2) Inventories

Semi-finished goods—which are included in “Merchandise and finished goods” in the consolidated balance sheet—and raw materials are stated at cost determined by the moving-average method. Finished goods and work in process are stated at cost determined by the specific identification method. (In either case, the balance sheet amount is computed by making inventory write-downs according to decreases in profitability.)

##### (3) Derivatives are stated at fair market value.

#### 2. Methods of depreciation and amortization of significant assets

##### (1) Property, plant and equipment

Domestic companies use the declining-balance method, whereas overseas companies use the straight-line method. Useful lives of principal property, plant and equipment are as follows.

Buildings and structures: 10–25 years

Machinery, equipment and vehicles: 3–5 years

##### (2) Intangible assets

Amortized by the straight-line method. Patent right is amortized over eight years and software for internal use is amortized over the internally estimated useful life of three years by the straight-line method.

### 3. Basis for provision of significant reserves

#### (1) Allowance for doubtful accounts

An allowance for doubtful accounts is provided to cover possible losses from bad debts of accounts receivable, loans receivable and other receivables at the estimated uncollectible amount. The amount for ordinary receivables is determined by the credit loss ratio based on past experience. The amount for specific receivables, such as receivables at high risk of bankruptcy, is determined based on the individually expected collectibility.

#### (2) Provision for product warranties

A provision for product warranties is made to cover possible expenditures for free after-sales services for a certain period according to the standards set by the Group based on past achievements.

#### (3) Provision for bonuses

A provision for bonuses is made to cover the payments of bonuses to employees at the projected amount to be paid in the future.

### 4. Methods of accounting for retirement benefits

#### (1) Method of attributing projected retirement benefits to periods

When calculating retirement benefit obligations, the straight-line method is mainly applied to attribute projected retirement benefits to the period through the end of the fiscal year under review.

#### (2) Amortization of actuarial differences and past service costs

Actuarial differences are amortized mainly in a lump sum in the year following the year when such differences occur.

Past service costs are amortized mainly by the straight-line method over a certain number of years (two years) within the average remaining service period of employees when such costs are incurred.

### 5. Basis of translating assets or liabilities denominated in foreign currencies into the Japanese currency

Monetary receivables and payables denominated in foreign currencies are translated into the Japanese yen at the spot exchange rate as of the consolidated balance sheet date. The assets and liabilities of overseas subsidiaries are translated into the Japanese yen at the spot exchange rate as of the consolidated balance sheet date, whereas the income and expense accounts thereof are translated into the Japanese yen at the average exchange rate over the fiscal year under review. Differences arising from such translations are included in Foreign currency translation adjustments under Net assets.

### 6. Accounting for consumption taxes

Consumption taxes are accounted for by the tax-exclusive method.

## **Additional Information**

### (Application of the Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has adopted the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016) from the fiscal year under review.

### (Application of the consolidated taxation system)

During the fiscal year under review, the Company and one of its consolidated subsidiaries applied for approval of the adoption of the consolidated taxation system, and it has been decided that the system will be applied effective from the following fiscal year. Therefore, accounting treatment assuming the adoption of the consolidated taxation system has been applied beginning from the fiscal year under review in accordance with the Revised Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1) (ASBJ PITF No. 5, January 16, 2015) and the Revised Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2) (ASBJ PITF No. 7, January 16, 2015).

## **Notes to the Consolidated Balance Sheet**

1. Accumulated depreciation of property, plant and equipment: ¥13,709 million
2. The accumulated amount of advanced depreciation of buildings and structures due to governmental subsidies was ¥14 million.

**Notes to the Consolidated Statement of Changes in Net Assets**

## 1. Class and number of issued shares and treasury shares

(Thousand shares)

Class of shares	Number of shares at the beginning of year	Increase	Decrease	Number of shares at the end of year
Issued shares				
Common stock	20,048	—	—	20,048
Total	20,048	—	—	20,048
Treasury shares				
Common stock	1,874	0	—	1,874
Total	1,874	0	—	1,874

Notes: Figures are rounded to the nearest thousand.

## 2. Distribution of surplus

Payment of dividends, etc.

Not applicable.

## Financial Instruments

### 1. Matters relating to the status of financial instruments

The Group limits the use of financial instruments for fund management to short-term financial assets, including bank deposits. Customer credit risk arising from notes and accounts receivable—trade is mitigated in accordance with the rules for credit management.

Investment securities consist of stocks, of which listed stocks' market values are monitored on a quarterly basis.

With regard to derivatives, foreign exchange forward contracts are used to hedge foreign exchange fluctuation risk related to foreign-currency-denominated assets. These derivative transactions are conducted within the range of actual demand and not for any speculative trading purposes.

### 2. Matters related to the fair market value of financial instruments

The consolidated balance sheet amounts and the market values of financial instruments as of March 31, 2017 (the balance sheet date for the fiscal year under review), and any variances between the two are shown below.

(Millions of yen)

	Balance sheet amount*	Market value*	Variance
(1) Cash and deposits	4,849	4,849	—
(2) Notes and accounts receivable—trade	6,363	6,363	—
(3) Investment securities	3,365	3,365	—
(4) Accounts payable—trade	(1,163)	(1,163)	—

\*Liabilities are shown in parentheses.

Note: Methods for measuring the market values of financial instruments and securities

#### (1) Cash and deposits and (2) Notes and accounts receivable—trade

These instruments are settled in a short period of time and their market values are almost equal to their balance sheet values. Therefore, the balance sheet values are adopted.

#### (3) Investment securities

The market values of investment securities are based on the quoted values at the stock exchange.

#### (4) Accounts payable—trade

These instruments are settled in a short period of time and their market values are almost equal to their balance sheet values. Therefore, the balance sheet values are adopted.

## Per Share Information

1. Net assets per share	¥1,187.36
2. Net income per share	¥13.37

## Significant Subsequent Events

Not applicable.

Note: Figures presented in the Consolidated Financial Statements are rounded to the nearest million yen.

## Non-Consolidated Balance Sheet

(As of March 31, 2017)

(Millions of yen)

ASSETS		LIABILITIES	
Account	Amount	Account	Amount
<b>Current assets</b>	<b>13,641</b>	<b>Current liabilities</b>	<b>2,865</b>
Cash and deposits	1,958	Accounts payable—trade	1,958
Notes receivable—trade	55	Accounts payable—other	2
Accounts receivable—trade	8,050	Accrued expenses	273
Merchandise and finished goods	1,845	Income taxes payable	56
Work in process	640	Deposits received	13
Raw materials and supplies	535	Provision for product warranties	284
Consumption taxes receivable	479	Provision for bonuses	227
Other	80	Other	52
Allowance for doubtful accounts	(1)	<b>Non-current liabilities</b>	<b>1,247</b>
<b>Non-current assets</b>	<b>9,794</b>	Provision for retirement benefits	713
<b>Property, plant and equipment</b>	<b>3,877</b>	Long-term accounts payable—other	6
Buildings	810	Deferred tax liabilities	528
Structures	2	<b>Total liabilities</b>	<b>4,112</b>
Machinery, equipment and vehicles	173	NET ASSETS	
Tools, furniture and fixtures	34	<b>Shareholders' equity</b>	<b>17,788</b>
Computers	8	<b>Capital stock</b>	<b>8,360</b>
Land	2,777	<b>Capital surplus</b>	<b>8,907</b>
Construction in progress	73	Legal capital surplus	8,907
<b>Intangible assets</b>	<b>37</b>	Other capital surplus	0
Software	28	<b>Retained earnings</b>	<b>3,671</b>
Patent right	9	Legal retained earnings	2,090
<b>Investments and other assets</b>	<b>5,880</b>	Other retained earnings	1,581
Investment securities	3,365	Retained earnings brought forward	1,581
Shares of subsidiaries and associates	1,304	<b>Treasury shares</b>	<b>(3,150)</b>
Long-term loans receivable from subsidiaries and associates	1,304	<b>Valuation and translation adjustments</b>	<b>1,535</b>
Long-term loans receivable from employees	10	<b>Valuation difference on available-for-sale securities</b>	<b>1,535</b>
Other	139	<b>Total net assets</b>	<b>19,323</b>
Allowance for investment loss for subsidiaries and associates	(241)	<b>Total liabilities and net assets</b>	<b>23,435</b>
<b>Total assets</b>	<b>23,435</b>		

## Non-Consolidated Statement of Income

(April 1, 2016–March 31, 2017)

(Millions of yen)

Account	Amount	
<b>Net sales</b>		<b>14,991</b>
<b>Cost of sales</b>		<b>11,390</b>
<b>Gross profit</b>		<b>3,601</b>
<b>Selling, general and administrative expenses</b>		<b>4,206</b>
<b>Operating loss</b>		<b>(604)</b>
<b>Non-operating income</b>		
Interest income	16	
Dividend income	123	
Rent income	40	
Other	10	190
<b>Non-operating expenses</b>		
Cost of lease revenue	13	
Foreign exchange losses	14	
Other	1	27
<b>Ordinary loss</b>		<b>(442)</b>
<b>Extraordinary income</b>		
Gain on sales of investment securities	35	
Reversal of allowance for investment loss for subsidiaries and associates	324	359
<b>Loss before income taxes</b>		<b>(83)</b>
Income taxes		4
<b>Net loss</b>		<b>(87)</b>

## Non-Consolidated Statement of Changes in Net Assets

(April 1, 2016–March 31, 2017)

(Millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus			Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	
						Reserve for advanced depreciation of non-current assets	Retained earnings brought forward
Balance at the beginning of current period	8,360	8,907	0	8,907	2,090	2	1,666
Changes of items during period							
Reversal of reserve for advanced depreciation of non-current assets						(2)	2
Loss							(87)
Purchase of treasury shares							
Net changes of items other than shareholders' equity							
Total changes of items during period	-	-	-	-	-	(2)	(84)
Balance at the end of current period	8,360	8,907	0	8,907	2,090	-	1,581

	Shareholders' equity			Valuation and translation adjustments		Total net assets
	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
	Total retained earnings					
Balance at the beginning of current period	3,758	(3,150)	17,875	866	866	18,741
Changes of items during period						
Reversal of reserve for advanced depreciation of non-current assets	-		-			-
Loss	(87)		(87)			(87)
Purchase of treasury shares		(0)	(0)			(0)
Net changes of items other than shareholders' equity				669	669	669
Total changes of items during period	(87)	(0)	(87)	669	669	582
Balance at the end of current period	3,671	(3,150)	17,788	1,535	1,535	19,323

## Notes to Non-Consolidated Financial Statements

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

### Significant Accounting Policies

#### 1. Basis and methods of valuation of significant assets

##### (1) Securities

Stocks of subsidiaries

Stated at cost determined by the moving-average method.

Available-for-sale securities

Securities with readily determinable market value

Stated at market value, based on market quotation at the balance sheet date.

(Valuation difference on available-for-sale securities is reported as a separate component of net assets. The cost of securities sold is computed using the moving-average method.)

Securities without readily determinable market value

Stated at cost determined by the moving-average method.

##### (2) Inventories

Semi-finished goods—which are included in “Merchandise and finished goods” in the non-consolidated balance sheet—and raw materials are stated at cost determined by the moving-average method. Finished goods and work in process are stated at cost determined by the specific identification method. (In either case, the balance sheet amount is computed by making inventory write-downs according to decreases in profitability.)

##### (3) Derivatives are stated at market value.

#### 2. Methods of depreciation and amortization of noncurrent assets

##### (1) Property, plant and equipment

Property, plant and equipment are depreciated by the declining-balance method. The useful lives of principal property, plant and equipment are as follows.

Buildings: 25 years

Machinery, equipment and vehicles: 3–4 years

##### (2) Intangible assets

Amortized by the straight-line method. Patent right is amortized over eight years and software for internal use is amortized over the internally estimated useful life of three years by the straight-line method.

#### 3. Basis for provision of reserves

##### (1) Allowance for doubtful accounts

An allowance for doubtful accounts is provided to cover possible losses from bad debts of accounts receivable, loans receivable and other receivables at the estimated uncollectible amount. The amount for ordinary receivables is determined by the credit loss ratio based on past experience. The amount for specific receivables, such as receivables at high risk of bankruptcy, is determined based on the individually expected collectibility.

##### (2) Allowance for loss from investment in subsidiaries and associates

To provide for possible losses from investment in subsidiaries and associates, an amount deemed necessary is provided, taking into account the degree of decreases in the real value of the relevant companies' stocks and the future recovery thereof and other factors.

##### (3) Provision for product warranties

A provision for product warranties is made to cover possible expenditures for free after-sales services for a certain period according to the standards set by the Group based on past achievements.

##### (4) Provision for bonuses

A provision for bonuses is made to cover the payments of bonuses to employees at the projected amount to be paid in the future.

##### (5) Provision for retirement benefits

A provision for retirement benefits to be paid to employees is stated based on the estimated amounts of retirement benefit obligations and pension plan assets at the end of the fiscal year under review.

###### 1) Method of attributing projected retirement benefits to periods

When calculating retirement benefit obligations, the straight-line method is applied to attribute projected retirement benefits to the period through the end of the fiscal year under review.



2) Amortization of actuarial differences and past service costs

Actuarial differences are amortized in a lump sum in the year following the year when such differences occur.

Past service costs are amortized mainly by the straight-line method over a certain number of years (two years) within the average remaining service period of employees when such costs are incurred.

4. Other significant matters forming the basis of preparing the non-consolidated financial statements

(1) Accounting for retirement benefits

The method of accounting for unrecognized actuarial differences and unrecognized past service cost relating to retirement benefits is different from the method applied to the consolidated financial statements.

(2) Accounting for consumption taxes

Consumption taxes are accounted for by the tax-exclusive method.

**Additional Information**

(Application of the Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has adopted the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016) from the fiscal year under review.

(Application of the consolidated taxation system)

During the fiscal year under review, the Company and one of its consolidated subsidiaries applied for approval of the application of the consolidated taxation system, and it has been decided that the system will be applied effective from the following fiscal year. Therefore, accounting treatment assuming the application of the consolidated taxation system has been applied beginning from the fiscal year under review in accordance with the Revised Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1) (ASBJ PITF No. 5, January 16, 2015) and the Revised Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2) (ASBJ PITF No. 7, January 16, 2015).

**Notes to the Non-Consolidated Balance Sheet**

1. Accumulated depreciation of property, plant and equipment: ¥13,011 million
2. The accumulated amount of advanced depreciation of buildings and structures due to governmental subsidies was ¥14 million.
3. Monetary receivables and payables from/to subsidiaries and associates

Short-term monetary receivables	¥2,887 million
Long-term monetary receivables	¥1,304 million
Short-term monetary payables	¥1,227 million

**Notes to the Non-Consolidated Statement of Income**

Transactions with subsidiaries and associates:

- (1) Sales to ¥2,789 million
- (2) Purchases from ¥5,812 million
- (3) Other operating transactions ¥684 million
- (4) Non-operating transactions ¥110 million

## Notes to the Non-Consolidated Statement of Changes in Net Assets

Class and number of treasury shares

(Thousand shares)

Class of shares	Number of shares at the beginning of year	Increase	Decrease	Number of shares at the end of year
Common stock	1,874	0	—	1,874

Notes: Figures are rounded to the nearest thousand.

### Tax-Effect Accounting

#### 1. Major components of deferred tax assets and deferred tax liabilities

Deferred tax assets:	(Millions of yen)
Amount in excess of depreciation limit	1,121
Land devaluation disallowed	1,040
Provision for retirement benefits and other provisions disallowed	450
Long-term accounts payable disallowed	2
Loss on valuation of investment securities disallowed	166
Accrued expenses disallowed	9
Loss brought forward	6,588
Other	116
Subtotal	9,491
Valuation allowance	(9,491)
Total deferred tax assets	-
Deferred tax liabilities:	
Valuation difference on available-for-sale securities	528
Total deferred tax liabilities	528
Net deferred tax liabilities	528

## Related Party Transactions

Subsidiaries, etc.

Attribute	Subsidiary	Subsidiary	Subsidiary	Subsidiary				
Name of the company	Shinkawa Singapore Pte. Ltd.	Shinkawa (Shanghai) Co., Ltd.	Shinkawa Technologies Ltd.	Shinkawa Manufacturing Asia Co., Ltd.				
Location	Singapore	China	Tokyo	Thailand				
Capital	SGD 150 thousand	USD 200 thousand	JPY 90,000 thousand	THB 343 million				
Line of business	Sales and maintenance of semiconductor manufacturing equipment	Sales promotion and maintenance services for semiconductor manufacturing equipment	Manufacturing, sales and maintenance of precision equipment in which semiconductors and/or other electronic components are applied	Manufacturing and sales of semiconductor manufacturing equipment				
Percentage of voting rights held by the Company	100%	100%	100%	100%				
Relationship with the related party	Sales and maintenance of the Company products	Sales promotion and maintenance services for the Company products	Supply of semi-finished products to the Company / Product assembly adjustment	Manufacturing and sales of the Company products				
Content of transactions	Sales of products (Note 1)	Sales of products (Note 1)	Receipt of rent (Note 1)	Receipt of dividends (Note 2)	Sales of products (Notes 1 and 3)	Purchase of products (Note 1)	Lending funds (Note 4)	Receipt of interest (Note 4)
Amount of transactions (Millions of yen)	1,840	257	29	57	2,218	4,453	—	15
Account item (Balance at the year-end, in millions of yen)	Accounts receivable-trade (970)	Accounts receivable-trade (263)	—		Accounts receivable-trade (1,550)	Accounts payable-trade (914) Accounts payable-other (0)	Long-term loans receivable (1,304)	Accrued interest (1) Interest received in advance (3)

### 1. Terms and conditions of the transactions and the policies of determination thereof

(Note 1) The terms and conditions of general transactions are referred to.

(Note 2) The amount of dividends received is reasonably determined according to a certain standard based on the distributable amount of surplus.

(Note 3) The amount of transactions includes raw materials supplied for a charge of ¥2,168 million.

(Note 4) The interest rate on the loans receivable is reasonably determined based on the market interest rate.

### 2. Foreign exchange gains/losses are not reflected in the above transaction amounts but are reflected in the year-end balances.

## Per Share Information

1. Net assets per share	¥1,063.27
2. Net loss per share	¥4.76

## Significant Subsequent Events

Not applicable.

Note: Figures presented in the Non-Consolidated Financial Statements are rounded to the nearest million yen.

**Independent Auditor's Report**

May 9, 2017

To the Board of Directors  
SHINKAWA LTD.

ARK MEIJI AUDIT & Co.

Akihiko Miura, CPA  
Designated and Engagement Partner  
Koji Matsushima, CPA  
Designated and Engagement Partner

We have audited, pursuant to Article 444, Paragraph 4, of the Companies Act, the consolidated financial statements, which consist of the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of SHINKAWA LTD. (hereinafter referred to as the "Company") for the fiscal year from April 1, 2016, to March 31, 2017.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting standards generally accepted in Japan. This responsibility includes designing and operating internal controls that management considers necessary for the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit, from an independent viewpoint. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan the audit and perform it according to such plan to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. Although the purpose of the audit is not expressly to express an opinion on the effectiveness of the entity's internal control, in making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Auditor's Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SHINKAWA LTD. and its consolidated subsidiaries as of March 31, 2017, and their consolidated financial performance for the year then ended in conformity with accounting principles generally accepted in Japan.

### Relationship of Interest

We have no interests in or relationships with the Company that are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

End

**Independent Auditor's Report**

May 9, 2017

To the Board of Directors  
SHINKAWA LTD.

ARK MEIJI AUDIT & Co.

Akihiko Miura, CPA  
Designated and Engagement Partner  
Koji Matsushima, CPA  
Designated and Engagement Partner

We have audited, pursuant to Article 436, Paragraph 2-1, of the Companies Act, the non-consolidated financial statements, which consist of the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets, the notes to the non-consolidated financial statements and the supplementary schedules of SHINKAWA LTD. (hereinafter referred to as the "Company") for the 59th fiscal year from April 1, 2016, to March 31, 2017.

**Management's Responsibility for the Non-Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements and the accompanying supplemental schedules in accordance with accounting standards generally accepted in Japan. This responsibility includes designing and operating internal controls that management considers necessary for the preparation and fair presentation of the non-consolidated financial statements and accompanying supplemental schedules that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these non-consolidated financial statements and the accompanying supplemental schedules from an independent viewpoint, based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit according to such plan to obtain reasonable assurance about whether the non-consolidated financial statements and the accompanying supplemental schedules are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the accompanying supplemental schedules. The procedures selected and applied depend on the auditors' judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and the accompanying supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements and the accompanying supplemental schedules in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the accompanying supplemental schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Auditor's Opinion

In our opinion, the non-consolidated financial statements and supplementary schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2017, and the result of its operation for the year then ended in conformity with accounting principles generally accepted in Japan.

#### Relationship of Interest

We have no interests in or relationships with the Company that are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

End

## **Audit Report**

Regarding the performance of duties by Directors for the 59th fiscal year from April 1, 2016, to March 31, 2017, the Audit & Supervisory Board hereby submits its audit report, which has been prepared upon careful consideration based on the audit report prepared by each Audit & Supervisory Board Member.

1. Methods and Content of the Audits by the Audit & Supervisory Board and Audit & Supervisory Board Members

- (1) The Audit & Supervisory Board established auditing policies and plans; received reports from each Audit & Supervisory Board Member regarding the progress and results of his or her audits; received reports from Directors, other relevant personnel and the Accounting Auditor regarding performance of their duties; and sought explanations as necessary.
- (2) Each Audit & Supervisory Board Member complied with the auditing standards for Audit & Supervisory Board Members established by the Audit & Supervisory Board; followed the auditing policies and plans; communicated with Directors, the Internal Audit Department, other employees and any other relevant personnel; made efforts to gather information and enhance the environment for audits; and conducted audits by the following methods.
  1. We participated in meetings of the Board of Directors and other important meetings; received reports from Directors, employees and other relevant personnel regarding performance of their duties; sought explanations as necessary; examined important authorized documents and associated information; and studied the operations and financial positions of the Company. As for subsidiaries, we communicated and exchanged information with directors, auditors and/or other relevant personnel of subsidiaries and received reports from subsidiaries on their business operations as needed.
  2. With respect to the system for ensuring that the performance of duties by Directors as stated in the Business Report conforms to the related laws and regulations and the Articles of Incorporation, and the system prepared based on the contents of the resolutions of the Board of Directors and such resolutions regarding preparation of the system stipulated in Article 100, Paragraphs 1 and 3, of the Ordinance for Enforcement of the Companies Act (internal controls system), which is deemed necessary to ensure the appropriateness of the business of a company group consisting of a stock company and its subsidiaries, we received regular reports from Directors, employees and other relevant personnel regarding the development and the operation of the system, requested explanations as needed and expressed opinions.
  3. We monitored and verified whether the Accounting Auditor maintained its independence and implemented appropriate audits, as well as received reports from the Accounting Auditor regarding the performance of its duties and sought explanations as necessary. In addition, we received notice from the Accounting Auditor that “the system for ensuring that duties are performed properly” (matters set forth in each item of Article 131 of the Ordinance for Corporate Accounting) had been prepared in accordance with the Product Quality Management Standards Regarding Audits (issued by the Business Accounting Deliberation Council (BACD) on October 28, 2005) and other relevant standards, and sought explanations as necessary.

Based on the above methods, we examined the business report and the supplementary schedules, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets and notes to the non-consolidated financial statements) and the supplementary schedules, as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets and notes to the consolidated financial statements) related to the relevant fiscal year.



## 2. Results of Audit

### (1) Results of Audit of the Business Report and Other Relevant Documents

- 1) In our opinion, the business report and the supplementary schedules are in accordance with the related laws and regulations, and the Articles of Incorporation, and fairly represent the Company's condition.
- 2) We have found no evidence of wrongful action or material violation of laws and regulations and/or the Articles of Incorporation relating to the performance of duties by Directors.
- 3) In our opinion, the contents of the resolutions of the Board of Directors related to the internal controls system are fair and reasonable. In addition, we have found no matters on which to remark regarding the description in the Business Report and the performance of duties by the Directors related to such internal controls system.

### (2) Results of Audit of the Non-Consolidated Financial Statements and Supplementary Schedules

In our opinion, the methods and results employed and rendered by ARK MEIJI AUDIT & Co. are fair and reasonable.

### (3) Results of Audit of the Consolidated Financial Statements

In our opinion, the methods and results employed and rendered by ARK MEIJI AUDIT & Co. are fair and reasonable.

May 10, 2017

Audit & Supervisory Board, SHINKAWA LTD.

Full-Time Audit & Supervisory Board Member	Koji Sekiguchi
Audit & Supervisory Board Member	Masaki Yoshino
Audit & Supervisory Board Member	Mariko Mitsuya

Note: Audit & Supervisory Board Members Koji Sekiguchi, Masaki Yoshino and Mariko Mitsuya are Outside Audit & Supervisory Board Members as stipulated in Article 2, Item 16, and Article 335, Paragraph 3, of the Companies Act.

End