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

November 7, 2016

# SHINKAWA LTD.

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

| | |
|---|---|
| Listing | **First Section of Tokyo Stock Exchange** |
| Security code | **6274** |
| Representative | **Takashi Nagano, President and CEO, Representative Director** |
| Contact Person | **Takuya Mori, Chief Financial Officer, Director** |
| Phone Number | **+81-42-560-4848** |
| Scheduled date to file Quarterly Report | **November 11, 2016** |
| Scheduled date to commence dividend payments | — |
| Quarterly Results Supplemental Materials | **Yes** |
| Quarterly Results Presentation Meeting | **Yes (for securities analysts)** |

## 1. Consolidated Financial Results for the Six Months ended September 30, 2016 (from April 1, 2016 to September 30, 2016)

(Amounts are rounded off to nearest million yen.)

(1) Consolidated Operating Results

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

| | **Net sales** | | **Operating income (loss)** | | **Ordinary income (loss)** | | **Profit (loss) attributable to owners of parent** | |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| **Six months ended September 30, 2016** | **6,046** | **(21.1)** | **(507)** | **-** | **(913)** | **-** | **(995)** | **-** |
| Six months ended September 30, 2015 | 7,663 | 41.1 | 160 | - | (57) | - | (207) | - |

(Note) Comprehensive income : Six months ended September 30, 2016: (1,119) million yen
Six months ended September 30, 2015: (764) million yen

| | **Net income (loss) per share** | **Diluted net income per share** |
|---|---|---|
| | Yen | Yen |
| **Six months ended September 30, 2016** | **(54.73)** | **-** |
| Six months ended September 30, 2015 | (11.39) | - |

(2) Consolidated Financial Position

| | **Total assets** | **Net assets** | **Equity ratio** |
|---|---|---|---|
| | Millions of yen | Millions of yen | % |
| **As of September 30, 2016** | **22,901** | **19,451** | **84.9** |
| As of March 31, 2016 | 23,340 | 20,570 | 88.1 |

(Reference) Equity: As of September 30, 2016: 19,451 million yen As of March 31, 2016: 20,570 million yen

## 2. Dividends

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

(Note) Revisions to the dividend forecasts announced recently: None
The dividend forecast for the fiscal year ending March 31, 2017 is undecided.

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

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

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

| | **Net sales** | | **Operating income (loss)** | | **Ordinary income (loss)** | | **Profit (loss) attributable to owners of parent** | | **Net income (loss) per share** |
|---|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| **Fiscal year ending March 31, 2017** | **17,300** | **36.6** | **410** | - | **220** | - | **100** | - | **5.50** |

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

*** Notes**

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

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

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

1) Changes in accounting policies due to revision of accounting standards : None
2) Changes in matters other than 1) above : None
3) Changes in accounting estimates : None
4) Restatement : None

(4) Number of common shares issued

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

| | |
|---|---|
| As of September 30, 2016 | 20,047,500 shares |
| As of March 31, 2016 | 20,047,500 shares |

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

| | |
|---|---|
| As of September 30, 2016 | 1,873,789 shares |
| As of March 31, 2016 | 1,873,627 shares |

3) Average number of shares during periods:

| | |
|---|---|
| Six months ended September 30, 2016 | 18,173,837 shares |
| Six months ended September 30, 2015 | 18,173,962 shares |

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

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

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

(Notes for the forward-looking statements)
The forward looking statements, including business results forecast, contained in this document are based on information available to the SHINKAWA Group and certain assumptions deemed reasonable as of the date of this document and the Company does not guarantee that such forecasts will be achieved. Actual business results may differ substantially due to a number of factors.
(Method to obtain supplemental materials for quarterly financial documents)
Supplemental materials for the quarterly financial documents is scheduled to be released on the Company’s web site.

**Contents of Appendix**

1. Qualitative Information on the Quarterly Financial Statements for the Period under Review -------------------- 4

(1) Explanation of Operating Results------------------------------------------------------------------------------------- 4

(2) Explanation of Financial Position ------------------------------------------------------------------------------------ 4

(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements---------------------------- 5

2. Matters Related to Summary Information (Notes) ------------------------------------------------------------------ 5

(1) Specific Accounting Procedure Applied for Preparation of Quarterly Consolidated Financial Statement ------------------------------------------------------------------------------------------------------------ 5

(2) Additional Information ------------------------------------------------------------------------------------------------ 5

3. Notes on Important Events Related to the Going Concern Assumption---------------------------------------------- 6

4. Consolidated Quarterly Financial Statements ------------------------------------------------------------------------ 7

(1) Consolidated Quarterly Balance Sheets ------------------------------------------------------------------------------ 7

(2) Consolidated Quarterly Statements of Income and Comprehensive Income -------------------------------------- 8

(3) Consolidated Quarterly Statements of Cash Flows-----------------------------------------------------------------10

(4) Notes to Quarterly Financial Statements ---------------------------------------------------------------------------11

(Notes on Going Concern Assumption)----------------------------------------------------------------------------11

(Notes to Significant Changes in the Amounts of Shareholders' Equity)---------------------------------------11

5. Supplementary Information-----------------------------------------------------------------------------------------11

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

(1) Explanation of Operating Results

During the first six months of the fiscal year ending March 31, 2017, the global economy maintained a recovery trend led by the United States and Europe, with steady growth in domestic demand. At the same time, uncertainty continued due to British withdrawal from the European Union and its influence on foreign exchange markets as well as a slump in economic growth in China and other emerging countries.

In the electronics industry, the electronic components market continued aggressive capital investment, stemming from functional improvement of mobile devices and an increase in IoT-related demand.

In addition, in the fiscal year ending March 31, 2017, while the memory market experienced restrained capital investment due to a decline in PC demand and DRAM prices during the first quarter, memory makers started active capital investment because of a rapid increase in demand for NAND-type flash memory supported by larger volume smartphone and SSD servers during the second quarter.

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 for the market changes.

The group has also carried out a sales plan targeting specific markets, and focused on obtaining qualification of new products from customers.

As a result of these efforts, the group experienced a steady sales growth of the Wire Bonder UTC-5000 series and the Die Bonder SPA-1000, but did not have a major increase in sales volume during the first six months of the fiscal year ending March 31, 2017.

As for the consolidated performance of the Group for the second quarter of the fiscal year ending March 31, 2017, net sales of 6,046 million yen were posted (a 21.1% decrease from the corresponding period of the previous fiscal year). An operating loss of 507 million yen was recorded (compared with an operating profit of 160 million yen for the corresponding period of the previous fiscal year). An ordinary loss of 913 million yen was recorded (compared with an ordinary loss of 57 million yen for the corresponding period of the previous fiscal year). As a result, loss attributable to owners of parent of 995 million yen was recorded (compared with loss attributable to owners of parent of 207 million yen for the corresponding period in the previous fiscal year).

(2) Explanation of Financial Position

Total assets at the end of the first six months of the fiscal year ending March 31, 2017, decreased by 438 million yen from the end of the previous fiscal year to 22,901 million yen. Major increases were 1,891 million yen in notes and accounts receivable. Major decreases were 1,586 million yen in cash and deposits, and 501 million yen in merchandise and finished goods.

Total liabilities at the end of the first six months of fiscal year increased 681 million yen from the end of the previous fiscal year to 3,451 million yen. Major increases were 844 million yen in accounts payable.

Total net assets at the end of the first six months of the fiscal year decreased 1,119 million yen from the end of the previous fiscal year to 19,451 million yen. Major decreases were 995 million yen in retained earnings.

As a result, the equity ratio increased from 88.1% at the end of the previous fiscal year to 84.9%.

Cash flows

Cash and cash equivalents at September 30, 2016 decreased by 1,654 million yen from the end of the previous fiscal year to 4,600 million yen.

The cash flow situation for the six months ended September 30, 2016 was as follows:

Net cash used in operating activities totaled 1,294 million yen for the period under review compared with net cash used in operating activities of 559 million yen for the corresponding period of the previous fiscal year. Major components included increase in notes and accounts receivable - trade of 2,087 million yen, and loss before income taxes and minority interests of 914 million yen despite posting an increase in notes and accounts payable - trade of 1,152 million yen, and depreciation and amortization of 239 million yen.

Net cash provided by investing activities totaled 209 million yen for the period under review compared with net cash used in investing activities of 561 million yen for the corresponding period of the previous fiscal year. Major components included proceeds from withdrawal of time deposits of 216 million yen despite payments into time deposits of 241 million yen and purchase of property, plant and equipment of 189 million yen.

Net cash used in financing activities totaled 0 million yen for the period under review compared with 1 million yen for the corresponding period of the previous fiscal year.

(3) Explanation of Consolidated Forecasts 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, 2017.

For details, please refer to the "Notice of Posting of Non-operating Expenses, Differences between Consolidated Financial Forecasts and Actual Results for the First Half of the Fiscal Year ending March 31, 2017, and Revisions to Consolidated Financial Forecasts for the Fiscal Year ending March 31, 2017" announced today (November 7, 2016).

**2. Matters Related to Summary Information (Notes)**

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

Computation of Tax Expenses

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

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

(2) Additional Information

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

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

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

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

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

1) Improvement of operational efficiency

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

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

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

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

2) Enhancement of product strengths to expand business opportunities

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

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

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

The Group does not have borrowings from external entities. With the equity ratio of 84.9%, the Group possesses enough operating funds to promote businesses.

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

# 4. Consolidated Quarterly Financial Statements

## (1) Consolidated Quarterly Balance Sheets

| | Millions of yen | |
|---|---|---|
| | As of March 31, 2016 | **As of September 30, 2016** |
| **Assets** | | |
| Current assets | | |
| Cash and deposits | 6,440 | **4,854** |
| Notes and accounts receivable - trade | 3,079 | **4,970** |
| Merchandise and finished goods | 2,901 | **2,400** |
| Work in process | 1,402 | **1,443** |
| Raw materials and supplies | 436 | **619** |
| Other | 712 | **471** |
| Allowance for doubtful accounts | (1) | **(2)** |
| Total current assets | 14,969 | **14,755** |
| Non-current assets | | |
| Property, plant and equipment | | |
| Land | 3,189 | **3,153** |
| Other, net | 2,166 | **2,002** |
| Total property, plant and equipment | 5,355 | **5,155** |
| Intangible assets | | |
| Other | 53 | **49** |
| Total intangible assets | 53 | **49** |
| Investments and other assets | | |
| Investment securities | 2,464 | **2,558** |
| Other | 498 | **383** |
| Total investments and other assets | 2,963 | **2,942** |
| Total non-current assets | 8,370 | **8,146** |
| Total assets | 23,340 | **22,901** |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable - trade | 644 | **1,488** |
| Income taxes payable | 169 | **116** |
| Provision | 394 | **360** |
| Other | 401 | **301** |
| Total current liabilities | 1,608 | **2,264** |
| Non-current liabilities | | |
| Net defined benefit liability | 880 | **890** |
| Other | 283 | **296** |
| Total non-current liabilities | 1,162 | **1,186** |
| Total liabilities | 2,770 | **3,451** |
| **Net assets** | | |
| Shareholders' equity | | |
| Capital stock | 8,360 | **8,360** |
| Capital surplus | 8,907 | **8,907** |
| Retained earnings | 5,483 | **4,488** |
| Treasury shares | (3,150) | **(3,150)** |
| Total shareholders' equity | 19,600 | **18,605** |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 866 | **938** |
| Foreign currency translation adjustment | 166 | **(61)** |
| Remeasurements of defined benefit plans | (63) | **(31)** |
| Total accumulated other comprehensive income | 970 | **845** |
| Total net assets | 20,570 | **19,451** |
| **Total liabilities and net assets** | 23,340 | **22,901** |

(2) Consolidated Quarterly Statements of Income and Comprehensive Income

Consolidated Quarterly Statements of Income

Six months ended September 30, 2015 and 2016

| | Millions of yen | |
|---|---|---|
| | Six months ended September 30, 2015 | **Six months ended September 30, 2016** |
| **Net sales** | 7,663 | **6,046** |
| Cost of sales | 5,063 | **4,251** |
| Gross profit | 2,600 | **1,795** |
| Selling, general and administrative expenses | 2,440 | **2,302** |
| Operating income (loss) | 160 | **(507)** |
| Non-operating income | | |
| Interest income | 3 | **3** |
| Dividend income | 32 | **30** |
| Rent income | 16 | **3** |
| Other | 8 | **10** |
| Total non-operating income | 58 | **46** |
| Non-operating expenses | | |
| Foreign exchange losses | 273 | **451** |
| Cost of lease revenue | 1 | **0** |
| Other | 2 | **1** |
| Total non-operating expenses | 275 | **452** |
| Ordinary loss | (57) | **(913)** |
| Extraordinary losses | | |
| Loss on sales of non-current assets | 3 | **1** |
| Special retirement expenses | 72 | **-** |
| Total extraordinary losses | 75 | **1** |
| Loss before income taxes | (131) | **(914)** |
| Income taxes - current | 92 | **85** |
| Income taxes - deferred | (16) | **(5)** |
| Total income taxes | 76 | **81** |
| Loss | (207) | **(995)** |
| **Loss attributable to owners of parent** | (207) | **(995)** |

Consolidated Quarterly Statements of Comprehensive Income
Six months ended September 30, 2015 and 2016

| | Millions of yen | |
|---|---|---|
| | Six months ended September 30, 2015 | **Six months ended September 30, 2016** |
| Loss | (207) | **(995)** |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (361) | **71** |
| Foreign currency translation adjustment | (166) | **(227)** |
| Remeasurements of defined benefit plans, net of tax | (31) | **31** |
| Total other comprehensive income | (557) | **(124)** |
| Comprehensive income | (764) | **(1,119)** |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of the parent | (764) | **(1,119)** |
| Comprehensive income attributable to non-controlling interests | - | **-** |

## (3) Consolidated Quarterly Statements of Cash Flows
Six months ended September 30, 2015 and 2016

| | Millions of yen | |
|---|---|---|
| | Six months ended September 30, 2015 | **Six months ended September 30, 2016** |
| **Cash flows from operating activities** | | |
| Loss before income taxes | (131) | **(914)** |
| Depreciation | 265 | **239** |
| Increase (decrease) in allowance for doubtful accounts | 0 | **0** |
| Interest and dividend income | (35) | **(33)** |
| Foreign exchange losses (gains) | 179 | **121** |
| Loss (gain) on sales of property, plant and equipment | 3 | **1** |
| Decrease (increase) in notes and accounts receivable - trade | 156 | **(2,087)** |
| Decrease (increase) in inventories | (1,071) | **130** |
| Increase (decrease) in notes and accounts payable - trade | (17) | **1,152** |
| Increase (decrease) in provision for bonuses | - | **5** |
| Increase (decrease) in net defined benefit liability | (11) | **50** |
| Increase (decrease) in other provision | 24 | **(39)** |
| Extra retirement payment | 72 | **-** |
| Other, net | 54 | **188** |
| Subtotal | (511) | **(1,187)** |
| Interest and dividend income received | 36 | **33** |
| Income taxes (paid) refund | (25) | **(141)** |
| Proceeds From Tokyo labor bureau grant | 12 | **-** |
| Extra retirement payments | (72) | **-** |
| Net cash provided by (used in) operating activities | (559) | **(1,294)** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (103) | **(189)** |
| Proceeds from sales of property, plant and equipment | 261 | **1** |
| Payments of loans receivable | (28) | **(3)** |
| Collection of loans receivable | 9 | **8** |
| Purchase of intangible assets | (10) | **(26)** |
| Payments into time deposits | (256) | **(241)** |
| Proceeds from withdrawal of time deposits | 716 | **216** |
| Other payments | (36) | **(88)** |
| Other proceeds | 8 | **114** |
| Net cash provided by (used in) investing activities | 561 | **(209)** |
| **Cash flows from financing activities** | | |
| Purchase of treasury shares | (0) | **(0)** |
| Cash dividends paid | (1) | **(0)** |
| Net cash provided by (used in) financing activities | (1) | **(0)** |
| Effect of exchange rate change on cash and cash equivalents | (79) | **(151)** |
| Net increase (decrease) in cash and cash equivalents | (78) | **(1,654)** |
| Cash and cash equivalents at beginning of period | 6,349 | **6,254** |
| **Cash and cash equivalents at end of period** | 6,270 | **4,600** |

(4) Notes to Quarterly Financial Statements

(Notes on Going Concern Assumption)

Not applicable

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

Not applicable

## 5. Supplementary Information

Quarterly Consolidated Performance

### Fiscal year ended March 31, 2016 (consolidated )

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

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

### Fiscal year ending March 31, 2017 (consolidated )

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

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