

**Quarterly Consolidated Financial Statements  
Included in the Quarterly Report  
Meiko Electronics Co., Ltd.  
and its consolidated subsidiaries**

*For the first quarter and three months ended June 30, 2016*

**(ENGLISH TRANSLATION)**

**NOTE:**

This document is an excerpt translation of the Quarterly Report (“Shihanki Houkokusho”) of Meiko Electronics Co., Ltd. (the “Company”), for the first quarter and three months ended June 30, 2016, filed with the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan pursuant to the Financial Instruments and Exchange Law of Japan on August 10, 2016.

Please note that the quarterly consolidated financial statements in this document are a translation of the reviewed quarterly consolidated financial statements presented in Japanese. The translation of the quarterly consolidated financial statements and notes has NOT been audited by KPMG AZSA LLC, who reviewed the original Japanese figures.

The Company provides this translation for your reference and convenience only without any warranty as to its accuracy. In case of any discrepancy between the translation and the Japanese original, the latter shall prevail. The final decision and responsibility for investments rests solely with the reader of this document.

## **Financial Information**

### **1 Basis of preparation of the quarterly consolidated financial statements**

The quarterly consolidated financial statements of the Company are prepared in accordance with the “Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Ordinance No. 64 of 2007).

### **2 Review reports**

The quarterly consolidated financial statements of the Company for the first quarter (April 1, 2016 – June 30, 2016), and those for the three months ended June 30, 2016, were reviewed by KPMG AZSA LLC, pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Law of Japan.

# 1 Consolidated Financial Statements

## (1) Consolidated Balance Sheets

Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2016	June 30, 2016	June 30, 2016	June 30, 2016
<b>Assets</b>				
Current assets				
Cash and deposits	¥ 19,532	¥ 20,393	\$	198,071
Notes and accounts receivable-trade	21,759	20,730		201,341
Merchandise and finished goods	3,855	3,906		37,936
Work in process	3,263	3,284		31,898
Raw materials and supplies	4,497	4,429		43,014
Other	2,448	2,085		20,255
Allowance for doubtful accounts	(24)	(17)		(167)
Total current assets	55,330	54,810		532,348
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	21,016	18,859		183,169
Machinery, equipment and vehicles, net	21,135	17,706		171,966
Land	1,488	1,488		14,455
Construction in progress	1,735	1,965		19,087
Other, net	5,360	5,606		54,446
Total property, plant and equipment	50,734	45,624		443,123
Intangible assets	213	200		1,943
Investments and other assets	*1 3,328	*1 2,950	*1	28,651
Total non-current assets	54,275	48,774		473,717
Total assets	¥ 109,605	¥ 103,584	\$	1,006,065

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2016	June 30, 2016	March 31, 2016	June 30, 2016
<b>Liabilities</b>				
Current liabilities				
Notes and accounts payable-trade	¥ 11,605	¥ 12,053	\$ 117,061	
Short-term loans payable	*3 12,613	*3 11,683	*3 113,475	
Current portion of long-term loans payable	*3 11,746	*3 12,021	*3 116,752	
Income taxes payable	147	149	1,443	
Provision for bonuses	495	248	2,408	
Other	5,384	6,068	58,938	
Total current liabilities	41,990	42,222	410,077	
Non-current liabilities				
Long-term loans payable	*3 32,254	*3 29,636	*3 287,838	
Provision for directors' retirement benefits	239	239	2,321	
Net defined benefit liability	2,287	2,326	22,589	
Other	4,071	4,217	40,967	
Total non-current liabilities	38,851	36,418	353,715	
Total liabilities	80,841	78,640	763,792	
<b>Net assets</b>				
Shareholders' equity				
Capital stock	12,889	12,889	125,179	
Capital surplus	19,745	11,745	114,082	
Retained earnings	(7,660)	(1,154)	(11,212)	
Treasury shares	(396)	(396)	(3,850)	
Total shareholders' equity	24,578	23,084	224,199	
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	32	(46)	(450)	
Deferred gains or losses on hedges	(337)	(302)	(2,934)	
Foreign currency translation adjustment	4,476	2,204	21,406	
Remeasurements of defined benefit plans	(246)	(230)	(2,234)	
Total accumulated other comprehensive income	3,925	1,626	15,788	
Non-controlling interests	261	234	2,286	
Total net assets	28,764	24,944	242,273	
Total liabilities and net assets	¥ 109,605	¥ 103,584	\$ 1,006,065	

**(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income**  
**Consolidated Statements of Income**  
**For the Three Months Ended June 30, 2016**  
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Three months ended June 30, 2015	Three months ended June 30, 2016	U.S. dollars Three months ended June 30, 2016
Net sales	¥ 22,451	¥ 22,318	\$ 216,765
Cost of sales	20,413	18,821	182,797
Gross profit	2,038	3,497	33,968
Selling, general and administrative expenses	2,684	2,568	24,944
Operating income (loss)	(646)	929	9,024
Non-operating income			
Interest income	5	6	59
Dividend income	3	3	32
Insurance income	—	50	486
Foreign exchange gains	747	—	—
Other	57	24	231
Total non-operating income	812	83	808
Non-operating expenses			
Interest expenses	305	325	3,155
Foreign exchange losses	—	1,941	18,850
Other	78	31	302
Total non-operating expenses	383	2,297	22,307
Ordinary loss	(217)	(1,285)	(12,475)
Extraordinary income			
Gain on sales of non-current assets	7	—	—
Total extraordinary income	7	—	—
Extraordinary losses			
Loss on sales and retirement of non-current assets	42	39	382
Impairment loss	*1 8,037	*1 1	*1 7
Other	—	3	30
Total extraordinary losses	8,079	43	419
Loss before income taxes	(8,289)	(1,328)	(12,894)
Income taxes	1,078	170	1,651
Loss	(9,367)	(1,498)	(14,545)
Loss attributable to non-controlling interests	—	(3)	(26)
Loss attributable to owners of parent	¥ (9,367)	¥ (1,495)	\$ (14,519)

**Consolidated Statements of Comprehensive Income**  
**For the Three Months Ended June 30, 2016**  
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Three months ended June 30, 2015	Three months ended June 30, 2016	U.S. dollars
Loss	¥ (9,367)	¥ (1,498)	\$ (14,545)
Other comprehensive income			
Valuation difference on available-for-sale securities	26	(79)	(766)
Deferred gains or losses on hedges	(6)	35	339
Foreign currency translation adjustment	516	(2,277)	(22,117)
Remeasurements of defined benefit plans, net of tax	(63)	16	157
Total other comprehensive income	473	(2,305)	(22,387)
Comprehensive income	(8,894)	(3,803)	(36,932)
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥ (8,894)	(3,795)	\$ (36,853)
Comprehensive income attributable to non-controlling interests	—	¥ (8)	(79)

## **Notes to the Consolidated Financial Statements**

### Matters concerning Going Concern Assumption

Not applicable

### Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Meiko Electronics Co., Ltd. (the “Company”) have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and have been made at the rate of ¥102.96 to \$1, the approximate rate of exchange at June 30, 2016. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### Change in Accounting Policies

(Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, the Company and its consolidated domestic subsidiaries have adopted the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (PITF No. 32, June 17, 2016) beginning with the first quarter ended June 30, 2016. As a result, the method of depreciation of facilities attached to buildings and structures acquired on and after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The effect of this change on the profit or loss for the three months ended June 30, 2016 was not material.

### Specific Accounting Treatments Adopted in Preparing the Quarterly Consolidated Financial Statements

(Computation of Tax Expense)

Tax expenses are calculated by reasonably estimating the effective tax rate after the adoption of tax-effect accounting that is applicable to income before income taxes for the fiscal year ending March 31, 2017, and multiplying income before income taxes for the period under review by this estimated effective tax rate.

### Additional Information

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

Effective from the first quarter ended June 30, 2016, the Company has adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

## Consolidated Balance Sheets

\*1 Amount of allowance for doubtful accounts directly deducted from the amount of assets

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2016	June 30, 2016	June 30, 2016	
Investments and other assets.....	¥ 19	¥ 19	\$	184

2 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2016	June 30, 2016	June 30, 2016	
Discounted notes receivable-trade.....	¥ 55	¥ 83	\$	804

\*3 Financial covenants

Consolidated fiscal year ended March 31, 2016

Of short-term loans payable and long-term loans payable (including loans payable scheduled for repayment within one year), ¥36,060 million have financial covenants attached under which the breaching of any of the following will require the accelerated repayment of the obligation in the corresponding funding agreement (when there is more than one covenant, the one with stricter conditions is stated).

- (1) Two consecutive ordinary losses shall not be recorded in the consolidated statements of income for each fiscal year.
- (2) The total amount of net assets recorded in the consolidated balance sheet as of the close of each fiscal year shall be at least the higher of: (i) ¥21,962 million; or (ii) 80% of the total amount of net assets recorded in the consolidated balance sheet as of the close of the immediately preceding fiscal year. However, (ii) shall exclude the fiscal year ended March 31, 2016.
- (3) The total amount of interest-bearing debt recorded in the consolidated balance sheet as of the close of each fiscal year shall be no more than the amount of net sales recorded in the consolidated statement of income for the same fiscal year, divided by 12 and multiplied by 8.

Three months ended June 30, 2016

Of short-term loans payable and long-term loans payable (including loans payable scheduled for repayment within one year), ¥34,962 million have financial covenants attached under which the breaching of any of the following will require the accelerated repayment of the obligation in the corresponding funding agreement (when there is more than one covenant, the one with stricter conditions is stated).

- (1) Two consecutive ordinary losses shall not be recorded in the consolidated statements of income for each fiscal year.
- (2) The total amount of net assets recorded in the consolidated balance sheet as of the close of each fiscal year shall be at least the higher of: (i) ¥21,962 million; or (ii) 80% of the total amount of net assets recorded in the consolidated balance sheet as of the close of the immediately preceding fiscal year. However, (ii) shall exclude the fiscal year ended March 31, 2016.
- (3) The total amount of interest-bearing debt recorded in the consolidated balance sheet as of the close of each fiscal year shall be no more than the amount of net sales recorded in the consolidated statement of income for the same fiscal year, divided by 12 and multiplied by 8.



## Consolidated Statements of Income

### \*1 Impairment loss

Three months ended June 30, 2015

The Group recorded impairment loss for the following asset group.

Use	Type of assets	Location	Amount
Business assets	Buildings and structures	Ishinomaki, Miyagi, Japan	¥964 million
	Machinery, equipment and vehicles		
	Others		
	Buildings and structures	Hanoi, Vietnam	¥7,073 million
	Machinery, equipment and vehicles		
	Others		
Total			¥8,037 million

The Group carries out grouping mainly based on each plant for business assets. During the three months ended June 30, 2015, the Group reduced the book value of business assets to the recoverable amount due to a decline in profitability, and recorded the reduced amount as an impairment loss of ¥8,037 million under extraordinary losses. The breakdown is: ¥3,194 million for buildings and structures; ¥3,358 million for machinery, equipment and vehicles; ¥213 million for land; ¥828 million for construction in progress; and ¥444 million for others.

The recoverable amount of this asset group uses the higher of net realizable value and use value. Net realizable value is evaluated based on the amount obtained by making reasonable adjustments to the assessed value of non-current assets. Use value is obtained by discounting future cash flow by 14.0%.

Three months ended June 30, 2016

Description is omitted as they are of little significance.

## Consolidated Statements of Cash Flows

No consolidated statements of cash flow were prepared for the three months ended June 30, 2016.

Depreciation (including amortization related to intangible assets) for the three months ended June 30, 2016 is shown below:

	Millions of yen		Thousands of U.S. dollars
	Three months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2016
Depreciation.....	¥ 1,763	¥ 1,370	\$ 13,306

## Total Shareholders' Equity

Three months ended June 30, 2015

1 Cash dividends paid

Not applicable

2 Of the dividends whose record date falls during the three months ended June 30, 2015, those dividends whose effective date fell after the last day of the first quarter

Not applicable

3 Significant changes in shareholders' equity

Effective from the first quarter ended June 30, 2015, Meiko Electronics Thang Long Co., Ltd., which was a non-consolidated subsidiary in the previous consolidated fiscal year, has been included in the scope of consolidation, due to a rise in its importance. As a result, retained earnings as of the beginning of the term have decreased by ¥462 million.

Three months ended June 30, 2016

1 Cash dividends paid

Not applicable

2 Of the dividends whose record date falls during the three months ended June 30, 2016, those dividends whose effective date will fall after the last day of the first quarter

Not applicable

3 Significant changes in shareholders' equity

By resolution of the annual shareholders' meeting held on June 28, 2016, the Company reduced its capital reserve by ¥8,000 million as of June 30, 2016 in accordance with the provisions of Article 448, Paragraph 1 of the Companies Act, and transferred it to other capital surplus. In addition, the Company transferred ¥8,000 million of other capital surplus to retained earnings brought forward, in accordance with the provisions of Article 452 of the Companies Act to compensate for loss.

As a result, capital surplus was ¥11,745 million and retained earnings was ¥(1,154) million as of June 30, 2016.

### Segment Information

As the Group's businesses are primarily in PCB design, manufacturing, sales, and ancillary operations, the description of other businesses is omitted as they are of little significance.

### Per Share Information

The basis for calculating loss per share is shown below:

Item	Three months ended June 30, 2015	Three months ended June 30, 2016
Loss per share (Yen)	(357.86)	(60.45)
Basis for calculation		
Loss attributable to owners of parent (Millions of yen)	(9,367)	(1,495)
Amounts not attributable to common shareholders (Millions of yen)	—	87
Of which the amount of preferred dividends (Millions of yen)	[—]	[87]
Loss attributable to owners of parent pertaining to common shares (Millions of yen)	(9,367)	(1,582)
Average number of common shares outstanding for the period (Shares)	26,174,076	26,174,076

Note: Diluted profit per share for the three months ended June 30, 2015 is not disclosed as there were no diluted shares. Furthermore, diluted profit per share for the three months ended June 30, 2016 is not disclosed although there were diluted shares, as the profit per share was negative.

### Significant Subsequent Events

Not applicable

## **2 Other**

Not applicable