

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

For the second quarter and six months ended September 30, 2017

(ENGLISH TRANSLATION)

NOTE:

This document is an excerpt translation of the Quarterly Report (“Shihanki Houkokusho”) of Meiko Electronics Co., Ltd. (the “Company”), for the second quarter and six months ended September 30, 2017, filed with the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan pursuant to the Financial Instruments and Exchange Act of Japan on November 13, 2017.

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 second quarter (July 1, 2017 – September 30, 2017), and those for the six months ended September 30, 2017, were reviewed by KPMG AZSA LLC, pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act 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, 2017	September 30, 2017	September 30, 2017	September 30, 2017
Assets				
Current assets				
Cash and deposits	¥ 17,422	¥ 15,815	\$	140,280
Notes and accounts receivable-trade	22,035	*2 24,251	*2	215,106
Merchandise and finished goods	4,550	5,064		44,922
Work in process	3,390	3,925		34,818
Raw materials and supplies	4,587	5,327		47,251
Other	2,434	2,057		18,241
Allowance for doubtful accounts	(17)	(168)		(1,493)
Total current assets	54,401	56,271		499,125
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	19,050	19,036		168,848
Machinery, equipment and vehicles, net	18,540	19,456		172,577
Land	1,488	1,488		13,201
Construction in progress	1,117	4,258		37,767
Other, net	5,560	5,616		49,810
Total property, plant and equipment	45,755	49,854		442,203
Intangible assets	220	183		1,624
Investments and other assets	*1 3,202	*1 3,162	*1	28,042
Total non-current assets	49,177	53,199		471,869
Total assets	¥ 103,578	¥ 109,470	\$	970,994

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2017	September 30, 2017	September 30, 2017	September 30, 2017
Liabilities				
Current liabilities				
Notes and accounts payable-trade	¥ 13,195	*2 ¥ 16,825	*2 \$	149,236
Short-term loans payable	*4 12,292	*4 9,416	*4	83,520
Current portion of long-term loans payable	*4 12,323	*4 9,933	*4	88,105
Income taxes payable	210	214		1,898
Provision for bonuses	547	555		4,925
Provision for directors' bonuses	40	—		—
Other	6,398	8,909		79,025
Total current liabilities	45,005	45,852		406,709
Non-current liabilities				
Long-term loans payable	*4 23,893	*4 26,221	*4	232,576
Provision for directors' retirement benefits	239	217		1,928
Net defined benefit liability	2,699	2,589		22,962
Other	3,202	3,130		27,760
Total non-current liabilities	30,033	32,157		285,226
Total liabilities	75,038	78,009		691,935
Net assets				
Shareholders' equity				
Capital stock	12,889	12,889		114,320
Capital surplus	11,745	11,745		104,186
Retained earnings	1,932	3,606		31,986
Treasury shares	(396)	(396)		(3,516)
Total shareholders' equity	26,170	27,844		246,976
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	85	57		503
Deferred gains or losses on hedges	59	(18)		(159)
Foreign currency translation adjustment	2,438	4,016		35,621
Remeasurements of defined benefit plans	(470)	(438)		(3,882)
Total accumulated other comprehensive income	2,112	3,617		32,083
Non-controlling interests	258	—		—
Total net assets	28,540	31,461		279,059
Total liabilities and net assets	¥ 103,578	¥ 109,470	\$	970,994

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income
For the Six Months Ended September 30, 2017
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Six months ended September 30, 2016	Six months ended September 30, 2017	U.S. dollars Six months ended September 30, 2017
Net sales	¥ 45,742	¥ 53,212	\$ 471,991
Cost of sales	38,053	43,958	389,910
Gross profit	7,689	9,254	82,081
Selling, general and administrative expenses	*1 5,025	*1 5,390	*1 47,806
Operating profit	2,664	3,864	34,275
Non-operating income			
Interest income	14	15	129
Dividend income	17	21	191
Gain on valuation of derivatives	282	—	—
Insurance income	59	111	986
Other	100	115	1,015
Total non-operating income	472	262	2,321
Non-operating expenses			
Interest expenses	642	682	6,049
Foreign exchange losses	2,295	238	2,110
Other	57	386	3,429
Total non-operating expenses	2,994	1,306	11,588
Ordinary profit	142	2,820	25,008
Extraordinary income			
Gain on sales of non-current assets	—	0	2
Total extraordinary income	—	0	2
Extraordinary losses			
Loss on sales and retirement of non-current assets	39	113	1,006
Impairment loss	2	49	431
Loss on disaster	4	—	—
Business structure improvement expenses	15	—	—
Total extraordinary losses	60	162	1,437
Profit before income taxes	82	2,658	23,573
Income taxes	458	545	4,836
Profit (loss)	(376)	2,113	18,737
Profit (loss) attributable to non-controlling interests	8	(28)	(251)
Profit (loss) attributable to owners of parent	¥ (384)	¥ 2,141	\$ 18,988

Consolidated Statements of Comprehensive Income
For the Six Months Ended September 30, 2017
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Six months ended September 30, 2016	Six months ended September 30, 2017	Six months ended September 30, 2017
Profit (loss)	¥ (376)	¥ 2,113	\$ 18,737
Other comprehensive income			
Valuation difference on available-for-sale securities	(71)	(29)	(254)
Deferred gains or losses on hedges	100	(77)	(679)
Foreign currency translation adjustment	(2,792)	1,573	13,950
Remeasurements of defined benefit plans, net of tax	24	32	283
Total other comprehensive income	(2,739)	1,499	13,300
Comprehensive income	(3,115)	3,612	32,037
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥ (3,115)	¥ 3,646	\$ 32,337
Comprehensive income attributable to non-controlling interests	(0)	(34)	(300)

(3) Consolidated Statements of Cash Flows
For the Six Months Ended September 30, 2017
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Six months ended September 30, 2016	Six months ended September 30, 2017	U.S. dollars Six months ended September 30, 2017
Cash flows from operating activities			
Profit before income taxes	¥ 82	¥ 2,658	\$ 23,573
Depreciation	2,667	2,813	24,949
Impairment loss	2	49	431
Increase (decrease) in allowance for doubtful accounts	(10)	150	1,330
Increase (decrease) in provision for bonuses	(16)	45	396
Increase (decrease) in provision for directors' bonuses	—	(40)	(355)
Increase (decrease) in provision for directors' retirement benefits	—	(22)	(192)
Increase (decrease) in net defined benefit liability	106	69	611
Interest and dividend income	(31)	(36)	(320)
Interest expenses	642	682	6,049
Foreign exchange losses (gains)	2,039	(78)	(690)
Loss (gain) on sales and retirement of property, plant and equipment	39	113	1,004
Business structure improvement expenses	15	—	—
Decrease (increase) in notes and accounts receivable-trade	(1,073)	(2,093)	(18,567)
Decrease (increase) in inventories	(1,789)	(1,571)	(13,930)
Increase (decrease) in notes and accounts payable-trade	2,463	3,280	29,090
Decrease (increase) in other assets	(462)	203	1,796
Increase (decrease) in other liabilities	(190)	1,437	12,748
Other, net	(337)	94	845
Subtotal	<u>4,147</u>	<u>7,753</u>	<u>68,768</u>
Interest and dividend income received	31	36	320
Interest expenses paid	(605)	(705)	(6,251)
Proceeds from insurance income	59	111	986
Business structure improvement expenses paid	(15)	—	—
Income taxes paid	(164)	(436)	(3,871)
Net cash provided by (used in) operating activities	<u>3,453</u>	<u>6,759</u>	<u>59,952</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	(1,308)	(3,882)	(34,438)
Proceeds from sales of property, plant and equipment	3	3	26
Purchase of intangible assets	(54)	(28)	(250)
Purchase of investment securities	(22)	(22)	(195)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(279)	(2,476)
Purchase of insurance funds	(2)	(2)	(16)
Proceeds from maturity of insurance funds	—	98	867
Other, net	213	(224)	(1,981)
Net cash provided by (used in) investing activities	¥ <u>(1,170)</u>	¥ <u>(4,336)</u>	\$ <u>(38,463)</u>

	Millions of yen		Thousands of U.S. dollars	
	Six months ended September 30, 2016	Six months ended September 30, 2017	Six months ended September 30, 2017	Six months ended September 30, 2017
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable	¥ 1,152	¥ (3,077)	\$ (27,292)	
Proceeds from long-term loans payable	2,888	7,276	64,538	
Repayments of long-term loans payable	(6,101)	(7,359)	(65,267)	
Repayments of lease obligations	(307)	(682)	(6,054)	
Proceeds from sales and leasebacks	796	—	—	
Repayments of installment payables	(264)	—	—	
Purchase of treasury shares	—	(0)	(1)	
Cash dividends paid	(0)	(437)	(3,880)	
Dividends paid to non-controlling interests	(17)	(1)	(11)	
Net cash provided by (used in) financing activities	(1,853)	(4,280)	(37,967)	
Effect of exchange rate change on cash and cash equivalents	(948)	248	2,203	
Net increase (decrease) in cash and cash equivalents	(518)	(1,609)	(14,275)	
Cash and cash equivalents at beginning of period	19,313	17,196	152,528	
Cash and cash equivalents at end of period	*1 ¥ 18,795	*1 ¥ 15,587	*1 \$ 138,253	

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 Act 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 ¥112.74 to \$1, the approximate rate of exchange at September 30, 2017. 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 Scope of Consolidation and Application of the Equity Method

(Important change in the scope of consolidation)

Due to the partial sales of shares of M.D. Systems Co., Ltd., which was a consolidated subsidiary of the Company, during the second quarter ended September 30, 2017, M.D. Systems Co., Ltd. and its subsidiary MDS Circuit Technology, Inc. were excluded from the scope of consolidation as of September 30, 2017.

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 profit before income taxes for the fiscal year ending March 31, 2018, and multiplying profit before income taxes for the period under review by this estimated effective tax rate.

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, 2017	September 30, 2017	September 30, 2017	September 30, 2017
Investments and other assets	¥ 215	¥ 215	\$	1,906

*2 Accounting treatment for notes maturing on September 30, 2017

Notes maturing on the final day of a quarterly reporting period are accounted for as if they had been settled on the final day of the period.

As the final day of the second quarter was a bank holiday, the following notes that matured on that day were accounted for as though they had been settled on the maturity date, September 30, 2017.

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2017	September 30, 2017	September 30, 2017	September 30, 2017
Notes receivable-trade	¥ —	¥ 58	\$	518
Notes payable-trade	¥ —	¥ 64	\$	564

3 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2017	September 30, 2017	September 30, 2017	September 30, 2017
Discounted notes receivable-trade	¥ 43	¥ 22	\$	196

*4 Financial covenants

Consolidated fiscal year ended March 31, 2017

Of short-term loans payable and long-term loans payable (including loans payable scheduled for repayment within one year), ¥31,135 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.
- (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.

Six months ended September 30, 2017

Of short-term loans payable and long-term loans payable (including loans payable scheduled for repayment within one year), ¥31,362 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.
- (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 Main items and corresponding amounts recorded as selling, general and administrative expenses are shown below:

	Millions of yen		Thousands of
	Six months ended September 30, 2016	Six months ended September 30, 2017	U.S. dollars
Salaries and allowances	¥ 918	¥ 943	\$ 8,364
Research and development expenses	331	319	2,831
Provision for bonuses	118	137	1,213
Provision of allowance for doubtful accounts	—	150	1,330
Retirement benefit expenses	55	38	338

Consolidated Statements of Cash Flows

*1 The relationship between cash and cash equivalents as of September 30, 2017, and the amounts shown on the Consolidated Balance Sheets are shown below:

	Millions of yen		Thousands of
	Six months ended September 30, 2016	Six months ended September 30, 2017	U.S. dollars
Cash and deposits	¥ 19,018	¥ 15,815	\$ 140,280
Time deposits with tenors exceeding 3 months	(223)	(228)	(2,027)
Cash and cash equivalents	¥ 18,795	¥ 15,587	\$ 138,253

Total Shareholders' Equity

Six months ended September 30, 2016

1 Cash dividends paid

Not applicable

2 Of the dividends whose record date falls during the six months ended September 30, 2016, those dividends whose effective date fell after the last day of the second quarter

Resolution

Board meeting on November 10, 2016

Type of shares Class A preference shares

Total dividends (Millions of yen) 175

Dividend per share (Yen) 3,500,000.00

Record date September 30, 2016

Effective date December 30, 2016

Dividend resource Retained earnings

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 were ¥(44) million as of September 30, 2016.

Six months ended September 30, 2017

1 Cash dividends paid

Resolution	
Board meeting on May 29, 2017	
Type of shares	Common shares
Total dividends (Millions of yen)	262
Dividend per share (Yen).....	10.00
Record date.....	March 31, 2017
Effective date.....	June 13, 2017
Dividend resource.....	Retained earnings

Resolution	
Board meeting on May 29, 2017	
Type of shares	Class A preference shares
Total dividends (Millions of yen)	175
Dividend per share (Yen).....	3,500,000.00
Record date.....	March 31, 2017
Effective date.....	June 13, 2017
Dividend resource.....	Retained earnings

2 Of the dividends whose record date falls during the six months ended September 30, 2017, those dividends whose effective date will fall after the last day of the second quarter

Resolution	
Board meeting on November 10, 2017	
Type of shares	Common shares
Total dividends (Millions of yen)	262
Dividend per share (Yen).....	10.00
Record date.....	September 30, 2017
Effective date.....	November 30, 2017
Dividend resource.....	Retained earnings

Resolution	
Board meeting on November 10, 2017	
Type of shares	Class A preference shares
Total dividends (Millions of yen)	177
Dividend per share (Yen).....	3,535,000.00
Record date.....	September 30, 2017
Effective date.....	November 30, 2017
Dividend resource.....	Retained earnings

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 profit or loss per share and the basis for calculating diluted profit per share are shown below:

Item	Six months ended September 30, 2016	Six months ended September 30, 2017
(1) Profit (loss) per share (Yen)	(21.38)	75.02
Basis for calculation		
Profit (loss) attributable to owners of parent (Millions of yen)	(384)	2,141
Amounts not attributable to common shareholders (Millions of yen)	175	177
Of which the amount of Class A preferred dividends (Millions of yen)	[175]	[177]
Profit (loss) attributable to owners of parent pertaining to common shares (Millions of yen)	(559)	1,963
Average number of common shares outstanding for the period (Shares)	26,174,076	26,174,033
(2) Diluted profit per share (Yen)	—	53.45
Basis for calculation		
Adjustments of profit attributable to owners of parent (Millions of yen)	—	177
Of which the amount of Class A preferred dividends (Millions of yen)	[—]	[177]
Increase in the number of common shares (Shares)	—	13,873,450
Of which Class A preference shares (Shares)	[—]	[13,873,450]
Descriptions of diluted shares that were not included in the calculation of diluted profit per share due to their anti-dilutive effect but that changed significantly from the end of the previous fiscal year	—	—

Note: Diluted profit per share for the six months ended September 30, 2016 is not disclosed although there were diluted shares, as the profit per share was negative.

Significant Subsequent Events

Not applicable

2 Other

(1) Dividends of surplus

With regard to interim dividends for the fiscal year ending March 31, 2018, the Board of Directors passed a resolution at its meeting on November 10, 2017 to pay interim dividends to shareholders who are recorded in the shareholder registry as of September 30, 2017 as follows:

1) Total dividends	Common shares	262 million yen
	Class A preference shares	177 million yen
2) Dividend per share	Common shares	10.00 yen
	Class A preference shares	3,535,000.00 yen
3) Effective date of claim for payment and payment commencement date		November 30, 2017

(2) Litigation

Legal action was brought against Meiko Tech Co., Ltd., a consolidated subsidiary of the Company, by Hohsen Corp. on September 27, 2017. According to the complaint, Hohsen Corp. is demanding compensation for losses totaling ¥291 million from the Company's subsidiary, etc. on the grounds that it suffered such losses due to fictitious trades that were carried out at Hohsen Corp. under the direction of a former executive of the Company's subsidiary.

The Company recognizes that there are no obligations or grounds to respond to the demand claimed by the plaintiff, and intends to make such claims in the litigation.