

**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, 2018

(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, 2018, 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, 2018.

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, 2018 – September 30, 2018), and those for the six months ended September 30, 2018, 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, 2018	September 30, 2018	September 30, 2018	September 30, 2018
Assets				
Current assets				
Cash and deposits	¥ 15,422	¥ 12,551	\$ 110,505	
Notes and accounts receivable-trade	*2 24,911	*2 28,621	*2 251,987	
Merchandise and finished goods	4,460	6,425	56,565	
Work in process	4,719	4,785	42,125	
Raw materials and supplies	5,117	5,588	49,197	
Other	1,993	2,328	20,504	
Allowance for doubtful accounts	(252)	(179)	(1,573)	
Total current assets	56,370	60,119	529,310	
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	18,430	18,559	163,399	
Machinery, equipment and vehicles, net	21,494	22,710	199,948	
Land	1,488	1,488	13,104	
Construction in progress	2,764	6,866	60,451	
Other, net	5,557	5,453	48,006	
Total property, plant and equipment	49,733	55,076	484,908	
Intangible assets	210	250	2,201	
Investments and other assets	*1 4,003	*1 5,016	*1 44,166	
Total non-current assets	53,946	60,342	531,275	
Total assets	¥ 110,316	¥ 120,461	\$ 1,060,585	

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2018	September 30, 2018	September 30, 2018	September 30, 2018
Liabilities				
Current liabilities				
Notes and accounts payable-trade	*2 ¥ 16,152	*2 ¥ 19,393	*2 \$	170,746
Short-term loans payable	*4 13,263	*4 6,430	*4	56,608
Current portion of long-term loans payable	*4 10,478	*4 12,825	*4	112,912
Income taxes payable	67	621		5,470
Provision for bonuses	640	677		5,965
Provision for directors' bonuses	60	—		—
Other	*2 8,265	9,059		79,754
Total current liabilities	48,925	49,005		431,455
Non-current liabilities				
Long-term loans payable	*4 23,303	*4 33,636	*4	296,140
Provision for directors' retirement benefits	217	217		1,913
Net defined benefit liability	2,658	2,720		23,948
Other	2,171	1,769		15,576
Total non-current liabilities	28,349	38,342		337,577
Total liabilities	77,274	87,347		769,032
Net assets				
Shareholders' equity				
Capital stock	12,889	12,889		113,475
Capital surplus	11,745	6,464		56,916
Retained earnings	5,400	10,470		92,185
Treasury shares	(396)	(397)		(3,492)
Total shareholders' equity	29,638	29,426		259,084
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	22	12		103
Deferred gains or losses on hedges	299	304		2,679
Foreign currency translation adjustment	3,512	3,769		33,183
Remeasurements of defined benefit plans	(429)	(397)		(3,496)
Total accumulated other comprehensive income	3,404	3,688		32,469
Total net assets	33,042	33,114		291,553
Total liabilities and net assets	¥ 110,316	¥ 120,461	\$	1,060,585

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income
For the Six Months Ended September 30, 2018
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars	
	Six months ended September 30, 2017	Six months ended September 30, 2018	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	¥ 53,212	¥ 61,758	\$ 543,742	
Cost of sales	43,958	50,340	443,211	
Gross profit	9,254	11,418	100,531	
Selling, general and administrative expenses	*1 5,390	*1 5,744	*1 50,573	
Operating profit	3,864	5,674	49,958	
Non-operating income				
Interest income	15	29	256	
Dividend income	21	5	47	
Foreign exchange gains	—	1,127	9,922	
Other	226	481	4,228	
Total non-operating income	262	1,642	14,453	
Non-operating expenses				
Interest expenses	682	426	3,746	
Foreign exchange losses	238	—	—	
Other	386	544	4,794	
Total non-operating expenses	1,306	970	8,540	
Ordinary profit	2,820	6,346	55,871	
Extraordinary income				
Gain on sales of non-current assets	0	2	14	
Total extraordinary income	0	2	14	
Extraordinary losses				
Loss on sales and retirement of non-current assets	113	130	1,139	
Impairment loss	49	—	—	
Total extraordinary losses	162	130	1,139	
Profit before income taxes	2,658	6,218	54,746	
Income taxes	545	886	7,803	
Profit	2,113	5,332	46,943	
Loss attributable to non-controlling interests	(28)	—	—	
Profit attributable to owners of parent	¥ 2,141	¥ 5,332	\$ 46,943	

Consolidated Statements of Comprehensive Income
For the Six Months Ended September 30, 2018
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Six months ended September 30, 2017	Six months ended September 30, 2018	U.S. dollars
Profit	¥ 2,113	¥ 5,332	\$ 46,943
Other comprehensive income			
Valuation difference on available-for-sale securities	(29)	(10)	(89)
Deferred gains or losses on hedges	(77)	6	48
Foreign currency translation adjustment	1,573	256	2,261
Remeasurements of defined benefit plans, net of tax	32	32	280
Total other comprehensive income	1,499	284	2,500
Comprehensive income	3,612	5,616	49,443
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥ 3,646	¥ 5,616	\$ 49,443
Comprehensive income attributable to non-controlling interests	(34)	—	—

(3) Consolidated Statements of Cash Flows
For the Six Months Ended September 30, 2018
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Six months ended September 30, 2017	Six months ended September 30, 2018	U.S. dollars Six months ended September 30, 2018
Cash flows from operating activities			
Profit before income taxes	¥ 2,658	¥ 6,218	\$ 54,746
Depreciation	2,813	3,075	27,072
Impairment loss	49	—	—
Increase (decrease) in allowance for doubtful accounts	150	(75)	(659)
Increase (decrease) in provision for bonuses	45	33	292
Increase (decrease) in provision for directors' bonuses	(40)	(60)	(528)
Increase (decrease) in provision for directors' retirement benefits	(22)	—	—
Increase (decrease) in net defined benefit liability	69	93	822
Interest and dividend income	(36)	(34)	(303)
Interest expenses	682	426	3,746
Foreign exchange losses (gains)	(78)	(404)	(3,558)
Loss (gain) on sales and retirement of property, plant and equipment	113	128	1,125
Decrease (increase) in notes and accounts receivable-trade	(2,093)	(3,384)	(29,798)
Decrease (increase) in inventories	(1,571)	(2,172)	(19,120)
Increase (decrease) in notes and accounts payable-trade	3,280	3,169	27,899
Decrease (increase) in other assets	203	28	250
Increase (decrease) in other liabilities	1,437	283	2,489
Other, net	94	(72)	(623)
Subtotal	<u>7,753</u>	<u>7,252</u>	<u>63,852</u>
Interest and dividend income received	36	34	302
Interest expenses paid	(705)	(441)	(3,888)
Proceeds from insurance income	111	289	2,547
Income taxes (paid) refund	(436)	(234)	(2,061)
Net cash provided by (used in) operating activities	<u>6,759</u>	<u>6,900</u>	<u>60,752</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	(3,882)	(7,723)	(67,999)
Proceeds from sales of property, plant and equipment	3	40	353
Purchase of intangible assets	(28)	(63)	(558)
Purchase of investment securities	(22)	(79)	(698)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(279)	—	—
Purchase of insurance funds	(2)	(1)	(11)
Proceeds from maturity of insurance funds	98	—	—
Other, net	(224)	(1,327)	(11,675)
Net cash provided by (used in) investing activities	¥ <u>(4,336)</u>	¥ <u>(9,153)</u>	\$ <u>(80,588)</u>

	Millions of yen		Thousands of
			U.S. dollars
	Six months ended September 30, 2017	Six months ended September 30, 2018	Six months ended September 30, 2018
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	¥ (3,077)	¥ (6,951)	\$ (61,198)
Proceeds from long-term loans payable	7,276	17,251	151,875
Repayments of long-term loans payable	(7,359)	(4,851)	(42,707)
Repayments of lease obligations	(682)	(680)	(5,991)
Purchase of treasury shares	(0)	(5,282)	(46,500)
Cash dividends paid	(437)	(261)	(2,297)
Dividends paid to non-controlling interests	(1)	—	—
Net cash provided by (used in) financing activities	(4,280)	(774)	(6,818)
Effect of exchange rate change on cash and cash equivalents	248	154	1,354
Net increase (decrease) in cash and cash equivalents	(1,609)	(2,873)	(25,300)
Cash and cash equivalents at beginning of period	17,196	15,190	133,741
Cash and cash equivalents at end of period	*1 ¥ 15,587	*1 ¥ 12,317	*1 \$ 108,441

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 ¥113.58 to \$1, the approximate rate of exchange at September 30, 2018. 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.

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, 2019, and multiplying profit before income taxes for the period under review by this estimated effective tax rate.

Additional Information

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

Effective from the beginning of the first quarter ended June 30, 2018, the Company has adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc. Accordingly, deferred tax assets are presented under investments and other assets, and deferred tax liabilities are presented under non-current liabilities.

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, 2018	September 30, 2018	September 30, 2018	September 30, 2018
Investments and other assets	¥ 215	¥ 215	\$	1,891

*2 Accounting treatment for notes maturing on September 30, 2018

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, 2018.

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2018	September 30, 2018	September 30, 2018	September 30, 2018
Notes receivable-trade	¥ 51	¥ 56	\$	494
Notes payable-trade	¥ 63	¥ 54	\$	479
Notes payable-facilities	¥ 1	¥ —	\$	—

3 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2018	September 30, 2018	September 30, 2018	September 30, 2018
Discounted notes receivable-trade	¥ 49	¥ 34	\$	299

*4 Financial covenants

Consolidated fiscal year ended March 31, 2018

Of short-term loans payable and long-term loans payable (including loans payable scheduled for repayment within one year), ¥30,556 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, 2018

Of short-term loans payable and long-term loans payable (including loans payable scheduled for repayment within one year), ¥43,521 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 U.S. dollars	
	Six months ended September 30, 2017	Six months ended September 30, 2018	Six months ended September 30, 2018	Six months ended September 30, 2018
Salaries and allowances·····	¥ 943	¥ 997	\$ 8,778	
Provision for bonuses·····	137	157	1,386	
Provision of allowance for doubtful accounts·····	150	(75)	(657)	
Retirement benefit expenses·····	38	49	429	
Research and development expenses·····	319	428	3,765	

Consolidated Statements of Cash Flows

*1 The relationship between cash and cash equivalents as of September 30, 2018, and the amounts shown on the Consolidated Balance Sheets are shown below:

	Millions of yen		Thousands of U.S. dollars	
	Six months ended September 30, 2017	Six months ended September 30, 2018	Six months ended September 30, 2018	Six months ended September 30, 2018
Cash and deposits·····	¥ 15,815	¥ 12,551	\$ 110,505	
Time deposits with tenors exceeding 3 months·····	(228)	(234)	(2,064)	
Cash and cash equivalents·····	¥ 15,587	¥ 12,317	\$ 108,441	

Total Shareholders' Equity

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 fell 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

Six months ended September 30, 2018

1 Cash dividends paid

Resolution

Board meeting on May 28, 2018

Type of shares	Common shares
Total dividends (Millions of yen)	262
Dividend per share (Yen).....	10.00
Record date.....	March 31, 2018
Effective date.....	June 12, 2018
Dividend resource.....	Retained earnings

2 Of the dividends whose record date falls during the six months ended September 30, 2018, those dividends whose effective date will fall after the last day of the second quarter

Resolution

Board meeting on November 9, 2018

Type of shares	Common shares
Total dividends (Millions of yen)	393
Dividend per share (Yen).....	15.00
Record date.....	September 30, 2018
Effective date.....	November 30, 2018
Dividend resource.....	Retained earnings

3 Significant changes in shareholders' equity

By resolution of the Board meetings held on February 16, 2018 and May 28, 2018, the Company acquired and cancelled Class A preference shares as of April 2, 2018 and June 26, 2018. As a result, capital surplus for the six months ended September 30, 2018 decreased by ¥5,281 million, to ¥6,464 million as of September 30, 2018.

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

Item	Six months ended September 30, 2017	Six months ended September 30, 2018
(1) Profit per share (Yen)	75.02	203.71
Basis for calculation		
Profit attributable to owners of parent (Millions of yen)	2,141	5,332
Amounts not attributable to common shareholders (Millions of yen)	177	—
Of which the amount of Class A preferred dividends (Millions of yen)	[177]	[—]
Profit attributable to owners of parent pertaining to common shares (Millions of yen)	1,963	5,332
Average number of common shares outstanding for the period (Shares)	26,174,033	26,174,009
(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, 2018 is not disclosed, as there were no diluted shares.

Significant Subsequent Events

Not applicable

2 Other

(1) Dividends of surplus

With regard to interim dividends for the fiscal year ending March 31, 2019, the Board of Directors passed a resolution at its meeting on November 9, 2018 to pay interim dividends to shareholders who are recorded in the shareholder registry as of September 30, 2018 as follows:

- | | |
|--|-------------------|
| 1) Total dividends | 393 million yen |
| 2) Dividend per share | 15.00 yen |
| 3) Effective date of claim for payment and payment commencement date | November 30, 2018 |

(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.