

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

For the third quarter and nine months ended December 31, 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 third quarter and nine months ended December 31, 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 Act of Japan on February 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 third quarter (October 1, 2016 – December 31, 2016), and those for the nine months ended December 31, 2016, 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, 2016	December 31, 2016	December 31, 2016	December 31, 2016
Assets				
Current assets				
Cash and deposits	¥ 19,532	¥ 18,178	\$ 156,047	
Notes and accounts receivable-trade	21,759	*2 25,315	*2 217,317	
Merchandise and finished goods	3,855	5,026	43,144	
Work in process	3,263	3,562	30,579	
Raw materials and supplies	4,497	4,902	42,083	
Other	2,448	2,085	17,893	
Allowance for doubtful accounts	(24)	(188)	(1,613)	
Total current assets	55,330	58,880	505,450	
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	21,016	19,945	171,219	
Machinery, equipment and vehicles, net	21,135	19,343	166,047	
Land	1,488	1,488	12,776	
Construction in progress	1,735	1,439	12,350	
Other, net	5,360	5,845	50,178	
Total property, plant and equipment	50,734	48,060	412,570	
Intangible assets	213	233	2,001	
Investments and other assets	*1 3,328	*1 3,242	*1 27,830	
Total non-current assets	54,275	51,535	442,401	
Total assets	¥ 109,605	¥ 110,415	\$ 947,851	

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2016	December 31, 2016	December 31, 2016	December 31, 2016
Liabilities				
Current liabilities				
Notes and accounts payable-trade	¥ 11,605	*2 ¥ 14,595	*2 \$ 125,291	
Short-term loans payable	*4 12,613	*4 10,400	*4 89,280	
Current portion of long-term loans payable	*4 11,746	*4 12,756	*4 109,499	
Income taxes payable	147	345	2,965	
Provision for bonuses	495	238	2,040	
Other	5,384	*2 8,332	*2 71,529	
Total current liabilities	<u>41,990</u>	<u>46,666</u>	<u>400,604</u>	
Non-current liabilities				
Long-term loans payable	*4 32,254	*4 29,177	*4 250,471	
Provision for directors' retirement benefits	239	239	2,052	
Net defined benefit liability	2,287	2,402	20,621	
Other	4,071	3,722	31,943	
Total non-current liabilities	<u>38,851</u>	<u>35,540</u>	<u>305,087</u>	
Total liabilities	<u>80,841</u>	<u>82,206</u>	<u>705,691</u>	
Net assets				
Shareholders' equity				
Capital stock	12,889	12,889	110,640	
Capital surplus	19,745	11,745	100,832	
Retained earnings	(7,660)	950	8,158	
Treasury shares	(396)	(396)	(3,403)	
Total shareholders' equity	<u>24,578</u>	<u>25,188</u>	<u>216,227</u>	
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	32	25	217	
Deferred gains or losses on hedges	(337)	41	352	
Foreign currency translation adjustment	4,476	2,916	25,022	
Remeasurements of defined benefit plans	(246)	(210)	(1,799)	
Total accumulated other comprehensive income	<u>3,925</u>	<u>2,772</u>	<u>23,792</u>	
Non-controlling interests	261	249	2,141	
Total net assets	<u>28,764</u>	<u>28,209</u>	<u>242,160</u>	
Total liabilities and net assets	¥ <u>109,605</u>	¥ <u>110,415</u>	\$ <u>947,851</u>	

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income
For the Nine Months Ended December 31, 2016
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Nine months ended December 31, 2015	Nine months ended December 31, 2016	Nine months ended December 31, 2016
Net sales	¥ 71,882	¥ 70,902	\$ 608,650
Cost of sales	62,232	58,954	506,084
Gross profit	9,650	11,948	102,566
Selling, general and administrative expenses	7,545	7,787	66,846
Operating income	2,105	4,161	35,720
Non-operating income			
Interest income	17	20	169
Dividend income	24	22	192
Subsidy income	58	73	623
Insurance income	31	60	516
Other	71	112	961
Total non-operating income	201	287	2,461
Non-operating expenses			
Interest expenses	950	993	8,524
Loss on valuation of derivatives	—	1,418	12,177
Foreign exchange losses	91	76	654
Other	725	105	896
Total non-operating expenses	1,766	2,592	22,251
Ordinary income	540	1,856	15,930
Extraordinary income			
Gain on sales of non-current assets	11	—	—
Compensation income	13	—	—
Gain on liquidation of subsidiaries and associates	8	—	—
Total extraordinary income	32	—	—
Extraordinary losses			
Loss on sales and retirement of non-current assets	140	92	792
Impairment loss	*1 8,061	*1 3	*1 25
Other	587	25	213
Total extraordinary losses	8,788	120	1,030
Profit (loss) before income taxes	(8,216)	1,736	14,900
Income taxes	1,655	943	8,097
Profit (loss)	(9,871)	793	6,803
Profit attributable to non-controlling interests	—	8	65
Profit (loss) attributable to owners of parent	¥ (9,871)	¥ 785	\$ 6,738

Consolidated Statements of Comprehensive Income
For the Nine Months Ended December 31, 2016
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Nine months ended December 31, 2015	Nine months ended December 31, 2016	Nine months ended December 31, 2016
Profit (loss)	¥ (9,871)	¥ 793	\$ 6,803
Other comprehensive income			
Valuation difference on available-for-sale securities	(29)	(7)	(62)
Deferred gains or losses on hedges	(187)	378	3,245
Foreign currency translation adjustment	(1,933)	(1,564)	(13,414)
Remeasurements of defined benefit plans, net of tax	(41)	37	314
Total other comprehensive income	(2,190)	(1,156)	(9,917)
Comprehensive income	(12,061)	(363)	(3,114)
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥ (12,061)	¥ (369)	\$ (3,164)
Comprehensive income attributable to non-controlling interests	—	6	50

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 ¥116.49 to \$1, the approximate rate of exchange at December 31, 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 nine months ended December 31, 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 profit before income taxes for the fiscal year ending March 31, 2017, and multiplying profit 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	December 31, 2016	December 31, 2016	
Investments and other assets	¥ 19	¥ 18	\$	156

*2 Accounting treatment for notes maturing on December 31, 2016

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 third 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, December 31, 2016.

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2016	December 31, 2016	December 31, 2016	
Notes receivable-trade	¥ —	¥ 50	\$	428
Notes payable-trade	¥ —	¥ 57	\$	493
Notes payable-facilities	¥ —	¥ 3	\$	26

3 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2016	December 31, 2016	December 31, 2016	
Discounted notes receivable-trade	¥ 55	¥ 52	\$	443

*4 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.

Nine months ended December 31, 2016

Of short-term loans payable and long-term loans payable (including loans payable scheduled for repayment within one year), ¥35,300 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

Nine months ended December 31, 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	¥995 million
	Machinery, equipment and vehicles		
	Others		
	Buildings and structures	Hanoi, Vietnam	¥7,066 million
	Machinery, equipment and vehicles		
	Others		
Total			¥8,061 million

The Group carries out grouping mainly based on each plant for business assets. During the nine months ended December 31, 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 ¥8,061 million under extraordinary losses. The breakdown is: ¥3,193 million for buildings and structures; ¥3,364 million for machinery, equipment and vehicles; ¥213 million for land; ¥847 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%.

Nine months ended December 31, 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 nine months ended December 31, 2016. Depreciation (including amortization related to intangible assets) for the nine months ended December 31, 2016 is shown below:

	Millions of yen		Thousands of U.S. dollars	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Depreciation	¥ 5,021	¥ 4,060	\$	34,857

Total Shareholders' Equity

Nine months ended December 31, 2015

1 Cash dividends paid

Not applicable

2 Of the dividends whose record date falls during the nine months ended December 31, 2015, those dividends whose effective date fell after the last day of the third 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.

Nine months ended December 31, 2016

1 Cash dividends paid

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

Record date September 30, 2016

Effective date December 30, 2016

Dividend resource Retained earnings

2 Of the dividends whose record date falls during the nine months ended December 31, 2016, those dividends whose effective date will fall after the last day of the third 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 were ¥950 million as of December 31, 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.

Derivative Transactions

As of March 31, 2016

Not applicable

As of December 31, 2016

A derivative transaction whose object is currencies was material in the operation of the corporate group's business, and a significant change compared to the end of the previous consolidated fiscal year (March 31, 2016) has been recognized.

Type of object	Currencies
Type of transaction	Foreign exchange forwards
	Short
Contract amount (Millions of yen)	13,417
Fair value (Millions of yen)	(1,645)
Loss or gain on valuation (Millions of yen)	(1,645)

Notes:

1. Excludes derivative transactions to which hedge accounting is applied.
2. Calculation method of fair value: Calculated based on the quoted price obtained from the financial institutions.

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	Nine months ended December 31, 2015	Nine months ended December 31, 2016
(1) Profit (loss) per share (Yen)	(377.14)	19.91
Basis for calculation		
Profit (loss) attributable to owners of parent (Millions of yen)	(9,871)	785
Amounts not attributable to common shareholders (Millions of yen)	—	264
Of which the amount of preferred dividends (Millions of yen)	[—]	[264]
Profit (loss) attributable to owners of parent pertaining to common shares (Millions of yen)	(9,871)	521
Average number of common shares outstanding for the period (Shares)	26,174,076	26,174,076
(2) Diluted profit per share (Yen)	—	18.54
Basis for calculation		
Adjustments of profit attributable to owners of parent (Millions of yen)	—	264
Of which the amount of preferred dividends (Millions of yen)	[—]	[264]
Increase in the number of common shares (Shares)	—	16,154,150
Of which preference shares (Shares)	[—]	[16,154,150]
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 nine months ended December 31, 2015 is not disclosed as there were no diluted shares.

Significant Subsequent Events

Not applicable

2 Other

With regard to interim dividends for the fiscal year ending March 31, 2017, the Board of Directors passed a resolution at its meeting on November 10, 2016 to pay interim dividends to shareholders who are recorded in the shareholder registry as of September 30, 2016 as follows:

(1) Total dividends	Class A preference shares	175 million yen
(2) Dividend per share	Class A preference shares	3,500,000.00 yen
(3) Effective date of claim for payment and payment commencement date	Class A preference shares	December 30, 2016