

**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, 2022

(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, 2022, 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 August 10, 2022.

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, 2022 – June 30, 2022), and those for the three months ended June 30, 2022, 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, 2022	June 30, 2022	June 30, 2022	
Assets				
Current assets				
Cash and deposits	¥ 10,700	¥ 15,614	\$ 114,272	
Notes and accounts receivable-trade	35,749	38,922	284,854	
Merchandise and finished goods	10,238	14,048	102,812	
Work in process	8,074	7,880	57,672	
Raw materials and supplies	11,457	12,868	94,171	
Other	2,315	3,886	28,441	
Allowance for doubtful accounts	(165)	(175)	(1,284)	
Total current assets	78,368	93,043	680,938	
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	25,644	27,815	203,567	
Machinery, equipment and vehicles, net	41,092	44,120	322,893	
Land	2,445	2,445	17,895	
Construction in progress	9,926	11,603	84,918	
Other, net	3,455	3,545	25,935	
Total property, plant and equipment	82,562	89,528	655,208	
Intangible assets	955	986	7,220	
Investments and other assets	*1 6,444	*1 6,519	*1 47,703	
Total non-current assets	89,961	97,033	710,131	
Total assets	¥ 168,329	¥ 190,076	\$ 1,391,069	

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2022		June 30, 2022		June 30, 2022	
Liabilities						
Current liabilities						
Notes and accounts payable-trade	¥	24,319	¥	25,376	\$	185,714
Short-term borrowings	*3	28,167	*3	37,159	*3	271,948
Current portion of long-term borrowings	*3	5,962	*3	6,765	*3	49,507
Income taxes payable		985		1,078		7,889
Provision for bonuses		1,064		478		3,495
Provision for bonuses for directors		59		—		—
Other		12,472		10,448		76,473
Total current liabilities		73,028		81,304		595,026
Non-current liabilities						
Long-term borrowings	*3	32,267	*3	35,217	*3	257,733
Provision for retirement benefits for directors		216		216		1,580
Provision for share awards		115		128		939
Provision for share awards for directors		25		30		217
Retirement benefit liability		2,717		2,749		20,120
Other		1,275		1,223		8,951
Total non-current liabilities		36,615		39,563		289,540
Total liabilities		109,643		120,867		884,566
Net assets						
Shareholders' equity						
Share capital		12,889		12,889		94,324
Capital surplus		6,700		6,700		49,038
Retained earnings		28,062		31,370		229,581
Treasury shares		(2,186)		(2,186)		(15,999)
Total shareholders' equity		45,465		48,773		356,944
Accumulated other comprehensive income						
Valuation difference on available-for-sale securities		4		5		38
Deferred gains or losses on hedges		(42)		(129)		(944)
Foreign currency translation adjustment		13,174		20,470		149,809
Remeasurements of defined benefit plans		(113)		(107)		(780)
Total accumulated other comprehensive income		13,023		20,239		148,123
Non-controlling interests		198		197		1,436
Total net assets		58,686		69,209		506,503
Total liabilities and net assets	¥	168,329	¥	190,076	\$	1,391,069

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income
For the Three Months Ended June 30, 2022
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Three months ended June 30, 2021	Three months ended June 30, 2022	Three months ended June 30, 2022
Net sales	¥ 33,280	¥ 40,012	\$ 292,826
Cost of sales	27,623	33,151	242,612
Gross profit	5,657	6,861	50,214
Selling, general and administrative expenses	3,280	4,056	29,688
Operating profit	2,377	2,805	20,526
Non-operating income			
Interest income	10	18	131
Dividend income	3	4	28
Foreign exchange gains	—	2,490	18,222
Other	145	89	654
Total non-operating income	158	2,601	19,035
Non-operating expenses			
Interest expenses	162	194	1,416
Foreign exchange losses	109	—	—
Other	62	25	183
Total non-operating expenses	333	219	1,599
Ordinary profit	2,202	5,187	37,962
Extraordinary income			
Gain on sale of non-current assets	0	—	—
Gain on sale of investment securities	10	—	—
Total extraordinary income	10	—	—
Extraordinary losses			
Loss on sale and retirement of non-current assets	52	61	447
Loss on disaster	7	4	26
Business restructuring expenses	—	15	115
Provision of allowance for doubtful accounts	0	—	—
Total extraordinary losses	59	80	588
Profit before income taxes	2,153	5,107	37,374
Income taxes	363	1,177	8,615
Profit	1,790	3,930	28,759
Loss attributable to non-controlling interests	(21)	(23)	(169)
Profit attributable to owners of parent	¥ 1,811	¥ 3,953	\$ 28,928

Consolidated Statements of Comprehensive Income
For the Three Months Ended June 30, 2022
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars	
	Three months ended June 30, 2021	Three months ended June 30, 2022	Three months ended June 30, 2022	
Profit	¥ 1,790	¥ 3,930	\$ 28,759	
Other comprehensive income				
Valuation difference on available-for-sale securities	(3)	0	3	
Deferred gains or losses on hedges	(147)	(87)	(638)	
Foreign currency translation adjustment	549	7,318	53,558	
Remeasurements of defined benefit plans, net of tax	13	6	41	
Total other comprehensive income	412	7,237	52,964	
Comprehensive income	2,202	11,167	81,723	
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent	¥ 2,224	¥ 11,168	\$ 81,731	
Comprehensive income attributable to non-controlling interests	(22)	(1)	(8)	

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 ¥136.64 to \$1, the approximate rate of exchange at June 30, 2022. 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.

Changes in Accounting Policies

The Company adopted the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the first quarter ended June 30, 2022. In accordance with the transitional treatment stipulated in paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement, new accounting policies set forth in the Implementation Guidance on Accounting Standard for Fair Value Measurement will be applied in the future. This has no impact on quarterly consolidated financial statements.

Changes in Accounting Policies That Are Difficult to Distinguish from Changes in Accounting Estimates

Thus far, the Company and its domestic consolidated subsidiaries primarily employed the declining-balance method for the depreciation of property, plant and equipment (excluding lease assets) of the Group. This was changed to the straight-line method for the depreciation from the first quarter ended June 30, 2022.

In line with the overseas expansion of production sites of its major customers, the Group is establishing mass production bases in China and Vietnam to take in orders for PCBs for automotive and smartphone applications. Stable product supply has become an issue, due to the shutdown of plant operations and supply chain disruptions caused by the recent spread of COVID-19. In addition, orders are expected to increase going forward, owing primarily to an expansion in the electrification of automotives and 5G/6G compatibility in the field of communications. The Company is starting to implement large-scale investments into domestic plants from the fiscal year under review to address these issues.

After reconsidering the depreciation method for property, plant and equipment taking these investments into account, the decision to adopt the straight-line method of depreciation for property, plant and equipment belonging to the Company and its domestic consolidated subsidiaries is reasonable and more accurately reflects the conditions of Group management given the likelihood that these assets will be stably operated over the long term, and benefits from the return on these investments are likely to be reaped equally.

In conjunction with this change, in comparison with the depreciation of assets based on the former method, operating profit, ordinary profit and profit before income taxes for the three months ended June 30, 2022, rose ¥56 million, respectively.

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, 2023, and multiplying profit before income taxes for the period under review by this estimated effective tax rate.

Additional Information

(Accounting Estimates Relating to the Spread of the Novel Coronavirus (COVID-19))

There are no material changes in assumptions including the future spread and timing of subsidence of COVID-19 that were stated in “Accounting Estimates Relating to the Spread of the Novel Coronavirus (COVID-19)” from “Additional Information” of the annual report for the fiscal year ended March 31, 2022.

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, 2022	June 30, 2022	June 30, 2022	
Investments and other assets.....	¥ 23	¥ 23	\$	167

2 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2022	June 30, 2022	June 30, 2022	
Discounted notes receivable-trade.....	¥ 23	¥ 33	\$	241

*3 Financial covenants

Consolidated fiscal year ended March 31, 2022

Of short-term borrowings and long-term borrowings (including borrowings scheduled for repayment within one year), ¥49,392 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) ¥20,589 million; or (ii) 75% 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.
- (4) The total amount of interest-bearing debt recorded in the consolidated balance sheet as of the close of each fiscal year divided by the amount of total net assets less the amount of foreign currency translation adjustment shall be maintained at 2.5 or less for the fiscal year ended March 31, 2021, 2.3 or less for the fiscal year ended March 31, 2022, 2.1 or less for the fiscal year ending March 31, 2023, 1.9 or less for the fiscal year ending March 31, 2024, and 1.7 or less for the fiscal year ending March 31, 2025.

Three months ended June 30, 2022

Of short-term borrowings and long-term borrowings (including borrowings scheduled for repayment within one year), ¥55,395 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) ¥20,589 million; or (ii) 75% 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.
- (4) The total amount of interest-bearing debt recorded in the consolidated balance sheet as of the close of each fiscal year divided by the amount of total net assets less the amount of foreign currency translation adjustment shall be maintained at 2.5 or less for the fiscal year ended March 31, 2021, 2.3 or less for the fiscal year ended March 31, 2022, 2.1 or less for the fiscal year ending March 31, 2023, 1.9 or less for the fiscal year ending March 31, 2024, and 1.7 or less for the fiscal year ending March 31, 2025.

Consolidated Statements of Cash Flows

No consolidated statements of cash flows were prepared for the three months ended June 30, 2022. Depreciation (including amortization related to intangible assets, excluding goodwill) and amortization of goodwill for the three months ended June 30, 2022, are shown below:

	Millions of yen		Thousands of U.S. dollars
	Three months ended June 30, 2021	Three months ended June 30, 2022	Three months ended June 30, 2022
Depreciation.....	¥ 1,958	¥ 2,285	\$ 16,724
Amortization of goodwill.....	10	10	74

Total Shareholders' Equity

Three months ended June 30, 2021

1 Cash dividends paid

Resolution

Board meeting on May 24, 2021

Type of shares Common shares

Total dividends (Millions of yen) 521

Dividend per share (Yen)..... 20.00

Record date..... March 31, 2021

Effective date..... June 10, 2021

Dividend resource..... Retained earnings

2 Of the dividends whose record date falls during the three months ended June 30, 2021, those dividends whose effective date fell after the last day of the first quarter

Not applicable

3 Significant changes in shareholders' equity

In accordance with a resolution of the Board of Directors on March 22, 2021, the Company acquired 136,200 treasury shares during the three months ended June 30, 2021. In accordance with a resolution of the Board of Directors on the same day, it also disposed of 109,500 treasury shares through a third-party allotment to the Custody Bank of Japan, Ltd. (Trust Account E) on April 16, 2021, following the introduction of an Employee Stock Ownership Plan (J-ESOP). The 109,500 Company shares remaining in the trust have been booked as treasury shares.

This has resulted in increases of ¥188 million in capital surplus and of ¥586 million in treasury shares to ¥6,652 million and ¥1,331 million, respectively, as of June 30, 2021.

Three months ended June 30, 2022

1 Cash dividends paid

Resolution

Board meeting on May 23, 2022

Type of shares Common shares

Total dividends (Millions of yen) 645

Dividend per share (Yen)..... 25.00

Record date..... March 31, 2022

Effective date..... June 10, 2022

Dividend resource..... Retained earnings

Note: Total dividends by a resolution of the Board of Directors on May 23, 2022, include ¥3 million in dividends on Company shares held as trust assets of the Board Benefit Trust and the Employee Stock Ownership Plan (J-ESOP).

2 Of the dividends whose record date falls during the three months ended June 30, 2022, those dividends whose effective date will fall after the last day of the first quarter

Not applicable

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.

Revenue Recognition

The regional breakdown of revenue generated from contracts with customers is as follows:

	Millions of yen	
	Three months ended June 30, 2021	Three months ended June 30, 2022
Japan	11,461	13,899
China	8,006	9,633
Vietnam	3,912	5,120
Asia	5,370	5,717
North America	3,497	4,446
Europe	1,034	1,195
Other	—	2
Revenue generated from contracts with customers	33,280	40,012
Other revenue	—	—
Sales to external customers	33,280	40,012

Per Share Information

The basis for calculating profit per share is shown below:

Item	Three months ended June 30, 2021	Three months ended June 30, 2022
Profit per share (Yen)	69.67	154.16
Basis for calculation		
Profit attributable to owners of parent (Millions of yen)	1,811	3,953
Amounts not attributable to common shareholders (Millions of yen)	—	—
Profit attributable to owners of parent pertaining to common shares (Millions of yen)	1,811	3,953
Average number of common shares outstanding for the period (Shares)	26,000,708	25,640,677

Notes: 1. Diluted profit per share is not disclosed, as there were no diluted shares.

2. The Company shares remaining in the trust which are booked as treasury shares in shareholders' equity, includes treasury shares deducted when calculating the average number of shares for the period that were used to calculate profit per share. The average number of treasury shares for the period that were deducted to calculate profit per share was 91,451 shares for the three months ended June 30, 2021, and 139,573 shares for the three months ended June 30, 2022.

Significant Subsequent Events

(Business combination through acquisition)

On July 28, 2022, the Company made an institutional decision to acquire the shares (100% ownership) of NEC Embedded Products, Ltd. (NECEP).

(1) Summary of business combination

1) Name and business description of the acquired company

Name: NEC Embedded Products, Ltd.

Business description: Development, design, manufacturing, consignment, sales and maintenance of all machinery, equipment, devices and systems related to electronic machinery/equipment and auxiliary electronics businesses

2) Primary purpose for conducting a business combination

The Company has embraced “Providing the best products and services to customers, and happiness for employees and society through manufacturing” as its management philosophy. To this end, the Company is taking on the challenge in the field of advanced electronics in terms of electronic PCBs, expanding and strengthening the EMS business, thereby aiming to contribute to customers. In the medium-term management plan released on May 19, 2022, the Company has set forth a strategy to position and strengthen electronic PCBs and semiconductor package boards for automotive and smartphone applications, and the EMS business as new pillars in its business domain.

NECEP is capable of accepting the consignment of orders for a wide variety of electrical and electronic equipment utilizing its embedded product development capabilities and cutting-edge technologies. Namely, the company boasts strengths in integrated consignment from development and design to mass production as well as in high-quality and high-reliability manufacturing capabilities. We believe that incorporating NECEP into the Group will facilitate the establishment of an ODM-type EMS business structure with development and design functions, and also realize a proposal-based business structure targeting electronic PCBs to high value-added electronic products. Hence the Company sees NECEP as the optimal strategic partner.

Going forward, to expand the EMS business, the Company will promote collaboration between the electronic PCBs business and the EMS plants in Vietnam conducting development, design and mass production. Furthermore, the Company plans to build a system that can promptly respond to various needs, including for mass production and small- to medium-lot orders, by managing EMS factories in Japan and implementing in-house evaluations and prototype development. The Company strives to provide its customers with the maximum level of services to further enhance the corporate value of the Group.

3) Date of business combination

October 1, 2022 (tentative)

4) Legal formality for business combination

Acquiring shares in exchange for cash

5) Name of company after business combination

Not finalized at present

6) Ratio of voting rights to be acquired

100%

7) Main rationale leading up to the decision to acquire NECEP

The Company was able to acquire the shares of NECEP for cash.

(2) Acquisition cost and breakdown by type of consideration

Consideration for acquisition:	Cash	11,000 million yen
Acquisition cost:		11,000 million yen

(3) Major acquisition-related costs and amount

Not finalized at present

(4) Incurred goodwill amount, reason and amortization method and period

Not finalized at present

(5) Main breakdown of assets and liabilities received on the date of the business combination

Not finalized at present

2 Other

Dividends of surplus

The Board of Directors passed a resolution at its meeting on May 23, 2022 to pay year-end dividends to shareholders who are recorded in the shareholder registry as of March 31, 2022 as follows:

- | | |
|--|-----------------|
| 1) Total dividends | 645 million yen |
| 2) Dividend per share | 25.00 yen |
| 3) Effective date of claim for payment and payment commencement date | June 10, 2022 |

Note: Total dividends include ¥3 million in dividends on Company shares held as trust assets of the Board Benefit Trust and the Employee Stock Ownership Plan (J-ESOP).