

**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, 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 second quarter and six months ended September 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 Act of Japan on November 11, 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 second quarter (July 1, 2016 – September 30, 2016), and those for the six months ended September 30, 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
	March 31, 2016	September 30, 2016	U.S. dollars
			September 30, 2016
Assets			
Current assets			
Cash and deposits	¥ 19,532	¥ 19,018	\$ 188,200
Notes and accounts receivable-trade	21,759	21,567	213,429
Merchandise and finished goods	3,855	4,422	43,759
Work in process	3,263	3,320	32,859
Raw materials and supplies	4,497	4,477	44,308
Other	2,448	2,558	25,308
Allowance for doubtful accounts	(24)	(15)	(148)
Total current assets	<u>55,330</u>	<u>55,347</u>	<u>547,715</u>
Non-current assets			
Property, plant and equipment			
Buildings and structures, net	21,016	18,261	180,713
Machinery, equipment and vehicles, net	21,135	17,357	171,762
Land	1,488	1,488	14,728
Construction in progress	1,735	1,641	16,237
Other, net	5,360	5,382	53,268
Total property, plant and equipment	<u>50,734</u>	<u>44,129</u>	<u>436,708</u>
Intangible assets	213	223	2,208
Investments and other assets	*1 3,328	*1 2,930	*1 28,991
Total non-current assets	<u>54,275</u>	<u>47,282</u>	<u>467,907</u>
Total assets	¥ <u><u>109,605</u></u>	¥ <u><u>102,629</u></u>	\$ <u><u>1,015,622</u></u>

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2016	September 30, 2016	September 30, 2016	September 30, 2016
Liabilities				
Current liabilities				
Notes and accounts payable-trade	¥ 11,605	¥ 12,713	\$ 125,811	
Short-term loans payable	*3 12,613	*3 12,776	*3 126,435	
Current portion of long-term loans payable	*3 11,746	*3 11,045	*3 109,306	
Income taxes payable	147	266	2,633	
Provision for bonuses	495	479	4,737	
Other	5,384	5,765	57,041	
Total current liabilities	41,990	43,044	425,963	
Non-current liabilities				
Long-term loans payable	*3 32,254	*3 27,517	*3 272,313	
Provision for directors' retirement benefits	239	239	2,365	
Net defined benefit liability	2,287	2,369	23,439	
Other	4,071	3,828	37,890	
Total non-current liabilities	38,851	33,953	336,007	
Total liabilities	80,841	76,997	761,970	
Net assets				
Shareholders' equity				
Capital stock	12,889	12,889	127,545	
Capital surplus	19,745	11,745	116,238	
Retained earnings	(7,660)	(44)	(431)	
Treasury shares	(396)	(396)	(3,922)	
Total shareholders' equity	24,578	24,194	239,430	
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	32	(38)	(377)	
Deferred gains or losses on hedges	(337)	(237)	(2,345)	
Foreign currency translation adjustment	4,476	1,692	16,731	
Remeasurements of defined benefit plans	(246)	(222)	(2,195)	
Total accumulated other comprehensive income	3,925	1,195	11,814	
Non-controlling interests	261	243	2,408	
Total net assets	28,764	25,632	253,652	
Total liabilities and net assets	¥ 109,605	¥ 102,629	\$ 1,015,622	

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

	Millions of yen		Thousands of
	Six months ended September 30, 2015	Six months ended September 30, 2016	U.S. dollars Six months ended September 30, 2016
Net sales	¥ 47,352	¥ 45,742	\$ 452,667
Cost of sales	41,662	38,053	376,580
Gross profit	5,690	7,689	76,087
Selling, general and administrative expenses	*1 5,113	*1 5,025	*1 49,727
Operating income	577	2,664	26,360
Non-operating income			
Interest income	11	14	140
Dividend income	19	17	164
Gain on valuation of derivatives	—	282	2,791
Other	91	159	1,579
Total non-operating income	121	472	4,674
Non-operating expenses			
Interest expenses	609	642	6,358
Foreign exchange losses	256	2,295	22,716
Other	141	57	555
Total non-operating expenses	1,006	2,994	29,629
Ordinary income (loss)	(308)	142	1,405
Extraordinary income			
Gain on sales of non-current assets	8	—	—
Compensation income	13	—	—
Gain on liquidation of subsidiaries and associates	8	—	—
Total extraordinary income	29	—	—
Extraordinary losses			
Loss on sales and retirement of non-current assets	69	39	383
Impairment loss	*2 8,064	*2 2	*2 19
Loss on disaster	—	4	36
Business structure improvement expenses	337	15	152
Total extraordinary losses	8,470	60	590
Profit (loss) before income taxes	(8,749)	82	815
Income taxes	1,298	458	4,536
Loss	(10,047)	(376)	(3,721)
Profit attributable to non-controlling interests	—	8	79
Loss attributable to owners of parent	¥ (10,047)	¥ (384)	\$ (3,800)

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

	Millions of yen		Thousands of U.S. dollars
	Six months ended September 30, 2015	Six months ended September 30, 2016	Six months ended September 30, 2016
Loss	¥ (10,047)	¥ (376)	\$ (3,721)
Other comprehensive income			
Valuation difference on available-for-sale securities	(82)	(71)	(699)
Deferred gains or losses on hedges	(266)	100	991
Foreign currency translation adjustment	(1,127)	(2,792)	(27,643)
Remeasurements of defined benefit plans, net of tax	(52)	24	241
Total other comprehensive income	(1,527)	(2,739)	(27,110)
Comprehensive income	(11,574)	(3,115)	(30,831)
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥ (11,574)	¥ (3,115)	\$ (30,829)
Comprehensive income attributable to non-controlling interests	—	(0)	(2)

(3) Consolidated Statements of Cash Flows
For the Six Months Ended September 30, 2016
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Six months ended September 30, 2015	Six months ended September 30, 2016	Six months ended September 30, 2016
Cash flows from operating activities			
Profit (loss) before income taxes	¥ (8,749)	¥ 82	\$ 815
Depreciation	3,409	2,667	26,397
Impairment loss	8,064	2	19
Increase (decrease) in allowance for doubtful accounts	0	(10)	(98)
Increase (decrease) in allowance for investment loss	(366)	—	—
Increase (decrease) in provision for bonuses	17	(16)	(157)
Increase (decrease) in net defined benefit liability	58	106	1,047
Interest and dividend income	(30)	(31)	(304)
Interest expenses	609	642	6,358
Foreign exchange losses (gains)	742	2,039	20,177
Loss (gain) on valuation of derivatives	—	(282)	(2,791)
Loss (gain) on sales and retirement of property, plant and equipment	61	39	383
Compensation income	(13)	—	—
Loss (gain) on liquidation of subsidiaries and associates	(8)	—	—
Business structure improvement expenses	337	15	152
Decrease (increase) in notes and accounts receivable-trade	(493)	(1,073)	(10,619)
Decrease (increase) in inventories	(709)	(1,789)	(17,702)
Increase (decrease) in notes and accounts payable-trade	1,171	2,463	24,370
Decrease (increase) in other assets	575	(462)	(4,570)
Increase (decrease) in other liabilities	(650)	(190)	(1,885)
Other, net	—	(55)	(547)
Subtotal	4,025	4,147	41,045
Interest and dividend income received	30	31	304
Interest expenses paid	(623)	(605)	(5,985)
Proceeds from compensation	13	—	—
Proceeds from insurance income	1,787	59	584
Business structure improvement expenses paid	(337)	(15)	(152)
Income taxes paid	(855)	(164)	(1,624)
Net cash provided by (used in) operating activities	4,040	3,453	34,172
Cash flows from investing activities			
Purchase of property, plant and equipment	(1,524)	(1,308)	(12,942)
Proceeds from sales of property, plant and equipment	27	3	27
Purchase of intangible assets	(38)	(54)	(538)
Proceeds from liquidation of subsidiaries and associates	531	—	—
Purchase of investment securities	(10)	(22)	(214)
Purchase of insurance funds	(2)	(2)	(24)
Other, net	83	213	2,113
Net cash provided by (used in) investing activities	¥ (933)	¥ (1,170)	\$ (11,578)

	Millions of yen		Thousands of
			U.S. dollars
	Six months ended September 30, 2015	Six months ended September 30, 2016	Six months ended September 30, 2016
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	¥ 3,443	¥ 1,152	\$ 11,403
Proceeds from long-term loans payable	2,365	2,888	28,579
Repayments of long-term loans payable	(6,869)	(6,101)	(60,378)
Repayments of lease obligations	(45)	(307)	(3,040)
Proceeds from sales and leasebacks	—	796	7,875
Repayments of installment payables	(509)	(264)	(2,613)
Cash dividends paid	(0)	(0)	(0)
Dividends paid to non-controlling interests	—	(17)	(168)
Net cash provided by (used in) financing activities	(1,615)	(1,853)	(18,342)
Effect of exchange rate change on cash and cash equivalents	(152)	(948)	(9,377)
Net increase (decrease) in cash and cash equivalents	1,340	(518)	(5,125)
Cash and cash equivalents at beginning of period	9,491	19,313	191,123
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	*2 364	—	—
Cash and cash equivalents at end of period	*1 ¥ 11,195	*1 ¥ 18,795	*1 \$ 185,998

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 ¥101.05 to \$1, the approximate rate of exchange at September 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 six months ended September 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 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
	March 31, 2016	September 30, 2016	U.S. dollars
Investments and other assets.....	¥ 19	¥ 18	\$ 180

2 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of
	March 31, 2016	September 30, 2016	U.S. dollars
Discounted notes receivable-trade.....	¥ 55	¥ 52	\$ 510

*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.

Six months ended September 30, 2016

Of short-term loans payable and long-term loans payable (including loans payable scheduled for repayment within one year), ¥34,324 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 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, 2015	Six months ended September 30, 2016	Six months ended September 30, 2016	Six months ended September 30, 2016
Salaries and allowances	¥ 1,040	¥ 918	\$	9,088
Research and development expenses	344	331		3,280
Provision for bonuses	129	118		1,164
Provision of allowance for doubtful accounts	0	—		—
Retirement benefit expenses	69	55		542

*2 Impairment loss

Six months ended September 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	¥992 million
	Machinery, equipment and vehicles		
	Others		
	Buildings and structures	Hanoi, Vietnam	¥7,072 million
	Machinery, equipment and vehicles		
	Others		
Total			¥8,064 million

The Group carries out grouping mainly based on each plant for business assets. During the six months ended September 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 ¥8,064 million under extraordinary losses. The breakdown is: ¥3,194 million for buildings and structures; ¥3,364 million for machinery, equipment and vehicles; ¥213 million for land; ¥848 million for construction in progress; and ¥445 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%.

Six months ended September 30, 2016

Description is omitted as they are of little significance.

Consolidated Statements of Cash Flows

*1 The relationship between cash and cash equivalents as of September 30, 2016, and the amounts shown on the Consolidated Balance Sheets are shown below:

	Millions of yen		Thousands of
	Six months ended September 30, 2015	Six months ended September 30, 2016	U.S. dollars
Cash and deposits	¥ 11,414	¥ 19,018	\$ 188,200
Time deposits with tenors exceeding 3 months	(219)	(223)	(2,202)
Cash and cash equivalents	¥ 11,195	¥ 18,795	\$ 185,998

*2 Main breakdown of assets and liabilities of the newly consolidated company

Six months ended September 30, 2015

The following is a breakdown of assets and liabilities at the time of the start of consolidation of Meiko Electronics Thang Long Co., Ltd., which was newly consolidated due to the rise in its importance.

	Millions of yen		Thousands of
			U.S. dollars
Current assets	¥ 589		\$ 4,914
Non-current assets	2,342		19,530
Total assets	¥ 2,931		\$ 24,444
Current liabilities	¥ 634		\$ 5,288
Non-current liabilities	1,718		14,322
Total liabilities	¥ 2,352		\$ 19,610

Six months ended September 30, 2016

Not applicable

Total Shareholders' Equity

Six months ended September 30, 2015

1 Cash dividends paid

Not applicable

2 Of the dividends whose record date falls during the six months ended September 30, 2015, those dividends whose effective date fell after the last day of the second 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.

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 will fall 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

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 was ¥(44) million as of September 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.

Derivative Transactions

As of March 31, 2016

Not applicable

As of September 30, 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)	6,067
Fair value (Millions of yen)	55
Loss or gain on valuation (Millions of yen)	55

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 loss per share is shown below:

Item	Six months ended September 30, 2015	Six months ended September 30, 2016
Loss per share (Yen)	(383.85)	(21.38)
Basis for calculation		
Loss attributable to owners of parent (Millions of yen)	(10,047)	(384)
Amounts not attributable to common shareholders (Millions of yen)	—	175
Of which the amount of preferred dividends (Millions of yen)	[—]	[175]
Loss attributable to owners of parent pertaining to common shares (Millions of yen)	(10,047)	(559)
Average number of common shares outstanding for the period (Shares)	26,174,076	26,174,076

Note: Diluted profit per share for the six months ended September 30, 2015 is not disclosed as there were no diluted shares. Furthermore, 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

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