

**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, 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 third quarter and nine months ended December 31, 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 February 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 third quarter (October 1, 2017 – December 31, 2017), and those for the nine months ended December 31, 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	December 31, 2017	December 31, 2017	
Assets				
Current assets				
Cash and deposits	¥ 17,422	¥ 13,598	\$ 120,337	
Notes and accounts receivable-trade	22,035	*2 26,636	*2 235,713	
Merchandise and finished goods	4,550	5,025	44,470	
Work in process	3,390	4,574	40,480	
Raw materials and supplies	4,587	5,519	48,839	
Other	2,434	3,126	27,662	
Allowance for doubtful accounts	(17)	(304)	(2,689)	
Total current assets	54,401	58,174	514,812	
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	19,050	19,115	169,161	
Machinery, equipment and vehicles, net	18,540	21,207	187,677	
Land	1,488	1,488	13,171	
Construction in progress	1,117	2,826	25,012	
Other, net	5,560	6,044	53,483	
Total property, plant and equipment	45,755	50,680	448,504	
Intangible assets	220	189	1,668	
Investments and other assets	*1 3,202	*1 3,355	*1 29,688	
Total non-current assets	49,177	54,224	479,860	
Total assets	¥ 103,578	¥ 112,398	\$ 994,672	

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2017	December 31, 2017	December 31, 2017	December 31, 2017
Liabilities				
Current liabilities				
Notes and accounts payable-trade	¥ 13,195	*2 ¥ 17,359	*2 \$ 153,621	
Short-term loans payable	*4 12,292	*4 8,675	*4 76,773	
Current portion of long-term loans payable	*4 12,323	*4 9,902	*4 87,627	
Income taxes payable	210	504	4,458	
Provision for bonuses	547	322	2,852	
Provision for directors' bonuses	40	—	—	
Other	6,398	*2 8,971	*2 79,384	
Total current liabilities	45,005	45,733	404,715	
Non-current liabilities				
Long-term loans payable	*4 23,893	*4 27,959	*4 247,421	
Provision for directors' retirement benefits	239	217	1,923	
Net defined benefit liability	2,699	2,609	23,087	
Other	3,202	2,657	23,512	
Total non-current liabilities	30,033	33,442	295,943	
Total liabilities	75,038	79,175	700,658	
Net assets				
Shareholders' equity				
Capital stock	12,889	12,889	114,057	
Capital surplus	11,745	11,745	103,946	
Retained earnings	1,932	4,772	42,234	
Treasury shares	(396)	(396)	(3,508)	
Total shareholders' equity	26,170	29,010	256,729	
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	85	30	267	
Deferred gains or losses on hedges	59	2	19	
Foreign currency translation adjustment	2,438	4,603	40,730	
Remeasurements of defined benefit plans	(470)	(422)	(3,731)	
Total accumulated other comprehensive income	2,112	4,213	37,285	
Non-controlling interests	258	—	—	
Total net assets	28,540	33,223	294,014	
Total liabilities and net assets	¥ 103,578	¥ 112,398	\$ 994,672	

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income
For the Nine Months Ended December 31, 2017
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Nine months ended December 31, 2016	Nine months ended December 31, 2017	Nine months ended December 31, 2017
Net sales	¥ 70,902	¥ 81,192	\$ 718,513
Cost of sales	58,954	67,143	594,189
Gross profit	11,948	14,049	124,324
Selling, general and administrative expenses	7,787	8,274	73,221
Operating profit	4,161	5,775	51,103
Non-operating income			
Interest income	20	27	240
Dividend income	22	26	229
Insurance income	60	140	1,243
Other	185	283	2,497
Total non-operating income	287	476	4,209
Non-operating expenses			
Interest expenses	993	970	8,582
Foreign exchange losses	76	251	2,222
Other	1,523	429	3,794
Total non-operating expenses	2,592	1,650	14,598
Ordinary profit	1,856	4,601	40,714
Extraordinary income			
Gain on sales of non-current assets	—	0	2
Gain on sales of investment securities	—	182	1,607
Total extraordinary income	—	182	1,609
Extraordinary losses			
Loss on sales and retirement of non-current assets	92	177	1,570
Impairment loss	3	56	494
Loss on sales of investment securities	—	26	228
Other	25	—	—
Total extraordinary losses	120	259	2,292
Profit before income taxes	1,736	4,524	40,031
Income taxes	943	805	7,122
Profit	793	3,719	32,909
Profit (loss) attributable to non-controlling interests	8	(27)	(238)
Profit attributable to owners of parent	¥ 785	¥ 3,746	\$ 33,147

Consolidated Statements of Comprehensive Income
For the Nine Months Ended December 31, 2017
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Nine months ended December 31, 2016	Nine months ended December 31, 2017	Nine months ended December 31, 2017
Profit	¥ 793	¥ 3,719	\$ 32,909
Other comprehensive income			
Valuation difference on available-for-sale securities	(7)	(55)	(488)
Deferred gains or losses on hedges	378	(56)	(499)
Foreign currency translation adjustment	(1,564)	2,158	19,108
Remeasurements of defined benefit plans, net of tax	37	48	424
Total other comprehensive income	(1,156)	2,095	18,545
Comprehensive income	(363)	5,814	51,454
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥ (369)	¥ 5,846	\$ 51,741
Comprehensive income attributable to non-controlling interests	6	(32)	(287)

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 ¥113.00 to \$1, the approximate rate of exchange at December 31, 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	December 31, 2017	December 31, 2017	
Investments and other assets	¥ 215	¥ 215	\$	1,901

*2 Accounting treatment for notes maturing on December 31, 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 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, 2017.

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2017	December 31, 2017	December 31, 2017	
Notes receivable-trade	¥ —	¥ 61	\$	542
Notes payable-trade	¥ —	¥ 73	\$	648
Notes payable-facilities	¥ —	¥ 1	\$	9

3 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2017	December 31, 2017	December 31, 2017	
Discounted notes receivable-trade	¥ 43	¥ 20	\$	178

*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.

Nine months ended December 31, 2017

Of short-term loans payable and long-term loans payable (including loans payable scheduled for repayment within one year), ¥33,434 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 Cash Flows

No consolidated statements of cash flow were prepared for the nine months ended December 31, 2017. Depreciation (including amortization related to intangible assets) for the nine months ended December 31, 2017 is shown below:

	Millions of yen		Thousands of U.S. dollars	
	Nine months ended December 31, 2016	Nine months ended December 31, 2017	Nine months ended December 31, 2017	Nine months ended December 31, 2017
Depreciation	¥ 4,060	¥ 4,299	\$	38,044

Total Shareholders' Equity

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) 3,500,000.00

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 fell 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.

Nine months ended December 31, 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

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

2 Of the dividends whose record date falls during the nine months ended December 31, 2017, those dividends whose effective date will fall after the last day of the third 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.

Per Share Information

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

Item	Nine months ended December 31, 2016	Nine months ended December 31, 2017
(1) Profit per share (Yen)	19.91	132.93
Basis for calculation		
Profit attributable to owners of parent (Millions of yen)	785	3,746
Amounts not attributable to common shareholders (Millions of yen)	264	266
Of which the amount of Class A preferred dividends (Millions of yen)	[264]	[266]
Profit attributable to owners of parent pertaining to common shares (Millions of yen)	521	3,480
Average number of common shares outstanding for the period (Shares)	26,174,076	26,174,026
(2) Diluted profit per share (Yen)	18.54	94.00
Basis for calculation		
Adjustments of profit attributable to owners of parent (Millions of yen)	264	266
Of which the amount of Class A preferred dividends (Millions of yen)	[264]	[266]
Increase in the number of common shares (Shares)	16,154,150	13,673,650
Of which Class A preference shares (Shares)	[16,154,150]	[13,673,650]
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	—	—

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.