

**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, 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 third quarter and nine months ended December 31, 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 February 13, 2019.

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, 2018 – December 31, 2018), and those for the nine months ended December 31, 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	December 31, 2018	December 31, 2018	December 31, 2018
Assets				
Current assets				
Cash and deposits	¥ 15,422	¥ 14,877	\$ 133,999	
Notes and accounts receivable-trade	*2 24,911	*2 26,642	*2 239,972	
Merchandise and finished goods	4,460	7,243	65,242	
Work in process	4,719	4,451	40,096	
Raw materials and supplies	5,117	5,629	50,703	
Other	1,993	2,988	26,908	
Allowance for doubtful accounts	(252)	(138)	(1,240)	
Total current assets	<u>56,370</u>	<u>61,692</u>	<u>555,680</u>	
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	18,430	18,156	163,540	
Machinery, equipment and vehicles, net	21,494	23,680	213,294	
Land	1,488	1,488	13,406	
Construction in progress	2,764	8,121	73,148	
Other, net	5,557	5,255	47,332	
Total property, plant and equipment	<u>49,733</u>	<u>56,700</u>	<u>510,720</u>	
Intangible assets	210	260	2,342	
Investments and other assets	*1 4,003	*1 4,967	*1 44,740	
Total non-current assets	<u>53,946</u>	<u>61,927</u>	<u>557,802</u>	
Total assets	¥ <u>110,316</u>	¥ <u>123,619</u>	\$ <u>1,113,482</u>	

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2018	December 31, 2018	December 31, 2018	December 31, 2018
Liabilities				
Current liabilities				
Notes and accounts payable-trade	*2 ¥ 16,152	*2 ¥ 17,799	*2 \$ 160,323	
Short-term loans payable	*4 13,263	4,373	39,390	
Current portion of long-term loans payable	*4 10,478	*4 13,295	*4 119,751	
Income taxes payable	67	646	5,816	
Provision for bonuses	640	384	3,455	
Provision for directors' bonuses	60	—	—	
Other	*2 8,265	*2 9,263	*2 83,442	
Total current liabilities	48,925	45,760	412,177	
Non-current liabilities				
Long-term loans payable	*4 23,303	*4 40,239	*4 362,452	
Provision for directors' retirement benefits	217	217	1,957	
Net defined benefit liability	2,658	2,741	24,692	
Other	2,171	1,648	14,832	
Total non-current liabilities	28,349	44,845	403,933	
Total liabilities	77,274	90,605	816,110	
Net assets				
Shareholders' equity				
Capital stock	12,889	12,889	116,091	
Capital surplus	11,745	6,464	58,229	
Retained earnings	5,400	11,518	103,747	
Treasury shares	(396)	(397)	(3,572)	
Total shareholders' equity	29,638	30,474	274,495	
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	22	17	157	
Deferred gains or losses on hedges	299	233	2,093	
Foreign currency translation adjustment	3,512	2,671	24,060	
Remeasurements of defined benefit plans	(429)	(381)	(3,433)	
Total accumulated other comprehensive income	3,404	2,540	22,877	
Total net assets	33,042	33,014	297,372	
Total liabilities and net assets	¥ 110,316	¥ 123,619	\$ 1,113,482	

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income
For the Nine Months Ended December 31, 2018
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Nine months ended December 31, 2017	Nine months ended December 31, 2018	U.S. dollars Nine months ended December 31, 2018
Net sales	¥ 81,192	¥ 91,561	\$ 824,729
Cost of sales	67,143	74,819	673,923
Gross profit	14,049	16,742	150,806
Selling, general and administrative expenses	8,274	8,486	76,443
Operating profit	5,775	8,256	74,363
Non-operating income			
Interest income	27	44	392
Dividend income	26	7	66
Insurance income	140	291	2,623
Foreign exchange gains	—	661	5,953
Other	283	422	3,808
Total non-operating income	476	1,425	12,842
Non-operating expenses			
Interest expenses	970	615	5,541
Foreign exchange losses	251	—	—
Other	429	771	6,949
Total non-operating expenses	1,650	1,386	12,490
Ordinary profit	4,601	8,295	74,715
Extraordinary income			
Gain on sales of non-current assets	0	2	15
Gain on sales of investment securities	182	—	—
Total extraordinary income	182	2	15
Extraordinary losses			
Loss on sales and retirement of non-current assets	177	193	1,734
Impairment loss	56	—	—
Loss on sales of investment securities	26	—	—
Loss on valuation of investment securities	—	99	891
Total extraordinary losses	259	292	2,625
Profit before income taxes	4,524	8,005	72,105
Income taxes	805	1,233	11,106
Profit	3,719	6,772	60,999
Loss attributable to non-controlling interests	(27)	—	—
Profit attributable to owners of parent	¥ 3,746	¥ 6,772	\$ 60,999

Consolidated Statements of Comprehensive Income
For the Nine Months Ended December 31, 2018
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Nine months ended December 31, 2017	Nine months ended December 31, 2018	U.S. dollars Nine months ended December 31, 2018
Profit	¥ 3,719	¥ 6,772	\$ 60,999
Other comprehensive income			
Valuation difference on available-for-sale securities	(55)	(5)	(39)
Deferred gains or losses on hedges	(56)	(66)	(598)
Foreign currency translation adjustment	2,158	(841)	(7,575)
Remeasurements of defined benefit plans, net of tax	48	48	429
Total other comprehensive income	2,095	(864)	(7,783)
Comprehensive income	5,814	5,908	53,216
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥ 5,846	¥ 5,908	\$ 53,216
Comprehensive income attributable to non-controlling interests	(32)	—	—

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 ¥111.02 to \$1, the approximate rate of exchange at December 31, 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	December 31, 2018	December 31, 2018	
Investments and other assets	¥ 215	¥ 215	\$	1,935

*2 Accounting treatment for notes maturing on December 31, 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 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, 2018.

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2018	December 31, 2018	December 31, 2018	
Notes receivable-trade	¥ 51	¥ 106	\$	952
Notes payable-trade	¥ 63	¥ 67	\$	602
Notes payable-facilities	¥ 1	¥ 1	\$	11

3 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2018	December 31, 2018	December 31, 2018	
Discounted notes receivable-trade	¥ 49	¥ 33	\$	298

*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.

Nine months ended December 31, 2018

Of long-term loans payable (including loans payable scheduled for repayment within one year), ¥49,730 million have financial covenant attached under which the breaching of any of the following will require the accelerated repayment of the obligation in the corresponding funding agreement (where 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, 2018. Depreciation (including amortization related to intangible assets) for the nine months ended December 31, 2018 is shown below:

	Millions of yen		Thousands of U.S. dollars	
	Nine months ended December 31, 2017	Nine months ended December 31, 2018		Nine months ended December 31, 2018
Depreciation.....	¥ 4,299	¥ 4,660	\$	41,977

Total Shareholders' Equity

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 fell after the last day of the third quarter

Not applicable

Nine months ended December 31, 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

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

2 Of the dividends whose record date falls during the nine months ended December 31, 2018, 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 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 nine months ended December 31, 2018 decreased by ¥5,281 million, to ¥6,464 million as of December 31, 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	Nine months ended December 31, 2017	Nine months ended December 31, 2018
(1) Profit per share (Yen)	132.93	258.73
Basis for calculation		
Profit attributable to owners of parent (Millions of yen)	3,746	6,772
Amounts not attributable to common shareholders (Millions of yen)	266	—
Of which the amount of Class A preferred dividends (Millions of yen)	[266]	[—]
Profit attributable to owners of parent pertaining to common shares (Millions of yen)	3,480	6,772
Average number of common shares outstanding for the period (Shares)	26,174,026	26,173,996
(2) Diluted profit per share (Yen)	94.00	—
Basis for calculation		
Adjustments of profit attributable to owners of parent (Millions of yen)	266	—
Of which the amount of Class A preferred dividends (Millions of yen)	[266]	[—]
Increase in the number of common shares (Shares)	13,673,650	—
Of which Class A preference shares (Shares)	[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	—	—

Note: Diluted profit per share for the nine months ended December 31, 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.