

**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, 2019

(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, 2019, 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, 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 second quarter (July 1, 2019 – September 30, 2019), and those for the six months ended September 30, 2019, 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, 2019	September 30, 2019	September 30, 2019	September 30, 2019
Assets				
Current assets				
Cash and deposits	¥ 11,657	¥ 12,706	\$	117,726
Notes and accounts receivable-trade	*2 25,834	27,849		258,026
Merchandise and finished goods	5,885	6,143		56,912
Work in process	4,675	4,922		45,605
Raw materials and supplies	5,414	6,130		56,794
Other	2,701	2,949		27,334
Allowance for doubtful accounts	(144)	(136)		(1,261)
Total current assets	56,022	60,563		561,136
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	17,844	22,359		207,159
Machinery, equipment and vehicles, net	24,481	26,718		247,551
Land	1,488	1,488		13,790
Construction in progress	9,581	6,458		59,836
Other, net	5,160	4,155		38,496
Total property, plant and equipment	58,554	61,178		566,832
Intangible assets	269	314		2,910
Investments and other assets	*1 5,811	*1 4,574	*1	42,374
Total non-current assets	64,634	66,066		612,116
Total assets	¥ 120,656	¥ 126,629	\$	1,173,252

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2019	September 30, 2019	September 30, 2019	September 30, 2019
Liabilities				
Current liabilities				
Notes and accounts payable-trade	*2 ¥ 15,797	¥ 17,339	\$ 160,647	
Short-term borrowings	*4 7,638	*4 9,642	*4 89,337	
Current portion of long-term borrowings	*4 14,386	*4 14,136	*4 130,971	
Income taxes payable	221	298	2,760	
Provision for bonuses	667	733	6,790	
Provision for bonuses for directors and other officers	19	—	—	
Other	9,205	8,140	75,424	
Total current liabilities	47,933	50,288	465,929	
Non-current liabilities				
Long-term borrowings	*4 34,765	*4 39,763	*4 368,410	
Provision for retirement benefits for directors	217	217	2,013	
Retirement benefit liability	2,689	2,717	25,171	
Other	1,464	1,604	14,866	
Total non-current liabilities	39,135	44,301	410,460	
Total liabilities	87,068	94,589	876,389	
Net assets				
Shareholders' equity				
Share capital	12,889	12,889	119,415	
Capital surplus	6,464	6,464	59,896	
Retained earnings	11,490	13,332	123,526	
Treasury shares	(397)	(397)	(3,676)	
Total shareholders' equity	30,446	32,288	299,161	
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	(65)	12	110	
Deferred gains or losses on hedges	183	93	859	
Foreign currency translation adjustment	3,322	(77)	(710)	
Remeasurements of defined benefit plans	(298)	(276)	(2,557)	
Total accumulated other comprehensive income	3,142	(248)	(2,298)	
Total net assets	33,588	32,040	296,863	
Total liabilities and net assets	¥ 120,656	¥ 126,629	\$ 1,173,252	

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income
For the Six Months Ended September 30, 2019
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen				Thousands of
	Six months ended September 30, 2018		Six months ended September 30, 2019		U.S. dollars Six months ended September 30, 2019
Net sales	¥	61,758	¥	59,122	\$ 547,782
Cost of sales		50,340		49,962	462,910
Gross profit		11,418		9,160	84,872
Selling, general and administrative expenses	*1	5,744	*1	5,749	*1 53,272
Operating profit		5,674		3,411	31,600
Non-operating income					
Interest income		29		44	408
Dividend income		5		4	35
Subsidy income		74		134	1,241
Foreign exchange gains		1,127		—	—
Other		407		84	787
Total non-operating income		1,642		266	2,471
Non-operating expenses					
Interest expenses		426		352	3,262
Foreign exchange losses		—		172	1,598
Other		544		131	1,208
Total non-operating expenses		970		655	6,068
Ordinary profit		6,346		3,022	28,003
Extraordinary income					
Gain on sales of non-current assets		2		0	0
Gain on sales of investment securities		—		4	33
Total extraordinary income		2		4	33
Extraordinary losses					
Loss on sales and retirement of non-current assets		130		76	708
Loss on sales of investment securities		—		0	0
Loss on valuation of investment securities		—		107	987
Total extraordinary losses		130		183	1,695
Profit before income taxes		6,218		2,843	26,341
Income taxes		886		477	4,419
Profit		5,332		2,366	21,922
Profit attributable to owners of parent	¥	5,332	¥	2,366	\$ 21,922

Consolidated Statements of Comprehensive Income
For the Six Months Ended September 30, 2019
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Six months ended September 30, 2018	Six months ended September 30, 2019	U.S. dollars Six months ended September 30, 2019
Profit	¥ 5,332	¥ 2,366	\$ 21,922
Other comprehensive income			
Valuation difference on available-for-sale securities	(10)	78	718
Deferred gains or losses on hedges	6	(91)	(841)
Foreign currency translation adjustment	256	(3,399)	(31,490)
Remeasurements of defined benefit plans, net of tax	32	22	207
Total other comprehensive income	284	(3,390)	(31,406)
Comprehensive income	5,616	(1,024)	(9,484)
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥ 5,616	¥ (1,024)	\$ (9,484)

(3) Consolidated Statements of Cash Flows
For the Six Months Ended September 30, 2019
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Six months ended September 30, 2018	Six months ended September 30, 2019	U.S. dollars
			Six months ended September 30, 2019
Cash flows from operating activities			
Profit before income taxes	¥ 6,218	¥ 2,843	\$ 26,341
Depreciation	3,075	3,345	30,993
Increase (decrease) in allowance for doubtful accounts	(75)	(1)	(12)
Increase (decrease) in provision for bonuses	33	68	627
Increase (decrease) in provision for bonuses for directors and other officers	(60)	(19)	(174)
Increase (decrease) in retirement benefit liability	93	50	460
Interest and dividend income	(34)	(48)	(443)
Interest expenses	426	352	3,262
Foreign exchange losses (gains)	(404)	311	2,878
Loss (gain) on sales and retirement of property, plant and equipment	128	76	708
Loss (gain) on sales of investment securities	—	(4)	(33)
Loss (gain) on valuation of investment securities	—	106	986
Decrease (increase) in trade receivables	(3,384)	(2,495)	(23,121)
Decrease (increase) in inventories	(2,172)	(1,831)	(16,963)
Increase (decrease) in trade payables	3,169	2,177	20,172
Decrease (increase) in other assets	28	226	2,091
Increase (decrease) in other liabilities	283	(101)	(934)
Other, net	(72)	13	120
Subtotal	7,252	5,068	46,958
Interest and dividends received	34	47	436
Interest paid	(441)	(377)	(3,489)
Proceeds from insurance income	289	13	121
Income taxes (paid) refund	(234)	(270)	(2,512)
Net cash provided by (used in) operating activities	6,900	4,481	41,514
Cash flows from investing activities			
Purchase of property, plant and equipment	(7,723)	(8,819)	(81,710)
Proceeds from sales of property, plant and equipment	40	0	3
Purchase of intangible assets	(63)	(88)	(818)
Purchase of investment securities	(79)	—	—
Proceeds from sales of investment securities	—	6	55
Purchase of insurance funds	(1)	(1)	(11)
Other, net	(1,327)	2	23
Net cash provided by (used in) investing activities	¥ (9,153)	¥ (8,900)	\$ (82,458)

	Millions of yen		Thousands of
			U.S. dollars
	Six months ended September 30, 2018	Six months ended September 30, 2019	Six months ended September 30, 2019
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	¥ (6,951)	¥ 2,121	\$ 19,656
Proceeds from long-term borrowings	17,251	12,700	117,669
Repayments of long-term borrowings	(4,851)	(7,892)	(73,124)
Repayments of lease obligations	(680)	(578)	(5,353)
Purchase of treasury shares	(5,282)	(0)	(1)
Dividends paid	(261)	(523)	(4,846)
Net cash provided by (used in) financing activities	(774)	5,828	54,001
Effect of exchange rate change on cash and cash equivalents	154	(381)	(3,541)
Net increase (decrease) in cash and cash equivalents	(2,873)	1,028	9,516
Cash and cash equivalents at beginning of period	15,190	11,419	105,805
Cash and cash equivalents at end of period	*1 ¥ 12,317	*1 ¥ 12,447	*1 \$ 115,321

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 ¥107.93 to \$1, the approximate rate of exchange at September 30, 2019. 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

All consolidated overseas subsidiaries that adopted the International Financial Reporting Standards (IFRS) have applied IFRS 16 “Leases” from the first quarter ended June 30, 2019 and have changed to a method of booking all leases as a lessee under assets and liabilities on the consolidated balance sheet, as a rule. In applying the accounting standards, the subsidiaries have adopted a method of recognizing the cumulative effects of the application of the accounting standards on the date of the start of application for transition purposes.

As a result, “Other” under current assets as of September 30, 2019 decreased ¥27 million, “Other, net” under property, plant and equipment increased ¥1,190 million, “Investments and other assets” decreased ¥731 million, “Other” under current liabilities increased ¥79 million, and “Other” under non-current liabilities increased ¥333 million. The effect of this change on the profit or loss for the six months ended September 30, 2019 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, 2020, 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, 2019	September 30, 2019	September 30, 2019	September 30, 2019
Investments and other assets	¥ 153	¥ 149	\$	1,385

*2 Accounting treatment for notes maturing on September 30, 2019

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 previous consolidated fiscal year 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, March 31, 2019.

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2019	September 30, 2019	September 30, 2019	September 30, 2019
Notes receivable-trade	¥ 120	¥ —	\$	—
Notes payable-trade	¥ 217	¥ —	\$	—

3 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2019	September 30, 2019	September 30, 2019	September 30, 2019
Discounted notes receivable-trade	¥ 37	¥ 25	\$	234

*4 Financial covenants

Consolidated fiscal year ended March 31, 2019

Of short-term borrowings and long-term borrowings (including borrowings scheduled for repayment within one year), ¥49,628 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.

Six months ended September 30, 2019

Of short-term borrowings and long-term borrowings (including borrowings scheduled for repayment within one year), ¥56,004 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 (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 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, 2018	Six months ended September 30, 2019	Six months ended September 30, 2019	Six months ended September 30, 2019
Salaries and allowances·····	¥ 997	¥ 1,015	\$ 9,403	
Provision for bonuses·····	157	184	1,709	
Provision of allowance for doubtful accounts·····	(75)	(1)	(9)	
Retirement benefit expenses·····	49	49	450	
Research and development expenses·····	428	501	4,643	

Consolidated Statements of Cash Flows

*1 The relationship between cash and cash equivalents as of September 30, 2019, and the amounts shown on the Consolidated Balance Sheets are shown below:

	Millions of yen		Thousands of U.S. dollars	
	Six months ended September 30, 2018	Six months ended September 30, 2019	Six months ended September 30, 2019	Six months ended September 30, 2019
Cash and deposits·····	¥ 12,551	¥ 12,706	\$ 117,726	
Time deposits with tenors exceeding 3 months·····	(234)	(259)	(2,405)	
Cash and cash equivalents·····	¥ 12,317	¥ 12,447	\$ 115,321	

Total Shareholders' Equity

Six months ended September 30, 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

2 Of the dividends whose record date falls during the six months ended September 30, 2018, those dividends whose effective date fell after the last day of the second quarter

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

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 six months ended September 30, 2018 decreased by ¥5,281 million, to ¥6,464 million as of September 30, 2018.

Six months ended September 30, 2019

1 Cash dividends paid

Resolution	
Board meeting on May 27, 2019	
Type of shares	Common shares
Total dividends (Millions of yen)	523
Dividend per share (Yen).....	20.00
Record date.....	March 31, 2019
Effective date.....	June 11, 2019
Dividend resource.....	Retained earnings

2 Of the dividends whose record date falls during the six months ended September 30, 2019, those dividends whose effective date will fall after the last day of the second quarter

Resolution	
Board meeting on November 6, 2019	
Type of shares	Common shares
Total dividends (Millions of yen)	393
Dividend per share (Yen).....	15.00
Record date.....	September 30, 2019
Effective date.....	November 29, 2019
Dividend resource.....	Retained earnings

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 is shown below:

Item	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit per share (Yen)	203.71	90.40
Basis for calculation		
Profit attributable to owners of parent (Millions of yen)	5,332	2,366
Amounts not attributable to common shareholders (Millions of yen)	—	—
Profit attributable to owners of parent pertaining to common shares (Millions of yen)	5,332	2,366
Average number of common shares outstanding for the period (Shares)	26,174,009	26,173,895

Note: Diluted profit per share 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, 2020, the Board of Directors passed a resolution at its meeting on November 6, 2019 to pay interim dividends to shareholders who are recorded in the shareholder registry as of September 30, 2019 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 29, 2019 |

(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.