

**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, 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 third quarter and nine months ended December 31, 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 February 12, 2020.

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, 2019 – December 31, 2019), and those for the nine months ended December 31, 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	December 31, 2019	December 31, 2019	December 31, 2019
<b>Assets</b>				
Current assets				
Cash and deposits	¥ 11,657	¥ 16,396	\$	149,684
Notes and accounts receivable-trade	*2 25,834	*2 29,120	*2	265,841
Merchandise and finished goods	5,885	7,438		67,900
Work in process	4,675	4,977		45,438
Raw materials and supplies	5,414	7,684		70,147
Other	2,701	2,767		25,257
Allowance for doubtful accounts	(144)	(138)		(1,260)
Total current assets	56,022	68,244		623,007
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	17,844	23,744		216,760
Machinery, equipment and vehicles, net	24,481	28,797		262,893
Land	1,488	1,488		13,587
Construction in progress	9,581	5,622		51,328
Other, net	5,160	4,341		39,620
Total property, plant and equipment	58,554	63,992		584,188
Intangible assets	269	792		7,235
Investments and other assets	*1 5,811	*1 5,756	*1	52,542
Total non-current assets	64,634	70,540		643,965
Total assets	¥ 120,656	¥ 138,784	\$	1,266,972

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2019	December 31, 2019	December 31, 2019	
<b>Liabilities</b>				
Current liabilities				
Notes and accounts payable-trade	*2 ¥ 15,797	*2 ¥ 20,065	*2 \$ 183,174	
Short-term borrowings	*4 7,638	*4 10,838	*4 98,941	
Current portion of long-term borrowings	*4 14,386	*4 14,771	*4 134,846	
Income taxes payable	221	326	2,979	
Provision for bonuses	667	432	3,944	
Provision for bonuses for directors and other officers	19	—	—	
Other	9,205	*2 8,580	*2 78,322	
Total current liabilities	47,933	55,012	502,206	
Non-current liabilities				
Long-term borrowings	*4 34,765	*4 44,508	*4 406,318	
Provision for retirement benefits for directors	217	217	1,984	
Retirement benefit liability	2,689	2,706	24,699	
Other	1,464	1,459	13,319	
Total non-current liabilities	39,135	48,890	446,320	
<b>Total liabilities</b>	<b>87,068</b>	<b>103,902</b>	<b>948,526</b>	
<b>Net assets</b>				
Shareholders' equity				
Share capital	12,889	12,889	117,660	
Capital surplus	6,464	6,464	59,015	
Retained earnings	11,490	14,611	133,384	
Treasury shares	(397)	(397)	(3,622)	
Total shareholders' equity	30,446	33,567	306,437	
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	(65)	(32)	(291)	
Deferred gains or losses on hedges	183	73	664	
Foreign currency translation adjustment	3,322	1,297	11,840	
Remeasurements of defined benefit plans	(298)	(265)	(2,418)	
Total accumulated other comprehensive income	3,142	1,073	9,795	
Non-controlling interests	—	242	2,214	
<b>Total net assets</b>	<b>33,588</b>	<b>34,882</b>	<b>318,446</b>	
<b>Total liabilities and net assets</b>	<b>¥ 120,656</b>	<b>¥ 138,784</b>	<b>\$ 1,266,972</b>	

**(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income**  
**Consolidated Statements of Income**  
**For the Nine Months Ended December 31, 2019**  
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Nine months ended December 31, 2018	Nine months ended December 31, 2019	U.S. dollars Nine months ended December 31, 2019
Net sales	¥ 91,561	¥ 89,814	\$ 819,922
Cost of sales	74,819	76,037	694,148
Gross profit	16,742	13,777	125,774
Selling, general and administrative expenses	8,486	8,814	80,471
Operating profit	8,256	4,963	45,303
Non-operating income			
Interest income	44	67	613
Dividend income	7	6	54
Insurance claim income	291	247	2,256
Subsidy income	246	175	1,600
Foreign exchange gains	661	53	486
Other	176	117	1,067
Total non-operating income	1,425	665	6,076
Non-operating expenses			
Interest expenses	615	526	4,798
Other	771	250	2,285
Total non-operating expenses	1,386	776	7,083
Ordinary profit	8,295	4,852	44,296
Extraordinary income			
Gain on sales of non-current assets	2	0	0
Gain on sales of investment securities	—	4	32
Gain on reversal of loss on valuation of investment securities	—	327	2,988
Total extraordinary income	2	331	3,020
Extraordinary losses			
Loss on sales and retirement of non-current assets	193	132	1,203
Loss on sales of investment securities	—	0	0
Loss on valuation of investment securities	99	—	—
Business restructuring expenses	—	210	1,918
Total extraordinary losses	292	342	3,121
Profit before income taxes	8,005	4,841	44,195
Income taxes	1,233	794	7,251
Profit	6,772	4,047	36,944
Profit attributable to non-controlling interests	—	10	88
Profit attributable to owners of parent	¥ 6,772	¥ 4,037	\$ 36,856

**Consolidated Statements of Comprehensive Income**  
**For the Nine Months Ended December 31, 2019**  
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Nine months ended December 31, 2018	Nine months ended December 31, 2019	U.S. dollars
Profit	¥ 6,772	¥ 4,047	\$ 36,944
Other comprehensive income			
Valuation difference on available-for-sale securities	(5)	34	308
Deferred gains or losses on hedges	(66)	(111)	(1,010)
Foreign currency translation adjustment	(841)	(2,021)	(18,456)
Remeasurements of defined benefit plans, net of tax	48	33	306
Total other comprehensive income	(864)	(2,065)	(18,852)
Comprehensive income	5,908	1,982	18,092
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥ 5,908	¥ 1,969	\$ 17,972
Comprehensive income attributable to non-controlling interests	—	13	120

## **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 ¥109.54 to \$1, the approximate rate of exchange at December 31, 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 Scope of Consolidation and Application of the Equity Method

#### (Important Change in the Scope of Consolidation)

Meiko Towada Vietnam Co., Ltd., was included in the scope of consolidation during the third quarter ended December 31, 2019, due to the acquisition of equity interest.

### 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 December 31, 2019 decreased ¥28 million, “Other, net” under property, plant and equipment increased ¥1,251 million, “Investments and other assets” decreased ¥809 million, “Other” under current liabilities increased ¥81 million, and “Other” under non-current liabilities increased ¥322 million. The effect of this change on the profit or loss for the nine months ended December 31, 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	December 31, 2019	December 31, 2019	
Investments and other assets	¥ 153	¥ 18	\$	166

\*2 Accounting treatment for notes maturing on December 31, 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 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, 2019.

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2019	December 31, 2019	December 31, 2019	
Notes receivable-trade	¥ 120	¥ 112	\$	1,024
Notes payable-trade	¥ 217	¥ 76	\$	694
Notes payable-facilities	¥ —	¥ 2	\$	17

3 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2019	December 31, 2019	December 31, 2019	
Discounted notes receivable-trade	¥ 37	¥ 33	\$	303

\*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.

Nine months ended December 31, 2019

Of short-term borrowings and long-term borrowings (including borrowings scheduled for repayment within one year), ¥60,802 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 Cash Flows

No consolidated statements of cash flows were prepared for the nine months ended December 31, 2019. Depreciation (including amortization related to intangible assets, excluding goodwill) and amortization of goodwill for the nine months ended December 31, 2019, are shown below:

	Millions of yen		Thousands of U.S. dollars	
	Nine months ended December 31, 2018	Nine months ended December 31, 2019	Nine months ended December 31, 2019	Nine months ended December 31, 2019
Depreciation.....	¥ 4,660	¥ 5,104	\$	46,591
Amortization of goodwill.....	¥ —	¥ 10	\$	93

## Total Shareholders' Equity

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 fell 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.

Nine months ended December 31, 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

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

2 Of the dividends whose record date falls during the nine months ended December 31, 2019, 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.

## Business Combination

Business combination due to acquisition

### (1) Overview of business combination

1) Name and main businesses of acquired company

Name of acquired company: Towada Electronics Vietnam Co., Ltd.

Main businesses: Mounting, assembly, sale of electronic components

2) Main reason for the business combination

To further strengthen the Group's integrated production system from design and production to assembly of boards and the mass production system in Hanoi, Vietnam, with the aim of increasing order intake.

3) Date of business combination

November 25, 2019 (date of acquisition of equity)

October 1, 2019 (deemed acquisition date)

4) Legal form of the business combination

Acquisition of equity

5) Name of combined company

Meiko Towada Vietnam Co., Ltd.

6) Percentage of equity interest acquired

60%

7) Main basis for deciding the acquiring company

The Company acquired equity interest with cash as consideration.

### (2) Period of business performance of the acquired company included in the quarterly consolidated statements of income related to the nine months ended December 31, 2019

From October 1, 2019 to December 31, 2019

### (3) Acquisition cost of the acquired company and breakdown of consideration by type

Consideration for acquisition	Cash	¥750 million
Acquisition cost		¥750 million

### (4) Details and amount of major acquisition-related costs

Advisory costs, etc. ¥53 million

### (5) Amount of goodwill generated, reason for the generation, amortization method, and amortization period

1) Amount of goodwill generated

¥406 million

2) Reason for the generation

The future excess earning power expected from future business development

3) Amortization method and period

Amortized equally over 10 years

## Per Share Information

The basis for calculating profit per share is shown below:

Item	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Profit per share (Yen)	258.73	154.25
Basis for calculation		
Profit attributable to owners of parent (Millions of yen)	6,772	4,037
Amounts not attributable to common shareholders (Millions of yen)	—	—
Profit attributable to owners of parent pertaining to common shares (Millions of yen)	6,772	4,037
Average number of common shares outstanding for the period (Shares)	26,173,996	26,173,894

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.