

**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, 2020

(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, 2020, 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, 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 second quarter (July 1, 2020 – September 30, 2020), and those for the six months ended September 30, 2020, 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, 2020	September 30, 2020	U.S. dollars
			September 30, 2020
Assets			
Current assets			
Cash and deposits	¥ 13,890	¥ 14,373	\$ 135,875
Notes and accounts receivable-trade	24,448	24,982	236,166
Merchandise and finished goods	5,148	5,518	52,165
Work in process	5,505	5,783	54,670
Raw materials and supplies	8,302	8,036	75,969
Other	2,559	2,427	22,951
Allowance for doubtful accounts	(135)	(136)	(1,286)
Total current assets	59,717	60,983	576,510
Non-current assets			
Property, plant and equipment			
Buildings and structures, net	23,205	22,332	211,121
Machinery, equipment and vehicles, net	29,176	29,580	279,638
Land	1,488	1,488	14,070
Construction in progress	4,909	6,998	66,159
Other, net	4,219	4,076	38,518
Total property, plant and equipment	62,997	64,474	609,506
Intangible assets	828	888	8,391
Investments and other assets	*1 5,696	*1 6,196	*1 58,582
Total non-current assets	69,521	71,558	676,479
Total assets	¥ 129,238	¥ 132,541	\$ 1,252,989

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2020	September 30, 2020	September 30, 2020	September 30, 2020
Liabilities				
Current liabilities				
Notes and accounts payable-trade	¥ 17,732	¥ 16,107	\$ 152,273	
Short-term borrowings	*3 9,686	*3 16,416	*3 155,190	
Current portion of long-term borrowings	*3 15,544	*3 12,762	*3 120,643	
Income taxes payable	204	86	816	
Provision for bonuses	688	763	7,217	
Provision for bonuses for directors and other officers	40	—	—	
Other	8,171	7,704	72,818	
Total current liabilities	52,065	53,838	508,957	
Non-current liabilities				
Long-term borrowings	*3 40,479	*3 42,376	*3 400,605	
Provision for retirement benefits for directors	217	216	2,041	
Retirement benefit liability	2,696	2,724	25,753	
Other	1,299	1,213	11,476	
Total non-current liabilities	44,691	46,529	439,875	
Total liabilities	96,756	100,367	948,832	
Net assets				
Shareholders' equity				
Share capital	12,889	12,889	121,842	
Capital surplus	6,464	6,464	61,113	
Retained earnings	13,160	13,202	124,808	
Treasury shares	(397)	(397)	(3,750)	
Total shareholders' equity	32,116	32,158	304,013	
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	(8)	0	1	
Deferred gains or losses on hedges	30	130	1,224	
Foreign currency translation adjustment	375	(54)	(510)	
Remeasurements of defined benefit plans	(225)	(207)	(1,949)	
Total accumulated other comprehensive income	172	(131)	(1,234)	
Non-controlling interests	194	147	1,378	
Total net assets	32,482	32,174	304,157	
Total liabilities and net assets	¥ 129,238	¥ 132,541	\$ 1,252,989	

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income
For the Six Months Ended September 30, 2020
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars	
	Six months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2020	Six months ended September 30, 2020
Net sales	¥ 59,122	¥ 53,236	\$ 503,274	
Cost of sales	49,962	46,500	439,591	
Gross profit	9,160	6,736	63,683	
Selling, general and administrative expenses	*1 5,749	*1 4,921	*1 46,525	
Operating profit	3,411	1,815	17,158	
Non-operating income				
Interest income	44	30	279	
Dividend income	4	2	21	
Subsidy income	134	307	2,906	
Other	84	106	1,006	
Total non-operating income	266	445	4,212	
Non-operating expenses				
Interest expenses	352	302	2,852	
Commission for syndicated loans	19	409	3,868	
Foreign exchange losses	172	933	8,824	
Other	112	56	528	
Total non-operating expenses	655	1,700	16,072	
Ordinary profit	3,022	560	5,298	
Extraordinary income				
Gain on sales of non-current assets	0	3	26	
Gain on sales of investment securities	4	—	—	
Total extraordinary income	4	3	26	
Extraordinary losses				
Loss on sales and retirement of non-current assets	76	42	396	
Loss on disaster	—	25	233	
Loss on sales of investment securities	0	—	—	
Loss on valuation of investment securities	107	—	—	
Business restructuring expenses	—	223	2,112	
Provision of allowance for doubtful accounts	—	1	8	
Total extraordinary losses	183	291	2,749	
Profit before income taxes	2,843	272	2,575	
Income taxes	477	120	1,137	
Profit	2,366	152	1,438	
Loss attributable to non-controlling interests	—	(43)	(402)	
Profit attributable to owners of parent	¥ 2,366	¥ 195	\$ 1,840	

Consolidated Statements of Comprehensive Income
For the Six Months Ended September 30, 2020
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars	
	Six months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2020	
Profit	¥ 2,366	¥ 152	\$ 1,438	
Other comprehensive income				
Valuation difference on available-for-sale securities	78	9	81	
Deferred gains or losses on hedges	(91)	99	939	
Foreign currency translation adjustment	(3,399)	(435)	(4,109)	
Remeasurements of defined benefit plans, net of tax	22	19	177	
Total other comprehensive income	(3,390)	(308)	(2,912)	
Comprehensive income	(1,024)	(156)	(1,474)	
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent	¥ (1,024)	¥ (108)	\$ (1,022)	
Comprehensive income attributable to non-controlling interests	—	(48)	(452)	

(3) Consolidated Statements of Cash Flows
For the Six Months Ended September 30, 2020
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Six months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2020
Cash flows from operating activities			
Profit before income taxes	¥ 2,843	¥ 272	\$ 2,575
Depreciation	3,345	3,656	34,559
Amortization of goodwill	—	20	192
Increase (decrease) in allowance for doubtful accounts	(1)	8	76
Increase (decrease) in provision for bonuses	68	78	737
Increase (decrease) in provision for bonuses for directors and other officers	(19)	(40)	(379)
Increase (decrease) in provision for retirement benefits for directors	—	(1)	(14)
Increase (decrease) in retirement benefit liability	50	47	440
Interest and dividend income	(48)	(32)	(300)
Interest expenses	352	302	2,852
Foreign exchange losses (gains)	311	395	3,738
Loss (gain) on sales and retirement of property, plant and equipment	76	39	369
Loss (gain) on sales of investment securities	(4)	—	—
Loss (gain) on valuation of investment securities	106	—	—
Loss on disaster	—	25	233
Business restructuring expenses	—	223	2,112
Decrease (increase) in trade receivables	(2,495)	(986)	(9,318)
Decrease (increase) in inventories	(1,831)	(609)	(5,762)
Increase (decrease) in trade payables	2,177	(1,614)	(15,255)
Decrease (increase) in other assets	226	(102)	(968)
Increase (decrease) in other liabilities	(101)	99	939
Other, net	13	415	3,921
Subtotal	5,068	2,195	20,747
Interest and dividends received	47	31	292
Interest paid	(377)	(310)	(2,927)
Proceeds from insurance income	13	—	—
Payments for business restructuring expenses	—	(134)	(1,271)
Payments for factory shutdown expenses	—	(108)	(1,019)
Income taxes (paid) refund	(270)	(365)	(3,452)
Net cash provided by (used in) operating activities	4,481	1,309	12,370
Cash flows from investing activities			
Purchase of property, plant and equipment	(8,819)	(5,466)	(51,675)
Proceeds from sales of property, plant and equipment	0	569	5,382
Purchase of intangible assets	(88)	(132)	(1,251)
Purchase of investment securities	—	(109)	(1,026)
Proceeds from sales of investment securities	6	—	—
Purchase of insurance funds	(1)	(1)	(11)
Proceeds from maturity of insurance funds	—	25	239
Other, net	2	(588)	(5,565)
Net cash provided by (used in) investing activities	¥ (8,900)	¥ (5,702)	\$ (53,907)

	Millions of yen		Thousands of
			U.S. dollars
	Six months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2020
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	¥ 2,121	¥ 6,709	\$ 63,420
Proceeds from long-term borrowings	12,700	42,608	402,794
Repayments of long-term borrowings	(7,892)	(43,875)	(414,768)
Repayments of lease obligations	(578)	(296)	(2,798)
Purchase of treasury shares	(0)	—	—
Dividends paid	(523)	(393)	(3,714)
Net cash provided by (used in) financing activities	5,828	4,753	44,934
Effect of exchange rate change on cash and cash equivalents	(381)	(109)	(1,028)
Net increase (decrease) in cash and cash equivalents	1,028	251	2,369
Cash and cash equivalents at beginning of period	11,419	13,646	129,007
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	229	2,168
Cash and cash equivalents at end of period	*1 ¥ 12,447	*1 ¥ 14,126	*1 \$ 133,544

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 ¥105.78 to \$1, the approximate rate of exchange at September 30, 2020. 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)

Guangzhou Speed Trading Co., Ltd., which was a non-consolidated subsidiary in the fiscal year ended March 31, 2020, has been included in the scope of consolidation from the first quarter ended June 30, 2020 due to an increase in its significance.

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, 2021, and multiplying profit before income taxes for the period under review by this estimated effective tax rate.

(Additional Information)

There are no material changes in assumptions including the future spread and timing of subsidence of the novel coronavirus that were stated in “Accounting Estimates Relating to the Spread of the Novel Coronavirus (COVID-19)” from “Additional Information” of the annual report for the fiscal year ended March 31, 2020.

Consolidated Balance Sheets

*1 Amount of allowance for doubtful accounts directly deducted from the amount of assets

	Millions of yen		Thousands of
	March 31, 2020	September 30, 2020	U.S. dollars
Investments and other assets.....	¥ 106	¥ 112	\$ 1,057

2 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of
	March 31, 2020	September 30, 2020	U.S. dollars
Discounted notes receivable-trade.....	¥ 33	¥ 26	\$ 243

*3 Financial covenants

Consolidated fiscal year ended March 31, 2020

Of short-term borrowings and long-term borrowings (including borrowings scheduled for repayment within one year), ¥58,091 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) ¥20,589 million; or (ii) 75% 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, 2020

Of short-term borrowings and long-term borrowings (including borrowings scheduled for repayment within one year), ¥60,021 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) ¥20,589 million; or (ii) 75% 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.
- (4) The total amount of interest-bearing debt recorded in the consolidated balance sheet as of the close of each fiscal year divided by the amount of total net assets less the amount of foreign currency translation adjustment shall be maintained at 2.5 or less for the fiscal year ending March 31, 2021, 2.3 or less for the fiscal year ending March 31, 2022, 2.1 or less for the fiscal year ending March 31, 2023, 1.9 or less for the fiscal year ending March 31, 2024, and 1.7 or less for the fiscal year ending March 31, 2025.

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, 2019	Six months ended September 30, 2020	Six months ended September 30, 2020	Six months ended September 30, 2020
Salaries and allowances	¥ 1,015	¥ 1,048	\$	9,905
Provision for bonuses	184	171		1,612
Provision of allowance for doubtful accounts	(1)	5		46
Retirement benefit expenses	49	52		493
Research and development expenses	501	368		3,482

Consolidated Statements of Cash Flows

*1 The relationship between cash and cash equivalents as of September 30, 2020, 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, 2019	Six months ended September 30, 2020	Six months ended September 30, 2020	Six months ended September 30, 2020
Cash and deposits	¥ 12,706	¥ 14,373	\$	135,875
Time deposits with tenors exceeding 3 months	(259)	(247)		(2,331)
Cash and cash equivalents	¥ 12,447	¥ 14,126	\$	133,544

Total Shareholders' Equity

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 fell 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

Six months ended September 30, 2020

1 Cash dividends paid

Resolution	
Board meeting on May 25, 2020	
Type of shares	Common shares
Total dividends (Millions of yen)	393
Dividend per share (Yen).....	15.00
Record date.....	March 31, 2020
Effective date.....	June 10, 2020
Dividend resource.....	Retained earnings

2 Of the dividends whose record date falls during the six months ended September 30, 2020, those dividends whose effective date will fall after the last day of the second 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 is shown below:

Item	Six months ended September 30, 2019	Six months ended September 30, 2020
Profit per share (Yen)	90.40	7.44
Basis for calculation		
Profit attributable to owners of parent (Millions of yen)	2,366	195
Amounts not attributable to common shareholders (Millions of yen)	—	—
Profit attributable to owners of parent pertaining to common shares (Millions of yen)	2,366	195
Average number of common shares outstanding for the period (Shares)	26,173,895	26,173,893

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, 2021, the Board of Directors passed a resolution at its meeting on November 6, 2020 to refrain from paying them.

(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.