

**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, 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 third quarter and nine months ended December 31, 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 February 12, 2021.

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, 2020 – December 31, 2020), and those for the nine months ended December 31, 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 U.S. dollars	
	March 31, 2020	December 31, 2020	December 31, 2020	December 31, 2020
Assets				
Current assets				
Cash and deposits	¥ 13,890	¥ 13,928	\$	134,573
Notes and accounts receivable-trade	24,448	*2 29,004	*2	280,236
Merchandise and finished goods	5,148	5,866		56,677
Work in process	5,505	5,980		57,779
Raw materials and supplies	8,302	8,423		81,386
Other	2,559	2,587		24,984
Allowance for doubtful accounts	(135)	(138)		(1,335)
Total current assets	<u>59,717</u>	<u>65,650</u>		<u>634,300</u>
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	23,205	22,461		217,013
Machinery, equipment and vehicles, net	29,176	30,127		291,081
Land	1,488	1,488		14,380
Construction in progress	4,909	6,870		66,372
Other, net	4,219	3,708		35,833
Total property, plant and equipment	<u>62,997</u>	<u>64,654</u>		<u>624,679</u>
Intangible assets	828	885		8,554
Investments and other assets	*1 5,696	*1 5,669	*1	54,765
Total non-current assets	<u>69,521</u>	<u>71,208</u>		<u>687,998</u>
Total assets	¥ <u><u>129,238</u></u>	¥ <u><u>136,858</u></u>	\$	<u><u>1,322,298</u></u>

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2020	December 31, 2020	December 31, 2020	December 31, 2020
Liabilities				
Current liabilities				
Notes and accounts payable-trade	¥ 17,732	*2 ¥ 19,954	*2 \$	192,791
Short-term borrowings	*4 9,686	*4 16,303	*4	157,521
Current portion of long-term borrowings	*4 15,544	*4 12,749	*4	123,179
Income taxes payable	204	158		1,527
Provision for bonuses	688	487		4,708
Provision for bonuses for directors and other officers	40	—		—
Other	8,171	8,656		83,622
Total current liabilities	52,065	58,307		563,348
Non-current liabilities				
Long-term borrowings	*4 40,479	*4 41,183	*4	397,899
Provision for retirement benefits for directors	217	216		2,086
Retirement benefit liability	2,696	2,711		26,197
Other	1,299	1,063		10,280
Total non-current liabilities	44,691	45,173		436,462
Total liabilities	96,756	103,480		999,810
Net assets				
Shareholders' equity				
Share capital	12,889	12,889		124,526
Capital surplus	6,464	6,464		62,459
Retained earnings	13,160	14,275		137,923
Treasury shares	(397)	(397)		(3,835)
Total shareholders' equity	32,116	33,231		321,073
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	(8)	1		8
Deferred gains or losses on hedges	30	183		1,764
Foreign currency translation adjustment	375	(3)		(27)
Remeasurements of defined benefit plans	(225)	(197)		(1,901)
Total accumulated other comprehensive income	172	(16)		(156)
Non-controlling interests	194	163		1,571
Total net assets	32,482	33,378		322,488
Total liabilities and net assets	¥ 129,238	¥ 136,858	\$	1,322,298

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income
For the Nine Months Ended December 31, 2020
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of
	Nine months ended December 31, 2019	Nine months ended December 31, 2020	U.S. dollars Nine months ended December 31, 2020
Net sales	¥ 89,814	¥ 85,687	\$ 827,898
Cost of sales	76,037	73,847	713,502
Gross profit	13,777	11,840	114,396
Selling, general and administrative expenses	8,814	7,699	74,382
Operating profit	4,963	4,141	40,014
Non-operating income			
Interest income	67	41	401
Dividend income	6	4	42
Subsidy income	175	432	4,174
Foreign exchange gains	53	—	—
Other	364	207	1,989
Total non-operating income	665	684	6,606
Non-operating expenses			
Interest expenses	526	471	4,554
Commission for syndicated loans	24	620	5,990
Foreign exchange losses	—	1,756	16,967
Other	226	90	869
Total non-operating expenses	776	2,937	28,380
Ordinary profit	4,852	1,888	18,240
Extraordinary income			
Gain on sales of non-current assets	0	3	29
Gain on sales of investment securities	4	—	—
Gain on reversal of loss on valuation of investment securities	327	—	—
Total extraordinary income	331	3	29
Extraordinary losses			
Loss on sales and retirement of non-current assets	132	70	679
Loss on disaster	—	30	288
Loss on sales of investment securities	0	—	—
Business restructuring expenses	210	305	2,947
Provision of allowance for doubtful accounts	—	1	8
Total extraordinary losses	342	406	3,922
Profit before income taxes	4,841	1,485	14,347
Income taxes	794	239	2,313
Profit	4,047	1,246	12,034
Profit (loss) attributable to non-controlling interests	10	(21)	(211)
Profit attributable to owners of parent	¥ 4,037	¥ 1,267	\$ 12,245

Consolidated Statements of Comprehensive Income
For the Nine Months Ended December 31, 2020
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars	
	Nine months ended December 31, 2019	Nine months ended December 31, 2020	Nine months ended December 31, 2020	Nine months ended December 31, 2020
Profit	¥ 4,047	¥ 1,246	\$	12,034
Other comprehensive income				
Valuation difference on available-for-sale securities	34	9		90
Deferred gains or losses on hedges	(111)	152		1,473
Foreign currency translation adjustment	(2,021)	(387)		(3,743)
Remeasurements of defined benefit plans, net of tax	33	28		272
Total other comprehensive income	(2,065)	(198)		(1,908)
Comprehensive income	1,982	1,048		10,126
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent	¥ 1,969	¥ 1,079	\$	10,425
Comprehensive income attributable to non-controlling interests	13	(31)		(299)

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 ¥103.50 to \$1, the approximate rate of exchange at December 31, 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 U.S. dollars
	March 31, 2020	December 31, 2020	December 31, 2020
Investments and other assets	¥ 106	¥ 112	\$ 1,080

*2 Accounting treatment for notes maturing on December 31, 2020

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, 2020.

	Millions of yen		Thousands of U.S. dollars
	March 31, 2020	December 31, 2020	December 31, 2020
Notes receivable-trade	¥ —	¥ 37	\$ 356
Notes payable-trade	¥ —	¥ 38	\$ 368

3 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2020	December 31, 2020	December 31, 2020
Discounted notes receivable-trade	¥ 33	¥ 38	\$ 367

*4 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.

Nine months ended December 31, 2020

Of short-term borrowings and long-term borrowings (including borrowings scheduled for repayment within one year), ¥58,827 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 Cash Flows

No consolidated statements of cash flows were prepared for the nine months ended December 31, 2020. Depreciation (including amortization related to intangible assets, excluding goodwill) and amortization of goodwill for the nine months ended December 31, 2020, are shown below:

	Millions of yen		Thousands of
	Nine months ended December 31, 2019	Nine months ended December 31, 2020	U.S. dollars
Depreciation	¥ 5,104	¥ 5,510	\$ 53,238
Amortization of goodwill	10	30	294

Total Shareholders' Equity

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 fell after the last day of the third quarter

Not applicable

Nine months ended December 31, 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 nine months ended December 31, 2020, 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 is shown below:

Item	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Profit per share (Yen)	154.25	48.42
Basis for calculation		
Profit attributable to owners of parent (Millions of yen)	4,037	1,267
Amounts not attributable to common shareholders (Millions of yen)	—	—
Profit attributable to owners of parent pertaining to common shares (Millions of yen)	4,037	1,267
Average number of common shares outstanding for the period (Shares)	26,173,894	26,173,881

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.