

**Quarterly Consolidated Financial Statements
Included in the Quarterly Report
Meiko Electronics Co., Ltd.
and its consolidated subsidiaries**

For the first quarter and three months ended June 30, 2021

(ENGLISH TRANSLATION)

NOTE:

This document is an excerpt translation of the Quarterly Report (“Shihanki Houkokusho”) of Meiko Electronics Co., Ltd. (the “Company”), for the first quarter and three months ended June 30, 2021, 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 August 11, 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 first quarter (April 1, 2021 – June 30, 2021), and those for the three months ended June 30, 2021, 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, 2021	June 30, 2021	June 30, 2021	
Assets				
Current assets				
Cash and deposits	¥ 12,371	¥ 13,575	\$ 122,728	
Notes and accounts receivable-trade	29,504	31,701	286,601	
Merchandise and finished goods	6,254	8,475	76,622	
Work in process	6,954	6,798	61,458	
Raw materials and supplies	8,951	9,404	85,015	
Other	2,451	3,218	29,098	
Allowance for doubtful accounts	(147)	(151)	(1,361)	
Total current assets	66,338	73,020	660,161	
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	23,672	23,780	214,986	
Machinery, equipment and vehicles, net	32,562	34,112	308,401	
Land	1,488	1,488	13,455	
Construction in progress	7,258	6,148	55,586	
Other, net	3,807	3,394	30,683	
Total property, plant and equipment	68,787	68,922	623,111	
Intangible assets	928	914	8,263	
Investments and other assets	*1 5,987	*1 6,025	*1 54,465	
Total non-current assets	75,702	75,861	685,839	
Total assets	¥ 142,040	¥ 148,881	\$ 1,346,000	

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2021		June 30, 2021		June 30, 2021	
Liabilities						
Current liabilities						
Notes and accounts payable-trade	¥	20,466	¥	21,474	\$	194,140
Short-term borrowings	*3	20,834	*3	26,041	*3	235,434
Current portion of long-term borrowings	*3	8,304	*3	7,361	*3	66,551
Income taxes payable		225		412		3,723
Provision for bonuses		733		448		4,048
Provision for bonuses for directors and other officers		43		—		—
Other		8,577		9,195		83,131
Total current liabilities		59,182		64,931		587,027
Non-current liabilities						
Long-term borrowings	*3	38,226	*3	37,976	*3	343,333
Provision for retirement benefits for directors		216		216		1,952
Retirement benefit liability		2,767		2,771		25,055
Other		1,038		1,094		9,886
Total non-current liabilities		42,247		42,057		380,226
Total liabilities		101,429		106,988		967,253
Net assets						
Shareholders' equity						
Share capital		12,889		12,889		116,522
Capital surplus		6,464		6,652		60,144
Retained earnings		17,649		18,939		171,224
Treasury shares		(745)		(1,331)		(12,037)
Total shareholders' equity		36,257		37,149		335,853
Accumulated other comprehensive income						
Valuation difference on available-for-sale securities		39		36		329
Deferred gains or losses on hedges		250		103		931
Foreign currency translation adjustment		4,128		4,677		42,284
Remeasurements of defined benefit plans		(256)		(243)		(2,194)
Total accumulated other comprehensive income		4,161		4,573		41,350
Non-controlling interests		193		171		1,544
Total net assets		40,611		41,893		378,747
Total liabilities and net assets	¥	142,040	¥	148,881	\$	1,346,000

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income
For the Three Months Ended June 30, 2021
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Three months ended June 30, 2020	Three months ended June 30, 2021	Three months ended June 30, 2021
Net sales	¥ 24,343	¥ 33,280	\$ 300,873
Cost of sales	21,345	27,623	249,729
Gross profit	2,998	5,657	51,144
Selling, general and administrative expenses	2,502	3,280	29,652
Operating profit	496	2,377	21,492
Non-operating income			
Interest income	16	10	94
Dividend income	2	3	25
Insurance claim income	—	76	685
Subsidy income	25	34	306
Other	52	35	318
Total non-operating income	95	158	1,428
Non-operating expenses			
Interest expenses	150	162	1,468
Foreign exchange losses	252	109	989
Other	36	62	560
Total non-operating expenses	438	333	3,017
Ordinary profit	153	2,202	19,903
Extraordinary income			
Gain on sale of non-current assets	—	0	3
Gain on sale of investment securities	—	10	89
Total extraordinary income	—	10	92
Extraordinary losses			
Loss on sale and retirement of non-current assets	23	52	465
Loss on disaster	—	7	66
Business restructuring expenses	91	—	—
Provision of allowance for doubtful accounts	0	0	3
Total extraordinary losses	114	59	534
Profit before income taxes	39	2,153	19,461
Income taxes	138	363	3,279
Profit (loss)	(99)	1,790	16,182
Loss attributable to non-controlling interests	(21)	(21)	(195)
Profit (loss) attributable to owners of parent	¥ (78)	¥ 1,811	\$ 16,377

Consolidated Statements of Comprehensive Income
For the Three Months Ended June 30, 2021
Meiko Electronics Co., Ltd. and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Three months ended June 30, 2020	Three months ended June 30, 2021	Three months ended June 30, 2021
Profit (loss)	¥ (99)	¥ 1,790	\$ 16,182
Other comprehensive income			
Valuation difference on available-for-sale securities	13	(3)	(29)
Deferred gains or losses on hedges	66	(147)	(1,331)
Foreign currency translation adjustment	(614)	549	4,965
Remeasurements of defined benefit plans, net of tax	9	13	117
Total other comprehensive income	(526)	412	3,722
Comprehensive income	(625)	2,202	19,904
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥ (602)	¥ 2,224	\$ 20,102
Comprehensive income attributable to non-controlling interests	(23)	(22)	(198)

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 ¥110.61 to \$1, the approximate rate of exchange at June 30, 2021. 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.

Changes in Accounting Policies

(Application of Accounting Standard for Revenue Recognition, etc.)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. have been applied since the beginning of the first quarter ended June 30, 2021. Accordingly, revenue is recognized at the time control of the promised goods or services is transferred to the customer and at the price expected to be received in exchange for said goods or services. By applying the alternative treatment set forth in paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition, if the period from the time of shipment to the time of transfer of control of said goods or services is a normal period for domestic sales of goods or services, revenue is recognized at the time of shipment.

The application of the Accounting Standard for Revenue Recognition, etc. is carried out in accordance with the transitional treatment set forth in the proviso of paragraph 84 of the Accounting Standard for Revenue Recognition. Therefore, the cumulative impact of when the new accounting policies are applied retrospectively to before the beginning of the first quarter ended June 30, 2021, is added to or deducted from retained earnings at the beginning of the quarter, and the new accounting policies are applied to said beginning balance.

This has no impact on the profit/loss of the three months ended June 30, 2021. Furthermore, this has no impact on the beginning balance of retained earnings.

In accordance with the transitional treatment set forth in paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), the breakdown information of revenue generated from contracts with customers pertaining to the three months ended June 30, 2020, is not stated.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), etc. have been applied since the beginning of the first quarter ended June 30, 2021. Accordingly, new accounting policies set forth by said Accounting Standard, etc. will be applied in the future in accordance with the transitional treatment set forth in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). This has no impact on quarterly consolidated financial statements.

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, 2022, and multiplying profit before income taxes for the period under review by this estimated effective tax rate.

Additional Information

(Accounting Estimates Relating to the Spread of the Novel Coronavirus (COVID-19))

There are no material changes in assumptions including the future spread and timing of subsidence of COVID-19 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, 2021.

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, 2021	June 30, 2021	June 30, 2021
Investments and other assets.....	¥ 112	¥ 113	\$ 1,020

2 Discounted notes receivable-trade are summarized below:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2021	June 30, 2021	June 30, 2021
Discounted notes receivable-trade.....	¥ 45	¥ 17	\$ 158

*3 Financial covenants

Consolidated fiscal year ended March 31, 2021

Of short-term borrowings and long-term borrowings (including borrowings scheduled for repayment within one year), ¥54,753 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 ended 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.

Three months ended June 30, 2021

Of short-term borrowings and long-term borrowings (including borrowings scheduled for repayment within one year), ¥56,211 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 ended 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 three months ended June 30, 2021. Depreciation (including amortization related to intangible assets, excluding goodwill) and amortization of goodwill for the three months ended June 30, 2021, are shown below:

	Millions of yen		Thousands of U.S. dollars	
	Three months ended June 30, 2020	Three months ended June 30, 2021	Three months ended June 30, 2021	
Depreciation	¥ 1,811	¥ 1,958	\$ 17,698	
Amortization of goodwill	10	10	92	

Total Shareholders' Equity

Three months ended June 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 three months ended June 30, 2020, those dividends whose effective date fell after the last day of the first quarter

Not applicable

Three months ended June 30, 2021

1 Cash dividends paid

Resolution

Board meeting on May 24, 2021

Type of shares Common shares

Total dividends (Millions of yen) 521

Dividend per share (Yen) 20.00

Record date March 31, 2021

Effective date June 10, 2021

Dividend resource Retained earnings

2 Of the dividends whose record date falls during the three months ended June 30, 2021, those dividends whose effective date will fall after the last day of the first quarter

Not applicable

3 Significant changes in shareholders' equity

In accordance with a resolution of the Board of Directors on March 22, 2021, the Company acquired 136,200 treasury shares during the three months ended June 30, 2021. In accordance with a resolution of the Board of Directors on the same day, it also disposed of 109,500 treasury shares through a third-party allotment to the Custody Bank of Japan, Ltd. (Trust Account E) on April 16, 2021, following the introduction of an Employee Stock Ownership Plan (J-ESOP). The 109,500 Company shares remaining in the trust have been booked as treasury shares. This has resulted in increases of ¥188 million in capital surplus and of ¥586 million in treasury shares to ¥6,652 million and ¥1,331 million, respectively, as of June 30, 2021.

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.

Revenue Recognition

The regional breakdown of revenue generated from contracts with customers is as follows.

Millions of yen	
	Three months ended June 30, 2021
Japan	11,461
China	8,006
Vietnam	3,912
Asia	5,370
North America	3,497
Europe	1,034
Revenue generated from contracts with customers	33,280
Other revenue	—
Sales to external customers	33,280

Per Share Information

The basis for calculating profit or loss per share is shown below:

Item	Three months ended June 30, 2020	Three months ended June 30, 2021
Profit (loss) per share (Yen)	(2.97)	69.67
Basis for calculation		
Profit (loss) attributable to owners of parent (Millions of yen)	(78)	1,811
Amounts not attributable to common shareholders (Millions of yen)	—	—
Profit (loss) attributable to owners of parent pertaining to common shares (Millions of yen)	(78)	1,811
Average number of common shares outstanding for the period (Shares)	26,173,893	26,000,708

Notes 1. Diluted profit per share is not disclosed, as there were no diluted shares.

2. Due to the introduction of the Employee Stock Ownership Plan (J-ESOP), the average number of common shares outstanding for the period that was used to calculate profit per share has been calculated by including Company shares held by the Custody Bank of Japan, Ltd. (Trust Account E) in deductible treasury shares. The average number of treasury shares for the period that were deducted to calculate profit per share was 109,500 for the three months ended June 30, 2021.

Significant Subsequent Events

Not applicable

2 Other

(1) Dividends of surplus

The Board of Directors passed a resolution at its meeting on May 24, 2021 to pay year-end dividends to shareholders who are recorded in the shareholder registry as of March 31, 2021 as follows:

- | | |
|--|-----------------|
| 1) Total dividends | 521 million yen |
| 2) Dividend per share | 20.00 yen |
| 3) Effective date of claim for payment and payment commencement date | June 10, 2021 |

(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. had been 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. Said demand was dismissed on March 17, 2021. Hohsen Corp. has appealed against the decision, and the case is currently pending.

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.