

Non-consolidated Financial Statements for the Fiscal Year Ended March 31, 2013

| | | | |
|--|--|------------|---|
| Company name: | Zuken Elmic, Inc. | Listing: | TSE Mothers Market |
| Stock code: | 4770 | URL: | http://www.elwsc.co.jp/ |
| President: | Joe Asakura | | |
| Contact: | Shinichi Eguchi, Manager, Administration | Telephone: | +81-(0)-45-624-8111 |
| Scheduled date of Annual General Meeting of Shareholders : | June 25, 2013 | | |
| Scheduled date of filing of Quarterly Report | : June 25, 2013 | | |
| Scheduled date of payment of dividend | : — | | |

(1) Balance Sheets

| | (Thousands of yen) | |
|--|---------------------------------|---------------------------------|
| | FY2011 (As of Mar. 31, 2012) | FY2012 (As of Mar. 31, 2013) |
| Assets | | |
| Current assets | | |
| Cash and deposits | 274,998 | 304,650 |
| Notes receivable-trade | 20,223 | 45,941 |
| Accounts receivable - trade | 437,187 | 373,050 |
| Short-term investment securities | 63,069 | 63,115 |
| Merchandise and finished goods | 9,812 | 14,172 |
| Work in process | 39,346 | 16,553 |
| Raw materials | 1,610 | 930 |
| Prepaid expenses | 51,934 | 19,272 |
| Accounts receivable - other | 498 | 2,936 |
| Other current assets | 1,090 | 1,554 |
| Allowance for doubtful accounts | (513) | (443) |
| Total current assets | 899,257 | 841,735 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings | 23,447 | 23,447 |
| Accumulated depreciation | (12,141) | (14,191) |
| Buildings (net) | 11,306 | 9,256 |
| Tools, furniture and fixtures | 127,051 | 126,704 |
| Accumulated depreciation | (119,566) | (124,015) |
| Tools, furniture and fixtures (net) | 7,485 | 2,688 |
| Total property, plant and equipment | 18,792 | 11,945 |

| | (Thousands of yen) | |
|---|---------------------------------|---------------------------------|
| | FY2011 (As of Mar. 31, 2012) | FY2012 (As of Mar. 31, 2013) |
| Intangible assets | | |
| Right of trademark | 515 | 709 |
| Software | 26,484 | 19,551 |
| Telephone subscription right | 5,164 | 5,164 |
| Software in progress | 410 | — |
| Total intangible assets | 32,574 | 25,425 |
| Investments and other assets | | |
| Investment securities | 12,310 | 13,010 |
| Real estate for investment | 69,244 | 7,780 |
| Lease and guarantee deposits | 3,785 | 3,867 |
| Membership | 4,850 | 50 |
| Long-term prepaid expenses | 485 | — |
| Long-term accounts receivable - other | 2,498 | — |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | — | 7,298 |
| Allowance for doubtful accounts | (6,649) | (6,649) |
| Total investments and other assets | 86,523 | 25,356 |
| Total noncurrent assets | 137,891 | 62,726 |
| Total assets | 1,037,148 | 904,461 |

| | (Thousands of yen) | |
|---|---------------------------------|---------------------------------|
| | FY2011 (As of Mar. 31, 2012) | FY2012 (As of Mar. 31, 2013) |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 86,955 | 90,866 |
| Accounts payable - other | 20,740 | 19,605 |
| Accrued expenses | 13,570 | 10,484 |
| Income taxes payable | 8,278 | 6,982 |
| Accrued consumption taxes | 25,793 | 5,904 |
| Deposits received | 10,122 | 8,098 |
| Unearned revenue | 62,303 | 18,634 |
| Provision for bonuses | 50,771 | 46,440 |
| Provision for product warranties | 53,569 | 43,439 |
| Provision for loss on litigation | — | 72,320 |
| Other | — | 800 |
| Total current liabilities | 332,105 | 323,576 |
| Noncurrent liabilities | | |
| Long-term accounts payable-other | 3,431 | 3,431 |
| Guarantee deposited | 820 | 190 |
| Long-term unearned revenue | 744 | 264 |
| Deferred tax liabilities | 1,206 | 1,149 |
| Provision for retirement benefits | 2,998 | 2,998 |
| Asset retirement obligations | 5,199 | 5,316 |
| Total noncurrent liabilities | 14,401 | 13,349 |
| Total liabilities | 346,506 | 336,926 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,202,036 | 1,202,036 |
| Capital surplus | | |
| Legal capital surplus | 81,886 | 81,886 |
| Total capital surplus | 81,886 | 81,886 |
| Retained earnings | | |
| Other retained earnings | | |
| Retained earnings brought forward | (592,731) | (716,483) |
| Total retained earnings | (592,731) | (716,483) |
| Total shareholders' equity | 691,191 | 567,438 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | (550) | 96 |
| Total valuation and translation adjustments | (550) | 96 |
| Total net assets | 690,641 | 567,535 |
| Total liabilities and net assets | 1,037,148 | 904,461 |

(2) Statements of Income

(Thousands of yen)

| | FY2011 (Apr. 1, 2011 – Mar. 31, 2012) | FY2012 (Apr. 1, 2012 – Mar. 31, 2013) |
|--|--|--|
| Net sales | | |
| Net sales of finished goods | 1,460,420 | 1,459,780 |
| Net sales of goods | 38,247 | 50,001 |
| Total net sales | 1,498,667 | 1,509,782 |
| Cost of sales | | |
| Cost of finished goods sold | | |
| Beginning finished goods | 38,373 | 9,812 |
| Cost of products manufactured | 813,977 | 891,679 |
| Amortization of software | 7,550 | 8,363 |
| Total | 859,900 | 909,854 |
| Ending finished goods | 9,812 | 7,522 |
| Total cost of finished goods sold | 850,088 | 902,332 |
| Cost of goods sold | | |
| Beginning goods | — | — |
| Cost of purchased goods | 31,359 | 44,103 |
| Total | 31,359 | 44,103 |
| Ending goods | — | 6,650 |
| Total cost of goods sold | 31,359 | 37,453 |
| Total cost of sales | 881,448 | 939,786 |
| Gross profit | 617,219 | 569,996 |
| Selling, general and administrative expenses | | |
| Advertising expenses | 12,339 | 16,817 |
| Promotion expenses | 59,847 | 89,333 |
| Directors' compensations | 43,725 | 42,465 |
| Wages and allowances | 173,173 | 153,128 |
| Welfare expenses | 33,265 | 30,096 |
| Bonuses | 13,616 | 15,403 |
| Provision for bonuses | 19,645 | 17,401 |
| Traveling and transportation expenses | 29,042 | 23,540 |
| Rent expenses | 31,989 | 29,193 |
| Depreciation | 10,886 | 9,177 |
| Research and development expenses | 51,484 | 66,541 |
| Compensations | 25,008 | 27,684 |
| Training expenses | 43,302 | 46,944 |
| Other expenses | 45,785 | 50,234 |
| Total Selling, general and administrative expenses | 593,110 | 617,962 |
| Operating (loss) income | 24,109 | (47,965) |

| | (Thousands of yen) | |
|--|--------------------------------|--------------------------------|
| | FY2011 | FY2012 |
| | (Apr. 1, 2011 – Mar. 31, 2012) | (Apr. 1, 2012 – Mar. 31, 2013) |
| Non-operating income | | |
| Interest income | 41 | 107 |
| Interest on securities | 2,938 | 57 |
| Dividends income | 260 | 300 |
| Subsidy income | 8,485 | 1,833 |
| Rent income | 4,645 | 1,740 |
| Reversal of allowance for doubtful accounts | 526 | 70 |
| Interest on refund | 68 | 723 |
| Others income | 1,328 | 269 |
| Total non-operating income | 18,294 | 5,102 |
| Non-operating expenses | | |
| Loss on investments in partnership | 3,232 | — |
| Foreign exchange losses | 2,001 | 2,230 |
| Rent expenses | 2,950 | 1,329 |
| Total non-operating expenses | 8,184 | 3,559 |
| Ordinary (loss) income | 34,219 | (46,423) |
| Extraordinary income | | |
| Gain on sales of real estate for investment | — | 2,981 |
| Total extraordinary income | — | 2,981 |
| Extraordinary loss | | |
| Loss on retirement of noncurrent assets | 249 | 0 |
| Loss on sales of investment securities | 80,423 | — |
| Provision of allowance for doubtful accounts | 2,724 | — |
| Impairment loss | — | 4,321 |
| Provision for loss on litigation | — | 72,320 |
| Total extraordinary losses | 83,397 | 76,641 |
| Net loss before income taxes | (49,178) | (120,083) |
| Income taxes-current | 3,780 | 3,780 |
| Income taxes-deferred | (228) | (110) |
| Total income taxes | 3,551 | 3,669 |
| Net loss | (52,730) | (123,752) |

Manufacturing Statement

| | (Thousands of yen) | |
|---|--------------------------------|--------------------------------|
| | FY2011 | FY2012 |
| | (Apr. 1, 2011 – Mar. 31, 2012) | (Apr. 1, 2012 – Mar. 31, 2013) |
| Materials cost | 6,956 | 8,314 |
| Labor cost | 358,819 | 381,914 |
| Other costs | 634,277 | 692,650 |
| Total manufacturing cost | 1,000,053 | 1,082,878 |
| Beginning work in process | 12,749 | 39,346 |
| Total | 1,012,803 | 1,122,225 |
| Ending work in process | 39,346 | 16,553 |
| Transfer to other accounts | 159,479 | 213,992 |
| Cost of goods manufactured for the period | 813,977 | 891,679 |

(3) Statements of Changes in Net Assets

(Thousands of yen)

| | FY2011 (Apr. 1, 2011 – Mar. 31, 2012) | FY2012 (Apr. 1, 2012 – Mar. 31, 2013) |
|--|--|--|
| Shareholders' equity | | |
| Capital stock | | |
| Balance as of Mar.31, 2012 | 1,202,036 | 1,202,036 |
| Changes of items during the period | | |
| Total changes of items during the period | — | — |
| Balance as of Mar.31, 2013 | 1,202,036 | 1,202,036 |
| Capital surplus | | |
| Legal capital surplus | | |
| Balance as of Mar.31, 2012 | 81,886 | 81,886 |
| Changes of items during the period | | |
| Total changes of items during the period | — | — |
| Balance as of Mar.31, 2013 | 81,886 | 81,886 |
| Total capital surplus | | |
| Balance as of Mar.31, 2012 | 81,886 | 81,886 |
| Changes of items during the period | | |
| Total changes of items during the period | — | — |
| Balance as of Mar.31, 2013 | 81,886 | 81,886 |
| Retained earnings | | |
| Other retained earnings | | |
| Retained earnings brought forward | | |
| Balance as of Mar.31, 2012 | (540,000) | (592,731) |
| Changes of items during the period | | |
| Net loss | (52,730) | (123,752) |
| Total changes of items during the period | (52,730) | (123,752) |
| Balance as of Mar.31, 2013 | (592,731) | (716,483) |
| Total retained earnings | | |
| Balance as of Mar.31, 2012 | (540,000) | (592,731) |
| Changes of items during the period | | |
| Net loss | (52,730) | (123,752) |
| Total changes of items during the period | (52,730) | (123,752) |
| Balance as of Mar.31, 2013 | (592,731) | (716,483) |
| Total shareholders' equity | | |
| Balance as of Mar.31, 2012 | 743,921 | 691,191 |
| Changes of items during the period | | |
| Net loss | (52,730) | (123,752) |
| Total changes of items during the period | (52,730) | (123,752) |
| Balance as of Mar.31, 2013 | 691,191 | 567,438 |

(Thousands of yen)

| | FY2011 (Apr. 1, 2011 – Mar. 31, 2012) | FY2012 (Apr. 1, 2012 – Mar. 31, 2013) |
|---|--|--|
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | | |
| Balance as of Mar.31, 2012 | 1,434 | (550) |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | (1,984) | 646 |
| Total changes of items during the period | (1,984) | 646 |
| Balance as of Mar.31, 2013 | (550) | 96 |
| Total valuation and translation adjustments | | |
| Balance as of Mar.31, 2012 | 1,434 | (550) |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | (1,984) | 646 |
| Total changes of items during the period | (1,984) | 646 |
| Balance as of Mar.31, 2013 | (550) | 96 |
| Net assets | | |
| Balance as of Mar.31, 2012 | 745,356 | 690,641 |
| Changes of items during the period | | |
| Net loss | (52,730) | (123,752) |
| Net changes of items other than shareholders' equity | (1,984) | 646 |
| Total changes of items during the period | (54,715) | (123,106) |
| Balance as of Mar.31, 2013 | 690,641 | 567,535 |

(4) Statements of Cash Flows

(Thousands of yen)

| | FY2011 (Apr. 1, 2011 – Mar. 31, 2012) | FY2012 (Apr. 1, 2012 – Mar. 31, 2013) |
|--|--|--|
| Cash provided by (used in) operating activities | | |
| Income (loss) before income taxes | (49,178) | (120,083) |
| Depreciation and amortization | 26,658 | 21,711 |
| Impairment loss | — | 4,321 |
| Increase (decrease) in allowance for doubtful accounts | 2,198 | (70) |
| Increase (decrease) in provision for bonuses | 12,412 | (4,330) |
| Increase (decrease) in provision for product warranties | 13,278 | (10,130) |
| Increase (decrease) in provision for loss on litigation | — | 72,320 |
| Interest and dividends income | (3,239) | (465) |
| Rent income | (4,645) | (1,740) |
| Rent expenses | 2,950 | 1,329 |
| Loss (gain) on investments in partnership | 3,232 | — |
| Foreign exchange losses (gains) | 33 | (408) |
| Loss on retirement of noncurrent assets | 249 | 0 |
| Loss (gain) on sales of real estate for investment | — | (2,981) |
| Loss (gain) on sales of investment securities | 80,423 | — |
| Decrease (increase) in notes and accounts receivable-trade | (131,552) | 37,731 |
| Decrease (increase) in inventories | 4,208 | 19,112 |
| Increase (decrease) in notes and accounts payable-trade | 22,403 | 3,910 |
| Decrease (increase) in prepaid expenses | (11,406) | 32,661 |
| Increase (decrease) in unearned revenue | 7,443 | (43,668) |
| Decrease (increase) in consumption taxes refund receivable | 4,945 | — |
| Increase (decrease) in accrued consumption taxes | 25,793 | (19,889) |
| Decrease (increase) in other assets | 29,408 | (2,378) |
| Increase (decrease) in other liabilities | (33,316) | (6,563) |
| Subtotal | 2,300 | (19,611) |
| Interest and dividends income received | 2,659 | 465 |
| Payments for extra retirement payments | (22,799) | — |
| Income taxes paid | (1,529) | (3,329) |
| Net cash provided by (used in) operating activities | (19,369) | (22,474) |

(Thousands of yen)

| | FY2011 (Apr. 1, 2011 – Mar. 31, 2012) | FY2012 (Apr. 1, 2012 – Mar. 31, 2013) |
|---|--|--|
| Cash provided by (used in) investing activities | | |
| Purchase of property, plant and equipment | (1,996) | (540) |
| Purchase of intangible assets | (5,904) | (7,714) |
| Proceeds from sales of property, plant and equipment | 30 | — |
| Proceeds from sales of investment securities | 18,600 | — |
| Proceeds from dividends on investments in partnership | 66,758 | — |
| Proceeds from sales of investments in real estates | — | 59,325 |
| Proceeds from rental of real estate for investment | 4,645 | 1,740 |
| Payment from rental of real estate for investment | (1,159) | (530) |
| Collection of loans receivable | — | 197 |
| Proceeds from collection of lease and guarantee deposits | 3,537 | 165 |
| Payments for lease and guarantee deposits | (103) | (247) |
| Other, net | 801 | (630) |
| Net cash provided by (used in) investing activities | 85,209 | 51,765 |
| Effect of exchange rate change on cash and cash equivalents | (33) | 408 |
| Net increase (decrease) in cash and cash equivalents | 65,806 | 29,698 |
| Cash and cash equivalents at beginning of period | 272,260 | 338,067 |
| Cash and cash equivalents at end of period | 338,067 | 367,766 |