

Non-consolidated Financial Statements
for the First Half of the Fiscal Year Ending March 31, 2015

| | | | |
|---------------|---|------------|---|
| Company name: | Zuken Elmic, Inc. | Listing: | TSE Second(2nd) Section |
| Stock code: | 4770 | URL: | http://www.elwsc.co.jp/ |
| President: | Joe Asakura | Telephone: | +81-(0)-45-624-8111 |
| Contact: | Shinichi Eguchi, Director, Administration | | |

(1) Balance Sheets

(Thousands of yen)

| | FY2013 selected data (As of Mar. 31, 2014) | First half of FY2014 (As of Sep. 30, 2014) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 296,293 | 336,424 |
| Notes and accounts receivable - trade | 303,834 | 292,112 |
| Short-term investment securities | 63,150 | 63,166 |
| Merchandise and finished goods | 12,061 | 11,048 |
| Work in process | 5,994 | 11,892 |
| Raw materials | 539 | 730 |
| Prepaid expenses | 54,079 | 60,901 |
| Other current assets | 1,950 | 7,452 |
| Allowance for doubtful accounts | (240) | (100) |
| Total current assets | 737,663 | 783,629 |
| Noncurrent assets | | |
| Property, plant and equipment | 12,974 | 14,619 |
| Intangible assets | 19,752 | 18,215 |
| Investments and other assets | | |
| Investment securities | 4,631 | 4,631 |
| Long-term prepaid expenses | 35,638 | 18,106 |
| Other investments and other assets | 6,984 | 8,835 |
| Allowance for doubtful accounts | (1,850) | (1,850) |
| Total investments and other assets | 45,403 | 29,722 |
| Total noncurrent assets | 78,130 | 62,557 |
| Total assets | 815,794 | 846,187 |

(Thousands of yen)

| | FY2013 selected data (As of Mar. 31, 2014) | First half of FY2014 (As of Sep. 30, 2014) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 50,822 | 43,789 |
| Income taxes payable | 6,874 | 8,530 |
| Unearned revenue | 60,678 | 72,561 |
| Provision for bonuses | — | 40,091 |
| Provision for product warranties | 13,877 | 12,789 |
| Other current liabilities | 29,124 | 38,802 |
| Total current liabilities | 161,377 | 216,566 |
| Noncurrent liabilities | | |
| Long-term accounts payable-other | 3,431 | — |
| Long-term unearned revenue | 49,713 | 25,135 |
| Provision for retirement benefits | 2,998 | 2,998 |
| Other long-term liabilities | 9,139 | 11,626 |
| Total noncurrent liabilities | 65,282 | 39,760 |
| Total liabilities | 226,659 | 256,326 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,202,036 | 1,202,036 |
| Capital surplus | 81,886 | 81,886 |
| Retained earnings | (694,787) | (694,062) |
| Total shareholders' equity | 589,134 | 589,860 |
| Total net assets | 589,134 | 589,860 |
| Total liabilities and net assets | 815,794 | 846,187 |

(2) Statements of Income
(For the Six-month Period)

(Thousands of yen)

| | First half of FY2013 (Apr. 1, 2013 – Sep. 30, 2013) | First half of FY2014 (Apr. 1, 2014 – Sep. 30, 2014) |
|--|--|--|
| Net sales | 629,353 | 526,699 |
| Cost of sales | 375,737 | 244,081 |
| Gross profit | 253,616 | 282,618 |
| SG&A expenses | 296,808 | 277,823 |
| Operating income (loss) | (43,192) | 4,795 |
| Non-operating income | | |
| Interest income | 69 | 54 |
| Dividends income | 160 | — |
| Reversal of allowance for doubtful accounts | — | 140 |
| Commission fee | 99 | 75 |
| Other | 69 | 8 |
| Total non-operating income | 397 | 278 |
| Non-operating expenses | | |
| Interest expenses | 21 | 42 |
| Foreign exchange losses | 667 | 388 |
| Other | 38 | — |
| Total non-operating expenses | 727 | 430 |
| Ordinary income (loss) | (43,522) | 4,642 |
| Extraordinary income | | |
| Gain on sales of investment securities | 1,655 | — |
| Pay back of directors' retirement benefits | 9,670 | — |
| Directors' retirement benefits long-term accounts payable gain on forgiveness of debts | — | 1,029 |
| Total extraordinary income | 11,325 | 1,029 |
| Extraordinary loss | | |
| Loss on retirement of noncurrent assets | 29 | 6 |
| Total extraordinary losses | 29 | 6 |
| Income (loss) before income taxes | (32,226) | 5,665 |
| Income taxes –current | 1,890 | 5,069 |
| Income taxes-deferred | (50) | (129) |
| Total income taxes | 1,839 | 4,940 |
| Net income (loss) | (34,066) | 725 |

(3) Statements of Cash Flows

(Thousands of yen)

| | First half of FY2013 (Apr. 1, 2013 – Sep. 30, 2013) | First half of FY2014 (Apr. 1, 2014 – Sep. 30, 2014) |
|--|--|--|
| Cash provided by (used in) operating activities | | |
| Income (loss) before income taxes | (32,226) | 5,665 |
| Depreciation and amortization | 8,488 | 7,890 |
| Increase (decrease) in allowance for doubtful accounts | — | (140) |
| Increase (decrease) in provision for bonuses | (10,972) | 40,091 |
| Increase (decrease) in provision for product warranties | (22,225) | (1,087) |
| Increase (decrease) in provision for loss on order received | 9 | — |
| Increase (decrease) in provision for loss on litigation | (72,320) | — |
| Interest and dividends income | (229) | (54) |
| Interest expenses | 21 | 42 |
| Foreign exchange losses (gains) | (127) | (224) |
| Loss on retirement of noncurrent assets | 29 | 6 |
| Loss (gain) on sales of investment securities | (1,655) | — |
| Pay back of Directors' retirement benefits | (9,670) | — |
| Directors' retirement benefits long-term accounts payable gain on forgiveness of debts | — | (1,029) |
| Decrease (increase) in notes and accounts receivable-trade | 160,082 | 11,722 |
| Decrease (increase) in inventories | 4,112 | (5,076) |
| Increase (decrease) in notes and accounts payable-trade | (37,008) | (5,832) |
| Decrease (increase) in prepaid expenses | (113,564) | 10,709 |
| Increase (decrease) in unearned revenue | 133,939 | (12,695) |
| Increase (decrease) in accrued consumption taxes | (1,749) | 8,669 |
| Other, net | (8,440) | (4,611) |
| Subtotal | (3,505) | 54,046 |
| Interests and dividends income received | 229 | 54 |
| Interest expenses paid | (21) | (42) |
| Interest and pay back of Directors' retirement benefits | 9,670 | — |
| Income taxes paid | (3,754) | (3,755) |
| Net cash provided by (used in) operating activities | 2,617 | 50,302 |

(Thousands of yen)

| | First half of FY2013 (Apr. 1, 2013 – Sep. 30, 2013) | First half of FY2014 (Apr. 1, 2014 – Sep. 30, 2014) |
|--|--|--|
| Cash provided by (used in) investing activities | | |
| Purchase of property, plant and equipment | — | (746) |
| Purchase of intangible assets | (3,427) | (5,067) |
| Proceeds from sales of investment securities | 9,715 | — |
| Proceeds from sales of investments in real estates | 6,980 | — |
| Payments of loans receivable | — | (800) |
| Collection of loans receivable | 90 | 239 |
| Repayments of guarantee deposits received | (190) | — |
| Payments for asset retirement obligations | — | (1,850) |
| Payments for lease and guarantee deposits | (50) | (1,620) |
| Proceeds from collection of lease and guarantee deposits | — | 69 |
| Other, net | 18 | — |
| Net cash provided by (used in) investing activities | 13,135 | (9,775) |
| Cash provided by (used in) financing activities | | |
| Repayments of lease obligations | (254) | (605) |
| Net cash provided by (used in) financing activities | (254) | (605) |
| Effect of exchange rate changes on cash and cash equivalents | 127 | 224 |
| Increase (decrease) in cash and cash equivalents | 15,626 | 40,146 |
| Cash and cash equivalents at beginning of period | 367,766 | 359,444 |
| Cash and cash equivalents at end of period | 383,392 | 399,591 |