

Summary of Consolidated Financial Results For the First Half Ended September 30, 2016 [Japan GAAP]

Name of Company:	KAGA ELECTRONICS CO., LTD.
Stock Code:	8154
Stock Exchange Listing:	Tokyo Stock Exchange, First Section
URL:	http://www.taxan.co.jp/
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Date of quarterly securities report (tentative):	November 14, 2016
Date of commencement of dividend payment (tentative):	December 2, 2016
Quarterly earnings supplementary explanatory documents:	Yes
Quarterly earnings presentation:	Yes (for institutional investors)

(Yen in millions, rounded down)

1. Financial results for the first half of the fiscal year ending March 2017 (April 1, 2016 – September 30, 2016)

(1) Result of operations (Consolidated, year-to-date) (Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First half ended September 2016	109,659	(10.8)	3,212	(23.4)	3,045	(31.2)	3,111	5.7
First half ended September 2015	122,975	2.2	4,195	36.8	4,427	21.7	2,943	36.4

Note: Comprehensive income: First half of FY3/2017: 656 million yen [-67.5%], First half of FY3/2016: 2,017million yen [-34.4%]

	Earnings per share		Earnings per share fully diluted	
	Yen		Yen	
First half ended September 2016	110.11		-	
First half ended September 2015	104.17		-	

(2) Financial Position (Consolidated)

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of September 30, 2016	120,167		61,475		51.1	
As of March 31, 2016	124,281		61,808		49.7	

Reference: Shareholders' equity

As of September 30, 2016: 61,424 million yen As of March 31, 2016 61,764 million yen

2. Dividends

	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2016	-	20.00	-	35.00	55.00
Fiscal year ending March 2017	-	25.00			
Fiscal year ending March 2017 (est.)			-	25.00	50.00

Note: Change in the estimation of dividend from the latest announcement: None

Yearend dividend of FY3/16 includes ordinary dividend of 20.00 yen and commemorative dividend of 15.00 yen

Interim dividend of FY3/17 includes ordinary dividend of 20.00 yen and commemorative dividend of 5.00 yen

Yearend dividend of FY3/17 includes ordinary dividend of 20.00 yen and commemorative dividend of 5.00 yen

3. Forecast for the fiscal year ending March 2017 (Consolidated, April 1, 2016 to March 31, 2017)

(Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	230,000	(6.3)	5,700	(26.8)	6,400	(19.1)	5,800	6.7	205.27

Note: Change in the forecast from the latest announcement: None

* Notes

(1) Changes in significant subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None

Note: There was a change in a specified subsidiary that did not alter the scope of consolidation. For more information, please see "2. Other Information (1) Changes in significant subsidiaries" on page 3 of Supplementary Information.

(2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements: None

(3) Changes in accounting principles and estimates, and retrospective restatement

(a) Changes due to revision of accounting standards: Yes

(b) Changes other than in (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

Note: For more information, please see 2. Other Information (3) Changes in accounting principles and estimates, and retrospective restatement on page 3 of Supplementary Information.

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury shares)

As of September 30, 2016: 28,702,118 As of March 31, 2016: 28,702,118

(b) Treasury shares

As of September 30, 2016: 447,079 As of March 31, 2016: 446,824

(c) Average number of shares (quarterly consolidated cumulative period)

Period ended September 30, 2016: 28,255,145 Period ended September 30, 2015: 28,255,854

* Information concerning quarterly review procedure

The rule mandating a review of quarterly financial statements (under the Financial Instruments and Exchange Act) does not apply to this Summary of Financial Results. The financial statements for the first half were under review at the time this Summary of Financial Results was released.

* Cautionary statement regarding forecasts of operating results and special notes

Forward-looking statements in these materials are based on information available to management at the time this report was prepared and assumptions that management believes are reasonable. Actual results may differ significantly from these statements for a number of reasons.

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1. Results of Operations

(1) Overview on consolidated business performance

In the first half of the fiscal year, consumer spending recovered and there was a slow improvement in jobs in Japan due to the government's economic stimulus measures and the monetary policies of the Bank of Japan. However, the yen became stronger because of overseas events such as slowing economic growth in China and other emerging countries and Britain's departure from the EU. The resulting concerns about effects on corporate earnings and capital expenditures in Japan and other factors caused the Japanese economy to remain flat during the first half.

In the electronics industry, the principal area of operations for the KAGA ELECTRONICS Group, market conditions were challenging mainly because of soft demand for PCs, smartphones and other wireless products, and amusement products. At the same time, there is growing demand associated with the increasing use of electronics in automobiles and growth in the IoT (Note 1), big data, artificial intelligence and other relatively new categories of the electronics industry.

Based on the management philosophy of "Everything we do is for our customers," the KAGA ELECTRONICS Group combined and reorganized business activities to become more efficient and channeled substantial resources to growing market sectors in order to strengthen and expand business operations. There were also initiatives aimed at increasing sales to major current customers in Japan and growing in other countries. However, first half performance was impacted by lower production volume at major customers, a change in distribution channels and other events.

First half consolidated net sales decreased 10.8% from one year earlier to 109,659 million yen, operating income was down 23.4% to 3,212 million yen, and ordinary income fell 31.2% to 3,045 million yen. Profit attributable to owners of parent increased 5.7% to 3,111 million yen mainly because of a decrease in income taxes caused by tax effect accounting.

(Note 1): IoT is the abbreviation for Internet of Things. It is a concept that supports or enables the creation of new services and business models by connecting all objects through the Internet.

Business segment performance was as follows.

- (a) Electronic components (Development, manufacture and sale of semiconductors, general electronic components and other products, EMS (Note 2), and other activities)

The volume of semiconductors in Japan decreased because of reduced production at major customers in Japan and overseas, lower sales to amusement product manufacturers, and a change in the policies of semiconductor sales agents. The result was a 13.6% decrease in sales to 82,784 million yen and a 37.0% decrease in operating income to 2,366 million yen.

(Note 2) Electronics manufacturing service is a term used for the provision of product development and manufacturing services on an outsourcing basis.

- (b) Information equipment (Sales of PCs, PC peripherals, home electric appliances, photograph and imaging products, original-brand products, and other products)

The volume of PCs and other consumer products increased because of sales campaigns and other activities for raising sales. First half performance also benefited from a recovery in demand for housing-related products. In addition, the realignment of subsidiaries improved efficiency in this segment. Sales increased 2.0% to 20,524 million yen and operating income was up 135.5% to 539 million yen.

- (c) Software (Production of computer graphics, planning and development of amusement products, and other activities)

This segment is focusing on production of computer graphics for animation and development of software. Segment sales increased 26.8% to 1,442 million yen and operating income was up 6.6% to 307 million yen.

- (d) Others (Electronic device repairs and support, manufacture and sale of amusement products, sales of sporting goods, and other activities)

Sales of arcade amusement machines and golf products in Japan were soft because of a downturn in consumer spending. Segment sales decreased 16.8% to 4,909 million yen and there was an operating loss of 57 million yen compared with operating loss of 102 million yen in the first half of the previous fiscal year.

(2) Overview of financial condition

- (a) Assets, liabilities and net assets

Assets decreased 4,113 million yen from the end of the previous fiscal year to 120,167 million yen at the end of the first half mainly because of a decrease in notes and accounts receivable-trade.

Liabilities decreased 3,780 million yen to 58,692 million yen mainly because of a decrease in notes and accounts payable-trade and loans payable.

Net assets decreased 332 million yen to 61,475 million yen mainly because of a decrease in the foreign currency translation adjustment due to fluctuation of exchange rate.

(b) Cash flows

Cash and cash equivalents were 25,683 million yen at the end of the first half, 3,804 million yen more than at the end of the previous fiscal year.

(Operating activities)

Net cash provided by operating activities was 7,723 million yen compared with 4,344 million yen one year earlier. A decrease in accounts receivable-trade was the main reason for the increase.

(Investing activities)

Net cash used in investing activities was 246 million yen. One year earlier, investing activities provided net cash of 385 million yen. The purchase of property, plant and equipment was the primary use of cash.

(Financing activities)

Net cash used in financing activities was 2,253 million yen compared with 1,614 million yen one year earlier. Cash dividends and repayments of long-term loans payable were the primary uses of cash.

(3) Forecast for fiscal year ending March 2017

There are no revisions to the forecast for the fiscal year ending March 31, 2017 that was announced on October 24, 2016 in "Notice of Revision in Forecast and Dividends for Fiscal Year Ending March 2017"

2. Other Information

(1) Changes in significant subsidiaries:

None

There was no change in a specified subsidiary that altered the scope of consolidation. However, during the first quarter, KAGA SOLUTION NETWORK CO., LTD., a consolidated subsidiary and KAGA HIGHTECH CO., LTD. merged with KAGA SOLUTION NETWORK the remaining company. As a result, KAGA SOLUTION NETWORK has become a specified subsidiary.

(2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements:

None

(3) Changes in accounting principles and estimates, and retrospective restatements:

Changes in accounting policy

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

In association with revisions to the Corporation Tax Act, KAGA ELECTRONICS has applied Practical Solution on a change in depreciation method due to Tax Reform 2016 (ASBJ Practical Issues Task Force (PITF) Solution No. 32, June 17, 2016) from the first quarter of the current fiscal year. As a result, the depreciation method for building facilities and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

This revision did not have a material effect on earnings.

(4) Supplementary information

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

Beginning with the first quarter of the current fiscal year, KAGA ELECTRONICS is using Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Implementation Guidance No. 26, March 28, 2016).

3. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal year ended March 2016 (As of March 31, 2016)	First half ended September 2016 (As of September 30, 2016)
ASSETS		
Current assets		
Cash and deposits	22,516	26,055
Notes and accounts receivable-trade	54,795	47,835
Securities	166	165
Merchandise and finished goods	14,898	14,767
Work in process	266	426
Raw materials and supplies	4,010	4,121
Deferred tax assets	849	1,235
Other	4,638	3,999
Allowance for doubtful accounts	(179)	(166)
Total current assets	101,961	98,439
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	5,112	4,928
Machinery, equipment and vehicles, net	1,992	1,810
Tools, furniture and fixtures, net	813	717
Land	4,138	4,127
Construction in progress	0	-
Total property, plant and equipment	12,058	11,584
Intangible assets		
Goodwill	495	450
Software	422	401
Other	85	79
Total intangible assets	1,003	931
Investments and other assets		
Investment securities	6,519	6,318
Deferred tax assets	257	480
Guarantee deposits	739	716
Insurance funds	916	922
Other	1,931	1,758
Allowance for doubtful accounts	(1,107)	(985)
Total investments and other assets	9,257	9,211
Total noncurrent assets	22,319	21,727
Total assets	124,281	120,167

(Million yen)

	Fiscal year ended March 2016 (As of March 31, 2016)	First half ended September 2016 (As of September 30, 2016)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	36,858	35,994
Short-term loans payable	6,295	5,527
Accrued expenses	3,311	3,149
Income taxes payable	995	796
Provision for directors' bonuses	185	102
Other	3,523	2,698
Total current liabilities	51,169	48,268
Noncurrent liabilities		
Long-term loans payable	6,007	5,293
Deferred tax liabilities	1,246	1,162
Provision for directors' retirement benefits	1,211	1,193
Net defined benefit liability	1,774	1,780
Asset retirement obligations	142	139
Other	919	854
Total noncurrent liabilities	11,303	10,423
Total liabilities	62,472	58,692
NET ASSETS		
Shareholder's equity		
Capital stock	12,133	12,133
Capital surplus	13,912	13,912
Retained earnings	35,195	37,317
Treasury shares	(539)	(539)
Total shareholders' equity	60,702	62,824
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	681	546
Deferred gains or losses on hedges	4	(6)
Foreign currency translation adjustment	713	(1,645)
Remeasurements of defined benefit plans	(338)	(294)
Total accumulated other comprehensive income	1,061	(1,399)
Non-controlling interests	44	50
Total net assets	61,808	61,475
Total liabilities and net assets	124,281	120,167

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income

For the first half (April 1, 2016 – September 30, 2016)

(Million yen)

	First half ended September 2015 (April 1, 2015 – September 30, 2015)	First half ended September 2016 (April 1, 2016 – September 30, 2016)
Net sales	122,975	109,659
Cost of sales	105,983	94,486
Gross profit	16,991	15,172
Selling, general and administrative expenses	12,796	11,959
Operating income	4,195	3,212
Non-operating income		
Interest income	38	24
Dividends income	70	71
Commission fee	113	114
Other	160	124
Total non-operating income	382	335
Non-operating expenses		
Interest expenses	58	66
Foreign exchange losses	44	415
Other	47	20
Total non-operating expenses	150	502
Ordinary income	4,427	3,045
Extraordinary income		
Gain on sales of noncurrent assets	2	13
Gain on sales of investment securities	1	2
Gain on transfer of business	-	89
Total extraordinary income	3	105
Extraordinary loss		
Loss on retirement of noncurrent assets	4	6
Loss on sales of investment securities	-	31
Loss on valuation of investment securities	4	-
Business structure improvement expenses	13	11
Loss on valuation of golf club membership	-	11
Special retirement expenses	15	-
Other	0	0
Total extraordinary loss	39	60
Profit before income taxes	4,392	3,090
Income taxes - current	1,100	688
Income taxes - deferred	355	(717)
Total income taxes	1,455	(29)
Profit	2,936	3,119
Profit attributable to owners of parent	2,943	3,111
Profit (loss) attributable to non-controlling interests	(6)	7

(Million yen)

	First half ended September 2015 (April 1, 2015 – September 30, 2015)	First half ended September 2016 (April 1, 2016 – September 30, 2016)
Other comprehensive income		
Valuation difference on available-for-sale securities	(154)	(134)
Deferred gains or losses on hedges	(29)	(11)
Foreign currency translation adjustment	(703)	(2,360)
Remeasurements of defined benefit plans, net of tax	(31)	43
Total other comprehensive income	(919)	(2,462)
Comprehensive income	2,017	656
Comprehensive income attributable to owners of parent	2,024	649
Comprehensive income attributable to non-controlling interests	(7)	6

(3) Quarterly consolidated statements of cash flows

(Million yen)

	First half ended Sept. 2015 (Apr. 1, 2015 – Sept. 30, 2015)	First half ended Sept. 2016 (Apr. 1, 2016 – Sept. 30, 2016)
Cash flows from operating activities		
Profit before income taxes	4,392	3,090
Depreciation	764	743
Amortization of goodwill	106	44
Increase (decrease) in provision for directors' retirement benefits	(326)	(13)
Increase (decrease) in allowance for doubtful accounts	23	(0)
Interest and dividends income	(109)	(96)
Interest expenses	58	66
Loss (gain) on valuation of investment securities	4	-
Decrease (increase) in notes and accounts receivable-trade	2,766	5,320
Decrease (increase) in inventories	1,178	(1,108)
Decrease (increase) in accounts receivable-other	237	(33)
Decrease (increase) in advance payments	(514)	115
Increase (decrease) in notes and accounts payable-trade	(3,430)	759
Increase (decrease) in accrued expenses	(149)	(44)
Decrease (increase) in consumption taxes refund receivable	367	173
Decrease (increase) in other current assets	(26)	67
Increase (decrease) in other current liabilities	303	(442)
Other, net	(66)	(89)
Sub-total	5,580	8,552
Interest and dividends income received	112	96
Interest expenses paid	(57)	(65)
Income taxes paid	(1,283)	(852)
Other, net	(7)	(6)
Net cash provided by operating activities	4,344	7,723
Cash flows from investing activities		
Purchase of property, plant and equipment	(701)	(535)
Proceeds from sales of property, plant and equipment	320	93
Purchase of intangible assets	(144)	(71)
Purchase of investment securities	(160)	(149)
Proceeds from sales of investment securities	61	175
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	8	-
Payments of short-term loans receivable	(3)	(1)
Proceeds from cancellation of insurance funds	375	2
Payments for guarantee deposits	(4)	(5)
Proceeds from collection of guarantee deposits	71	15
Other payments	(32)	(343)
Other proceeds	595	571
Net cash provided by (used in) investing activities	385	(246)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(145)	(476)
Repayment of long-term loans payable	(714)	(714)
Cash dividends paid	(705)	(987)
Other, net	(49)	(74)
Net cash provided by (used in) financing activities	(1,614)	(2,253)
Effect of exchange rate change on cash and cash equivalents	(325)	(1,419)
Net increase in cash and cash equivalents	2,790	3,804
Cash and cash equivalents at beginning of period	17,569	21,879
Cash and cash equivalents at end of period	20,360	25,683

(4) Notes to quarterly consolidated financial statement

(Notes to going concern assumptions)

None

(Significant change in shareholders' equity)

None

(Segment information)

I. For the first half ended September 2015 (April 1, 2015 – September 30, 2015)

1. Information about sales and income (loss) by reporting segments

(Million yen)

	Reporting segments					Adjustments (Note 1)	Amount on the quarterly consolidated statements of income and consolidated statements of comprehensive income (Note 2)
	Electronic components	Information equipment	Software	Others	Total		
Net sales of which to outside customers	95,815	20,120	1,136	5,901	122,975	-	122,975
of which inter- segment	422	310	1,705	920	3,358	(3,358)	-
Total	96,238	20,431	2,842	6,822	126,333	(3,358)	122,975
Segment income (loss)	3,755	229	288	(102)	4,170	24	4,195

- Notes:
1. Adjustment in segment income of 24 million yen includes 63 million yen for elimination of inter-segment trade and -38 million yen for amortization of goodwill.
 2. Segment income (loss) is adjusted for operating income (loss) on the quarterly consolidated statements of income and consolidated statements of comprehensive income.

2. Reportable segment information concerning impairment losses for noncurrent assets or goodwill amortization

(Significant impairment losses for noncurrent assets)

None

(Significant changes in goodwill)

None

(Significant gain on bargain purchase)

None

II. For the first half ended September 2016 (April 1, 2016 – September 30, 2016)

1. Information about sales and income (loss) by reporting segments

(Million yen)

	Reporting segments					Adjustments (Note 1)	Amount on the quarterly consolidated statements of income and consolidated statements of comprehensive income (Note 2)
	Electronic components	Information equipment	Software	Others	Total		
Net sales of which to outside customers	82,784	20,524	1,442	4,909	109,659	-	109,659
of which inter- segment	511	261	1,041	1,584	3,399	(3,399)	-
Total	83,295	20,786	2,483	6,493	113,059	(3,399)	109,659
Segment income (loss)	2,366	539	307	(57)	3,156	56	3,212

- Notes:
1. Adjustment in segment income of 56 million yen includes 56 million yen for elimination of inter-segment trade.
 2. Segment income (loss) is adjusted for operating income (loss) on the quarterly consolidated statements of income and consolidated statements of comprehensive income.

2. Reportable segment information concerning impairment losses for noncurrent assets or goodwill amortization
(Significant impairment losses for noncurrent assets)

None

(Significant changes in goodwill)

None

(Significant changes in gain on bargain purchase)

None