

Summary of Consolidated Financial Results for the First Quarter Ended June 30, 2017 [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 filing of quarterly securities report (tentative):	August 14, 2017
Date of commencement of dividend payment (tentative):	–
Quarterly earnings supplementary explanatory documents:	No
Quarterly earnings presentation:	No

(Yen in millions, rounded down)

1. Financial results for the first quarter of the fiscal year ending March 2018 (April 1, 2017 – June 30, 2017)

(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 quarter ended June 2017	56,174	7.6	2,088	173.0	2,205	262.1	1,750	25.3
First quarter ended June 2016	52,221	(10.5)	765	(52.1)	608	(65.7)	1,396	21.7

Note: Comprehensive income: 1Q of FY3/2018: 2,167 million yen (- %) 1Q of FY3/2017: (422 million yen) (-132.8%)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
First quarter ended June 2017	63.79	-
First quarter ended June 2016	49.41	-

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2017	123,952	67,138	54.1
As of March 31, 2017	125,751	65,932	52.4

Reference: Shareholders' equity

As of June 30, 2017: 67,071 million yen

As of March 31, 2017: 65,872 million yen

2. Dividends

	Dividend per share				
	1Q	2Q	3Q	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2017	-	25.00	-	35.00	60.00
Fiscal year ending March 2018	-				
Fiscal year ending March 2018 (Forecast)		25.00	-	35.00	60.00

Notes: Change in the dividend forecast from the latest announcement: None

Breakdown of interim dividend for FY3/17: Ordinary dividend: 20.00 yen; Extraordinary dividend: 5.00 yen

Breakdown of year-end dividend for FY3/17: Ordinary dividend: 20.00 yen; Extraordinary dividend: 15.00 yen

3. Forecast for the fiscal year ending March 2018 (Consolidated, April 1, 2017 – March 31, 2018)

(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
First half	107,000	(2.4)	2,700	(16.0)	3,000	(1.5)	2,200	(29.3)	80.19
Full year	230,000	1.2	7,000	1.8	7,500	2.1	5,500	(21.2)	200.47

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

*** Notes**

(1) Changes in significant subsidiaries (Changes in specified subsidiaries accompanied by changes in the scope of consolidation):

None

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

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

(a) Changes due to revision of accounting standards: None

(b) Changes other than (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury shares)

As of June 30, 2017:	28,702,118	As of March 31, 2017:	28,702,118
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(b) Treasury shares

As of June 30, 2017:	1,266,622	As of March 31, 2017:	1,266,468
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(c) Average number of shares (quarterly consolidated during the period)

Period ended June 30, 2017:	27,435,584	Period ended June 30, 2016:	28,255,197
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* The quarterly review procedures are not applicable to this Financial Results report.

* 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 of consolidated business performance

In the first quarter of the fiscal year ending March 31, 2018, the Japanese economy witnessed a gradual recovery as corporate earnings and employment and income environment improved, and consumer spending also showed a sign of recovery.

In the electronics industry, the principal sector of operations of the KAGA ELECTRONICS Group (“the Group”), while markets for PCs and amusement machines remained stagnant, markets for smartphones and automotive devices showed a steady growth with an increasing use of electronics in automobiles, and new markets for IoT^(Note 1), big data, and artificial intelligence also continued to grow.

Under such environment, based on our corporate philosophy of “Everything we do is for our customers,” the Group focused on increasing sales to existing major customers in Japan and expanding overseas businesses.

Consolidated net sales increased 7.6% year on year to 56,174 million yen, operating income increased 173.0% to 2,088 million yen, and ordinary income rose 262.1% to 2,205 million yen. Profit attributable to owners of parent increased 25.3% to 1,750 million yen.

(Note 1) Internet of Things: New services and business models, or technologies that connect all things through the Internet.

Business segment performance was as follows.

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

EMS business for electronic equipment in Japan and overseas showed a favorable growth. As a result, net sales increased 6.3% to 41,721 million yen, and segment income rose 147.1% to 1,539 million yen.

(Note 2) Electronics Manufacturing Service: 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)

While sales of PCs and other consumer products decreased, sales of housing-related products showed a favorable growth. As a result, net sales increased 10.0% to 11,132 million yen, and segment income rose 240.9% to 358 million yen.

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

The segment focused on production of computer graphics animation, development of consumer software and smartphone applications, and development of VR^(Note 3) and AR^(Note 4). As a result, net sales decreased 6.1% to 448 million yen, and segment loss was 0 million yen (segment income of 75 million yen one year earlier).

(Note 3) Virtual Reality

(Note 4) Augmented Reality

- (d) Others (Repair and supports for electronics equipment, and sales of amusement equipment and sports goods, and others)

Sales of arcade amusement machines and golf products in Japan showed solid growth. As a result, net sales increased 20.1% to 2,872 million yen, and segment income was 152 million yen (segment loss of 70 million yen one year earlier).

(2) Overview of financial condition

Assets, liabilities and net assets

Total assets as of June 30, 2017 decreased 1,799 million yen from March 31, 2017 to 123,952 million yen mainly due to a decrease in notes and accounts receivable - trade.

Liabilities as of June 30, 2017 decreased 3,005 million yen from March 31, 2017 to 56,813 million yen mainly due to a decrease in notes and accounts payable - trade.

Net assets as of June 30, 2017 increased 1,206 million yen from March 31, 2017 to 67,138 million yen as a result of recording profit attributable to owners of parent.

(3) Qualitative information on consolidated earnings forecast

There are no revisions to the forecast for the fiscal year ending March 31, 2018 that was announced on May 10, 2017 in “Summary of Consolidated Financial Results for the Year Ended March 2017 [Japan GAAP].”

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal year ended March 2017 (As of March 31, 2017)	First quarter ended June 2017 (As of June 30, 2017)
ASSETS		
Current assets		
Cash and deposits	26,423	27,803
Notes and accounts receivable - trade	46,774	42,362
Electronically recorded monetary claims - operating	5,234	4,597
Securities	188	189
Merchandise and finished goods	14,675	15,511
Work in process	365	731
Raw materials and supplies	4,284	4,347
Deferred tax assets	1,340	1,575
Other	4,562	3,843
Allowance for doubtful accounts	(166)	(159)
Total current assets	103,684	100,803
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,859	4,878
Machinery, equipment and vehicles, net	2,014	2,054
Tools, furniture and fixtures, net	742	775
Land	4,126	4,126
Construction in progress	3	35
Total property, plant and equipment	11,745	11,871
Intangible assets		
Goodwill	406	383
Software	363	339
Other	71	67
Total intangible assets	841	790
Investments and other assets		
Investment securities	6,761	7,845
Deferred tax assets	240	233
Guarantee deposits	735	668
Insurance funds	936	940
Other	1,529	1,384
Allowance for doubtful accounts	(723)	(586)
Total investments and other assets	9,479	10,486
Total non-current assets	22,067	23,148
Total assets	125,751	123,952

(Million yen)

	Fiscal year ended March 2017 (As of March 31, 2017)	First quarter ended June 2017 (As of June 30, 2017)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	37,553	34,845
Short-term loans payable	4,883	4,992
Accrued expenses	3,387	2,622
Income taxes payable	888	646
Provision for directors' bonuses	204	118
Other	3,325	3,955
Total current liabilities	50,242	47,181
Non-current liabilities		
Long-term loans payable	4,603	4,114
Deferred tax liabilities	1,213	1,805
Provision for directors' retirement benefits	1,222	1,224
Net defined benefit liability	1,669	1,640
Asset retirement obligations	144	134
Other	723	713
Total non-current liabilities	9,576	9,632
Total liabilities	59,819	56,813
NET ASSETS		
Shareholders' equity		
Capital stock	12,133	12,133
Capital surplus	13,912	13,912
Retained earnings	40,476	41,265
Treasury shares	(2,040)	(2,040)
Total shareholders' equity	64,481	65,271
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,159	1,615
Deferred gains or losses on hedges	0	(3)
Foreign currency translation adjustment	421	359
Remeasurements of defined benefit plans	(190)	(170)
Total accumulated other comprehensive income	1,391	1,800
Non-controlling interests	59	66
Total net assets	65,932	67,138
Total liabilities and net assets	125,751	123,952

(2) Quarterly consolidated statements of income and comprehensive income

For the First quarter (April 1, 2017 – June 30, 2017)

(Million yen)

	First quarter ended June 2016 (April 1, 2016 – June 30, 2016)	First quarter ended June 2017 (April 1, 2017 – June 30, 2017)
Net sales	52,221	56,174
Cost of sales	45,426	48,292
Gross profit	6,795	7,882
Selling, general and administrative expenses	6,030	5,793
Operating income	765	2,088
Non-operating income		
Interest income	12	12
Dividends income	65	73
Commission fee	36	24
Other	67	64
Total non-operating income	181	174
Non-operating expenses		
Interest expenses	33	26
Foreign exchange losses	293	19
Other	11	12
Total non-operating expenses	337	58
Ordinary income	608	2,205
Extraordinary income		
Gain on sales of non-current assets	0	1
Gain on sales of investment securities	0	22
Gain on transfer of business	35	12
Total extraordinary income	35	36
Extraordinary loss		
Loss on retirement of non-current assets	3	2
Loss on valuation of investment securities	-	5
Loss on valuation of golf club membership	10	-
Other	0	-
Total extraordinary loss	13	7
Profit before income taxes	630	2,234
Income taxes - current	212	320
Income taxes - deferred	(983)	156
Total income taxes	(771)	476
Profit	1,401	1,757
Profit attributable to owners of parent	1,396	1,750
Profit attributable to non-controlling interests	5	7
Other comprehensive income		
Valuation difference on available-for-sale securities	(227)	455
Deferred gains or losses on hedges	(5)	(4)
Foreign currency translation adjustment	(1,613)	(62)
Remeasurements of defined benefit plans, net of tax	21	20
Total other comprehensive income	(1,824)	409
Comprehensive income	(422)	2,167
Comprehensive income attributable to owners of parent	(426)	2,159
Comprehensive income attributable to non-controlling interests	3	7

(3) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Significant change in shareholders' equity)

Not applicable

(Additional information)

(Adoption of consolidated taxation system)

From the first quarter of the fiscal year ending March 31, 2018, the Company and its certain domestic subsidiaries have adopted the consolidated taxation system.

(Segment information, etc.)

Segment information

I. For the first quarter ended June 2016 (April 1, 2016 – June 30, 2016)

Information about net sales and income (loss) by reportable segments

(Million yen)

	Reportable segments					Adjustment (Note 1)	Consolidated (Note 2)
	Electronic components	Information equipment	Software	Others	Total		
Net sales:							
Sales to external customers	39,237	10,116	477	2,391	52,221	-	52,221
Inter-segment sales or transfers	214	133	354	514	1,217	(1,217)	-
Total	39,452	10,249	831	2,905	53,439	(1,217)	52,221
Segment income (loss)	623	105	75	(70)	734	30	765

Notes: 1. Adjustment in segment income of 30 million yen includes 30 million yen for elimination of inter-segment trade.
2. Segment income (loss) is adjusted for operating income on the quarterly consolidated statements of income and comprehensive income.

II. For the first quarter ended June 2017 (April 1, 2017 – June 30, 2017)

Information about net sales and income (loss) by reportable segments

(Million yen)

	Reportable segments					Adjustment (Note 1)	Consolidated (Note 2)
	Electronic components	Information equipment	Software	Others	Total		
Net sales:							
Sales to external customers	41,721	11,132	448	2,872	56,174	-	56,174
Inter-segment sales or transfers	261	273	213	161	910	(910)	-
Total	41,982	11,405	661	3,034	57,084	(910)	56,174
Segment income (loss)	1,539	358	(0)	152	2,050	38	2,088

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