



# Report on Financial Result Third Quarter of Fiscal Year 2010

**April to December 2010**

February 4, 2011

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# **Financial Highlights**

## **Third Quarter of Fiscal Year 2010**

**April to December 2010**  
**(Consolidated Third Quarter)**

# ■ Financial Highlights of Third Quarter Ended December 2010

## Comparative Consolidated Income Statement

(millions of yen)

	Nine months ended December 2009		Nine months ended December 2010		Year over year Change	
Net sales	174,926	100.0%	177,535	100.0%	2,609	1.5%
Cost of sales	154,235	88.2%	154,293	86.9%	58	0.0%
Gross profit	20,690	11.8%	23,241	13.1%	2,551	12.3%
Selling, general and administrative expenses	19,807	11.3%	20,033	11.3%	226	1.1%
Operating income	883	0.5%	3,208	1.8%	2,325	263.3%
Non-operating income	528	0.3%	557	0.3%	29	5.5%
Non-operating expenses	620	0.4%	635	0.4%	15	2.4%
Ordinary income	791	0.5%	3,130	1.8%	2,339	295.7%
Extraordinary losses	-206	-0.1%	-225	-0.1%	-19	-
Income before income taxes and minority interests	584	0.3%	2,905	1.6%	2,321	397.4%
Income, residential and enterprise taxes	915	0.5%	1,192	0.7%	277	30.3%
Income tax adjustment	514	0.29%	244	0.14%	-270	-52.5%
Minority interest in income/loss of consolidated subsidiaries	-53	-0.03%	37	0.02%	90	-
Net income	-792	-0.5%	1,431	0.8%	2,223	-

## ■ Comparison of Consolidated Sales by Business Category

(millions of yen)

	Nine months ended December 2009 (before consolidation)		Nine months ended December 2010 (before consolidation)		Year over year Change		Nine months ended 2010 (after consolidation)	
	Net sales	Pct.	Net sales	Pct.	Change	Pct.	Net sales	Pct.
	Income		Income				Income	
Electronic components	127,299	66.6%	162,061	74.6%	34,762	27.3%	127,642	71.9%
	-219	-31.6%	2,123	71.9%	2,342	—	2,525	78.7%
Information equipment	50,714	26.5%	39,484	18.2%	-11,230	-22.1%	38,724	21.8%
	381	54.9%	304	10.3%	-77	-20.2%	256	8.0%
Software	2,884	1.5%	5,547	2.6%	2,663	92.3%	3,661	2.1%
	247	35.6%	264	8.9%	17	6.9%	274	8.5%
Others	10,132	5.3%	10,263	4.7%	131	1.3%	7,506	4.2%
	285	41.1%	258	8.7%	-27	-9.5%	275	8.6%
Total	191,030	100.0%	217,356	100.0%	26,326	13.8%	177,535	100.0%
	694	100.0%	2,951	100.0%	2,257	325.2%	3,208	100.0%

### Major changes

- **Electronic component** (Development, manufacture and sales of semiconductors, general electric components and other products, electronics manufacturing service (EMS), and other activities)

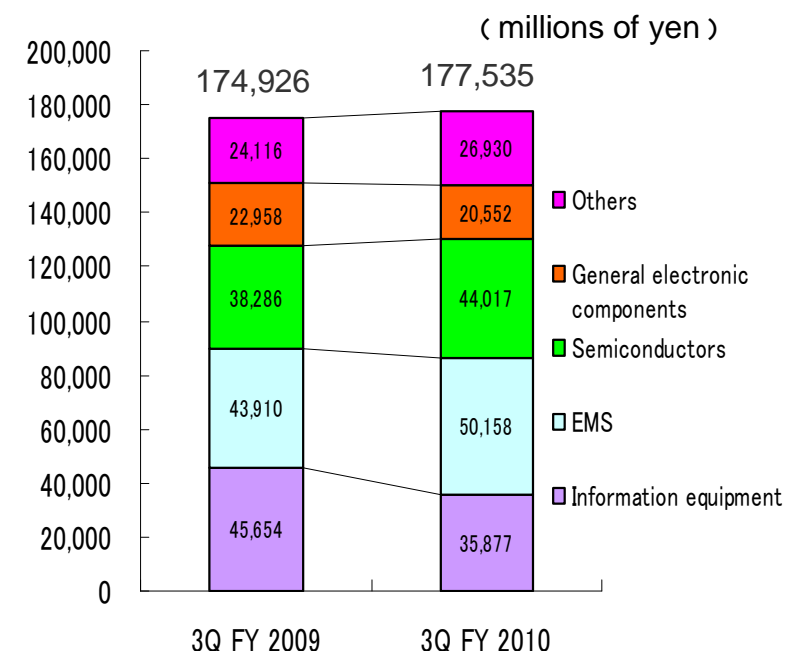
Sales of semiconductors and electronic components used in flat-panel TVs and other digital consumer electronics, cell phones, PCs and other products increased along with a slow economic recovery. In the environmental products category, there were higher sales of electronic components for LED lamps. In addition, there was a recovery in EMS orders for air-conditioners to overseas. The result was segment sales of JPY127,642 million.

- **Information equipment** (Sales of PCs, PC peripherals, photograph and imaging products, original-brand products, and other products)

A shift in the distribution channels of major PC manufacturers caused segment sales to decline. However, there were actions aimed at adding new products like SD memory cards for portable devices and at increasing sales of existing products. Segment sales totaled JPY38,724 million.

## 【Reference】 Comparison of Consolidated Sales by Business Category

	Nine months ended December 2009		Nine months ended December 2010		Year over year Change	
Information equipment	45,654	26.1%	35,877	20.2%	-9,777	-21.4%
EMS	43,910	31.1%	50,158	28.3%	6,248	14.2%
Semiconductors	38,286	21.9%	44,017	24.8%	5,731	15.0%
General electronic components	22,958	13.1%	20,552	11.6%	-2,406	-10.5%
Others	24,116	13.8%	26,930	15.2%	2,814	11.7%



### Major changes

#### ■ EMS sales : Increase 6,248 million yen (+14.2%)

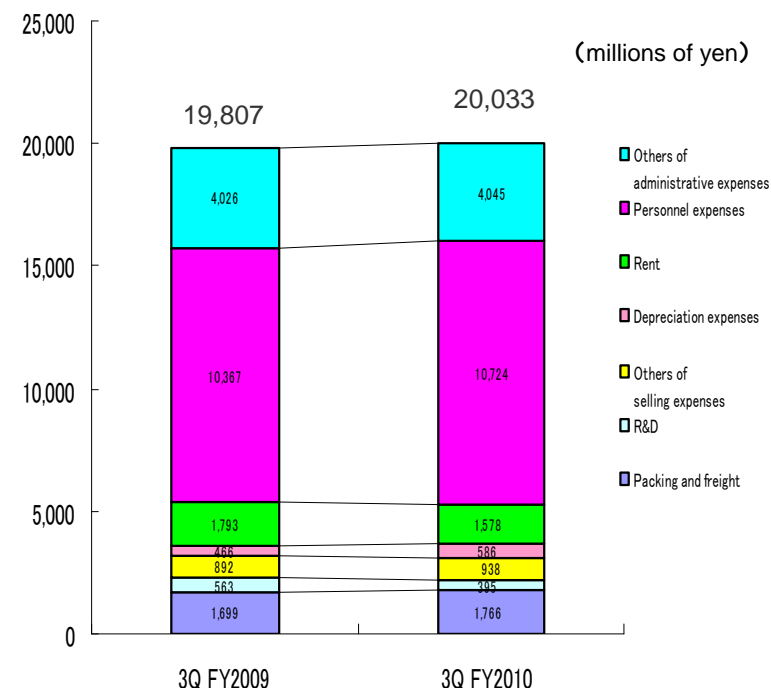
Along with a slow economic recovery, there was a recovery in EMS orders in Japan from manufacturers of amusement equipment and overseas from manufacturers of office equipment and climate control equipment. The result was sales of JPY50,158 million (increase JPY6,248 million).

#### ■ Semiconductor sales : Decrease 9,777 million yen (-21.4%)

A shift in the distribution channels of major PC manufacturers to large electronics retailers and specialty stores caused segment sales to decline. Sales totaled JPY35,877 million (decrease JPY9,777 million).

## ■ Selling, General and Administrative Expenses of Nine Months Ended December 2010

	Nine months ended December 2009		Nine months ended December 2010		(millions of yen)	
	Amount	Pct.	Amount	Pct.	YoY Change	Pct.
Packing and freight	1,699	8.6%	1,766	8.8%	67	3.9%
R&D	563	2.8%	395	2.0%	-168	-29.8%
Others	892	4.5%	938	4.7%	46	5.2%
Total selling expenses	3,154	15.9%	3,099	15.5%	-55	-1.7%
Depreciation expenses	466	2.4%	586	2.9%	120	25.8%
Rent	1,793	9.1%	1,578	7.9%	-215	-12.0%
Personnel expenses	10,367	52.3%	10,724	53.5%	357	3.4%
Others	4,026	20.3%	4,045	20.2%	19	0.5%
Total administrative expenses	16,652	84.1%	16,933	84.5%	281	1.7%
Total SG&A expenses	19,807	100.0%	20,033	100.0%	226	1.1%



### Major changes

#### ■ Administrative expenses : Personnel expenses increased 357 million yen. Headcount Increases 136. (5,210 to 5,346)

- Factor of cost increase : Increase of headcount by 136 (5,210 to 5,346) due to Cyber Front' entry to KAGA group  
Increase of headcounts by 227 in overseas EMS factories and KAGA (Shenzhen) and 275 in KAGA Taxan (Suzhou) electronics.
- Factor of cost decrease : Decrease of headcounts by 476 in KAGA Component's operation in China

# Financial Highlights Nine Months Ended December 2010

## Consolidated Balance Sheets

(millions of yen)

	FY2009	Nine months ended Dec. 2010	YOY Change
<b>(ASSETS)</b>	<b>113,962</b>	<b>117,318</b>	<b>3,356</b>
Current assets	96,838	95,886	-952
Cash and cash equivalents	11,917	13,835	1,918
Notes and account receivable-trade	59,214	53,669	-5,545
Merchandise and finished goods	14,483	16,676	2,193
Goods in progress	647	786	139
Raw materials and other supplies	3,011	3,837	826
Others	7,566	7,083	-483
Fixed assets	17,123	21,432	4,309
Property, plant and equipment	6,434	9,788	3,354
Intangible assets	1,901	2,496	595
Investments and other assets	8,786	9,148	362
<b>Total assets</b>	<b>113,962</b>	<b>117,318</b>	<b>3,356</b>

	FY2009	Nine months ended Dec. 2010	YOY Change
<b>(LIABILITIES)</b>	<b>65,408</b>	<b>69,325</b>	<b>3,917</b>
Current liabilities	58,779	59,717	938
Notes and accounts payable-trade	43,535	42,276	-1,259
Short-term bank loans	8,935	10,314	1,379
Others	6,309	7,127	818
Long-term liabilities	6,629	9,608	2,979
Long-term bank loans	2,500	5,094	2,594
Others	4,129	4,514	385
<b>(NET ASSETS)</b>	<b>48,553</b>	<b>47,993</b>	<b>-560</b>
Shareholders' equity	48,726	49,328	602
Paid-in capital	12,133	12,133	0
Capital surplus	13,912	13,912	0
Retained earnings	24,012	24,615	603
Treasury stock	-1,332	-1,332	0
Valuation and translation adjustment	-1,884	-3,046	-1,162
Minority interests	1,711	1,710	-1
<b>Total liabilities and net assets</b>	<b>113,962</b>	<b>117,318</b>	<b>3,356</b>

\* FY2009 means fiscal year ended March 2010. FY2010 means fiscal year ending March 2011



## ■ Consolidated Cash Flow for Nine Months Ended December 2010

	(millions of yen)		
	Nine months ended December 2009	Nine months ended December 2010	Year over year Change
Operating activities	2,669	5,000	2,331
Investing activities	-2,669	-5,711	-3,042
Financing activities	605	3,003	2,398
Effect of exchange rate changes on cash and cash equivalents	-4	-463	-459
Increase (decrease) in cash and cash equivalents	600	1,828	1,228
Cash and cash equivalents, beginning of period	11,368	11,797	429
Cash and cash equivalents, end of period	11,969	13,625	-525

### Major changes

- Operating activities : Net cash provided by operating activities was JPY5,000 million primarily due to a decrease in notes and accounts receivable-trade.
- Investment activities : Net cash used in investment activities was JPY5,711 million primarily due to payments for the purchase of property, plant and equipment.
- Financing activities Net cash provided by financing activities was JPY3,003 million yen primarily due to a larger net increase in long-term bank loans.



## ■ Forecast for the Fiscal Year Ending March 2011

### Consolidated Income Statement (FY2009 and forecast FY2010 ) (millions of yen)

	FY2009(actual)		FY2010(forecast)		YOY Change	
	Amount	Pct.	Amount	Pct.	Change	Pct.change
Net sales	239,391	100.0%	230,000	100.0%	-9,391	-3.9%
Cost of sales	211,154	88.2%	199,200	86.6%	-11,954	-5.7%
Gross profit	28,237	11.8%	30,800	13.4%	2,563	9.1%
SG&A expenses	26,655	11.1%	27,500	12.0%	845	3.2%
Operating income	1,582	0.7%	3,300	1.4%	1,718	108.6%
Non-operating income	-302	-0.13%	-100	-0.04%	202	-
Ordinary income	1,280	0.5%	3,200	1.4%	1,920	150.0%
Net income	-318	-0.2%	1,800	0.8%	2,118	-

\* FY2009 means fiscal year ended March 2010. FY2010 means fiscal year ending March 2011

## ■ Comparison of Consolidated Sales by Business Category (FY 2009 and FY2010)

(millions of yen)

	FY2009 (before consolidation)		FY2010(forecast) (before consolidation)		Year over year Change		FY2010(forecast) (after consolidation)	
	Net sales	Pct.	Net sales	Pct.	Year over Year Change	Pct.	Net sales	Pct.
	Income		Income				Income	
Electronic components	158,921	64.4%	178,133	72.3%	19,212	12.1%	166,000	72.2%
	895	50.7%	2,643	69.0%	1,748	195.3%	2,270	68.8%
Information equipment	69,769	28.3%	52,395	21.3%	-17,374	-24.9%	49,000	21.3%
	93	5.3%	290	7.6%	197	211.8%	250	7.6%
Software	4,321	1.8%	5,829	2.4%	1,508	34.9%	5,500	2.4%
	466	26.4%	550	14.4%	84	18.0%	480	14.5%
Others	13,627	5.5%	10,180	4.1%	-3,447	-25.3%	9,500	4.1%
	311	17.6%	343	9.0%	32	10.3%	300	9.1%
Total	246,640	100.0%	246,539	100.0%	-101	0.0%	230,000	100.0%
	1,766	100.0%	3,828	100.0%	2,062	116.8%	3,300	100.0%

\* FY2009 means fiscal year ended March 2010. FY2010 means fiscal year ending March 2011

### Major changes

■ **Electronic component (Development, manufacture and sales of semiconductors, general electric components and other products, electronics manufacturing service (EMS), and other activities)**

Sales of semiconductors and electronic components for flat-panel TVs and other digital consumer electronics, PCs and other products increased along with a slow economic recovery. In addition, there was a recovery in EMS orders in overseas. The outlook for the operating environment is expected to remain uncertain due to the impact of the strong yen on earnings of Japanese companies.

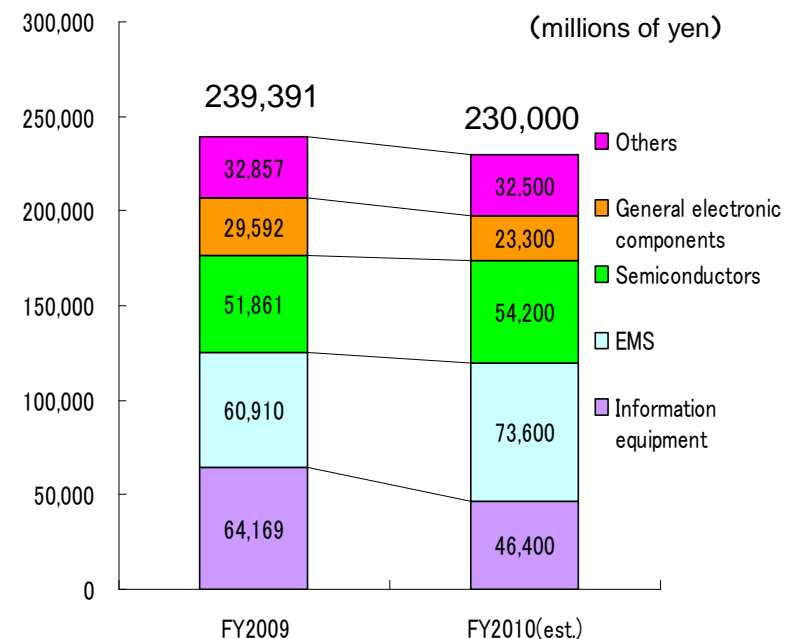
■ **Information equipment (Sales of PCs, PC peripherals, photograph and imaging products, original-brand products, and other products)**

A shift in the distribution channels of major PC manufacturers caused segment sales to decline. However, there were actions aimed at adding new products like SD memory cards for portable devices and at increasing sales of existing products.

## Consolidated Sales Forecast by Business Category (FY2009 and FY2010)

	FY2009		FY2010(forecast)		YOY Change	
	Net sales	Pct.	Net sales	Pct.	Change	Pct.change
Information equipment	64,169	26.8%	46,400	20.2%	-17,769	-27.7%
EMS	60,910	25.4%	73,600	32.0%	12,690	20.8%
Semiconductors	51,861	21.7%	54,200	23.6%	2,339	4.5%
General electronic components	29,592	12.4%	23,300	10.1%	-6,292	-21.3%
Others	32,857	13.7%	32,500	14.1%	-357	-1.1%
<b>Total</b>	<b>239,391</b>	<b>100.0%</b>	<b>230,000</b>	<b>100.0%</b>	<b>-9,391</b>	<b>-3.9%</b>

\* FY2009 means fiscal year ended March 2010. FY2010 means fiscal year ending March 2011



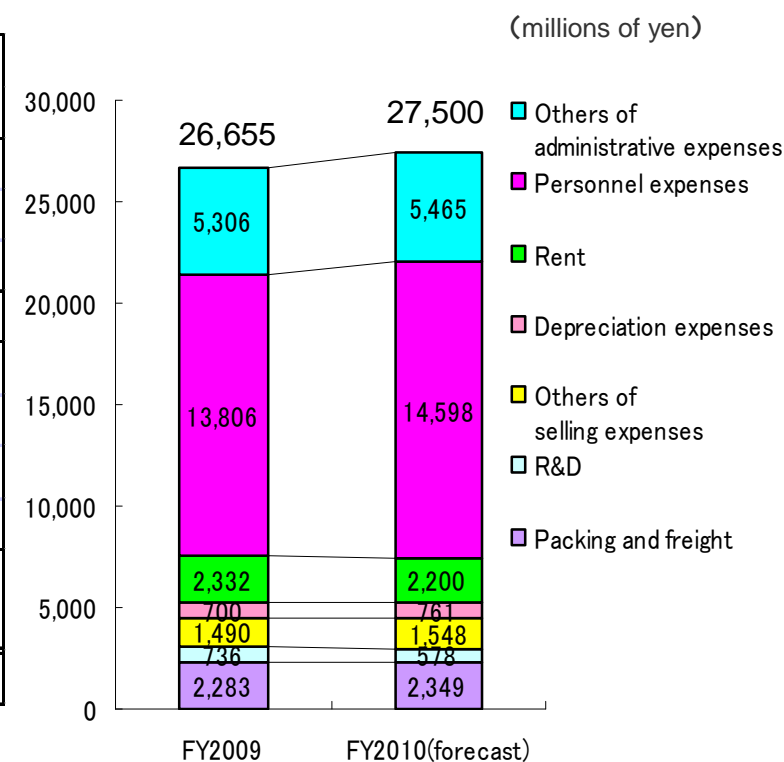
### Summary

- 「Information equipment」: Sales decrease 17,769 million yen because of a shift in the distribution channels of major PC manufacturers.
- 「EMS」: Sales increase 12,690 million yen because of a recovery in EMS orders in Japan from manufacturers of amusement equipment and overseas from manufacturers of office equipment and climate control equipment.
- 「Semiconductors」: Sales increase 2,339 million yen because of increase of semiconductors used in digital consumer electronics.
- 「General electronic components」: Sales decrease 6,292 million yen because of specifications change of customers.
- 「Others」: Sales decrease 357 million yen due to lower sales of golf products.

## ■ Selling, General and Administrative Expense (FY2009 and FY2010)

	FY2009		FY2010(forecast)		YOY Chang
	Amount	Pct.	Amount	Pct.	
Packing and freight	2,283	8.6%	2,349	8.5%	66
R&D	736	2.8%	578	2.1%	-158
Others	1,490	5.6%	1,548	5.6%	58
Total selling expenses	4,509	16.9%	4,475	16.3%	-34
Depreciation expenses	700	2.6%	761	2.8%	61
Rent	2,332	8.7%	2,200	8.0%	-132
Personnel expenses	13,806	51.8%	14,598	53.1%	792
Others	5,306	19.9%	5,465	19.9%	159
Total administrative expenses	22,144	83.1%	23,024	83.7%	880
Total SG&A expenses	26,655	100.0%	27,500	100.0%	845

\* FY2009 means fiscal year ended March 2010. FY2010 means fiscal year ending March 2011



### Summary

■ **Administrative expenses : Personnel expenses increased 792 million yen. Increase 464 person. (4,885→5,349)**

- a) increase : Cyberfront Group joined KAGA group (increased 145 headcount).  
EMS factories in overseas increased 386 headcounts (KAGA Thailand, KAGA Shenzhen, KAGA Taxan Suzhou, KAGA Component Malaysia)
- b) decrease : Factries in China of KAGA Component group decrease 76 headcount

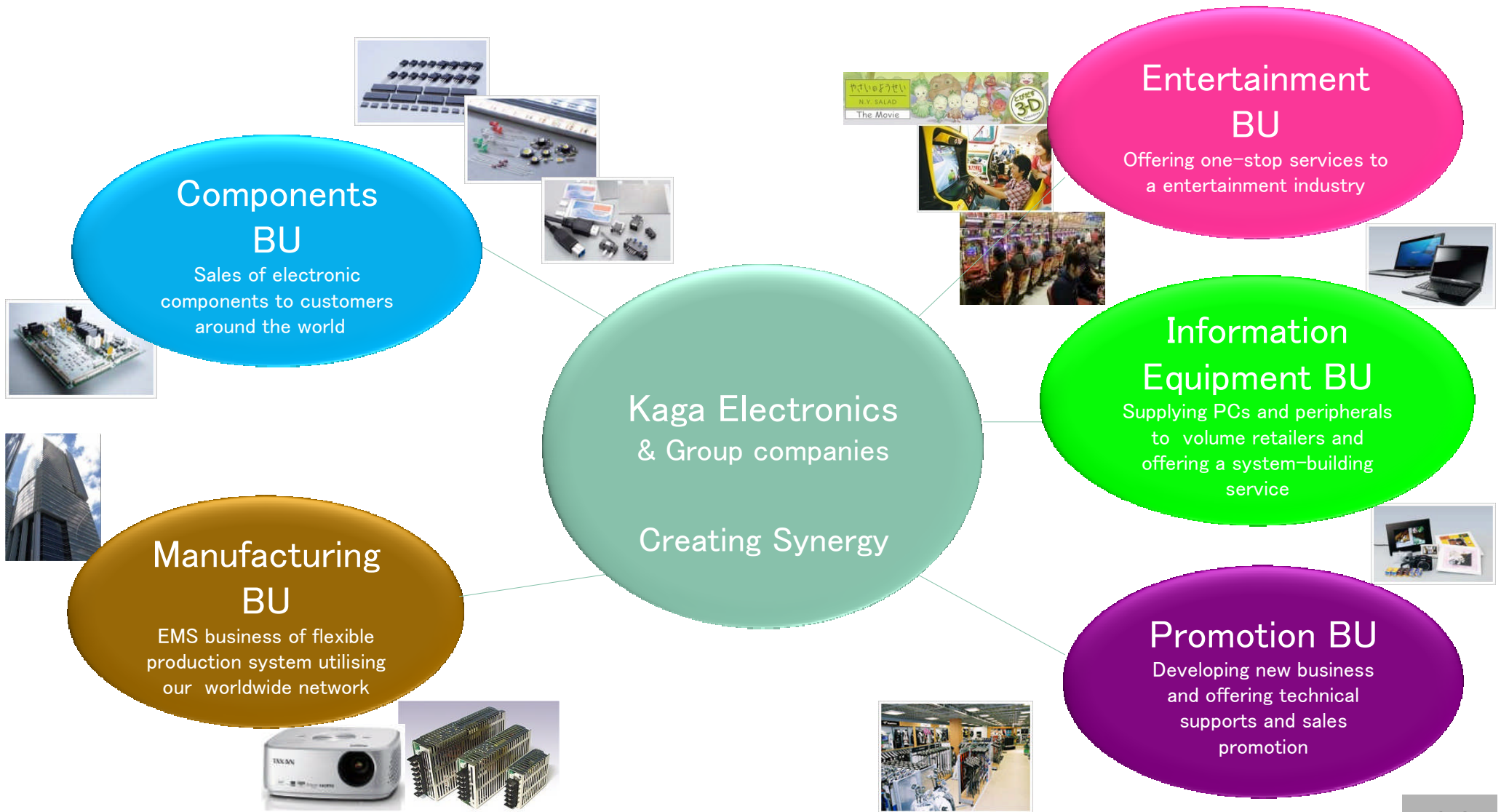
# Topics of October - December 2010

1. Strategic Business Unit Management
2. Annual Reorganization of KAGA Group





# 1. Strategic Business Unit Management



## 2. Annual Reorganization of KAGA Group Businesses

### ■ Reorganization of KAGA Group

#### ■ To face a rapidly changing electronics industry

- Promote global scale competition
- Active and efficient management
- Leveraging quick-decision making process and synergy effect with strategic business unit management system

#### ■ Recent reorganization of KAGA Group

- Apr. 2010 KAGA IMPEX LLC liquidated
- Jan. 2010 KAGA (Shenzhen) electronics technology development co., ltd. liquidated
- Sep. 2010 KAGA IMPEX CO., LTD. liquidated
- 2011 Liquidation planned for GUANZHOU KEIDENKI LTD



## 2. Reorganization of KAGA Group

### ■ Integration of group companies with similar business categories

- ① KAGA TECH to absorb OTSUKA ELECTRIC  
Pursuing business scale and efficient management

	Remaining	Merged
Corporate Name	KAGA TECH CO.,LTD.	OTSUKA ELECTRIC CO.,LTD.
Activities	Design,development and sales of electronic device,sales of electronic components	Sale,import and export of electronic devices
Established	June,1988	May,1981
Headquarters	Chiyoda-ku,Tokyo	Kawasaki City,Kanagawa
Paid-in Capital	Yen 60 million (100% owned by Kaga)	Yen 30 million (100% owned by Kaga)
Employees	15	32
End of Fiscal Year	March 31	March 31

## 2. Reorganization of KAGA Group

### ■ Integration of subsidiaries in Hong Kong and Shenzhen

#### ② Merger of KAGA DEVICES and NUMATA (HK)

Pursuing business scale and efficient management for Chinese market

KAGA DEVICES CO.,LTD. merged with NUMATA (H.K.) CO.,LTD, formerly a dedicated distributor for NEC Electronics, on October 1,2010.

Then KAGA DEVICES (HK), a subsidiary of KAGA DEVICES CO., LTD., is going to acquire NUMATA (H.K.) as of April 1, 2011

#### Corporate Profile after merger

Corporate Name	KAGA DEVICES(H.K.) LTD.
Main business	Development, design and sales of semiconductors and data communications equipment
Established	February 2003
Headquarters	29 <sup>th</sup> FL, Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong
Paid-in Capital	HK\$42.6 million (KAGA DEVICES 51%・KAGA 49%)
End of Fiscal Year	March 31



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