



Information Meeting for The First Half of Fiscal Year ending March 2012

November 24, 2011

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Financial Highlights

First Half of FY3/2012

Consolidated Statement of Income

(million yen)

	1H FY3/2011		1H FY3/2012		Changes	
	Amount	Pct.	Amount	Pct.	Amount	Pct.
Net Sales	120,470	100.0%	116,271	100.0%	-4,199	-3.5%
Cost of sales	104,410	86.7%	101,913	87.7%	-2,497	-2.4%
Gross profit	16,060	13.3%	14,357	12.3%	-1,703	-10.6%
SG&A expenses	13,465	11.2%	13,551	11.7%	86	0.6%
Operating income	2,594	2.2%	805	0.7%	-1,789	-69.0%
Non-operating income	388	0.3%	381	0.3%	-7	-1.8%
Non-operating expence	338	0.3%	257	0.2%	-81	-24.0%
Ordinary income	2,644	2.2%	929	0.8%	-1,715	-64.9%
Extraordinary items	-23	0.0%	51	0.0%	74	-321.7%
Income before income taxes	2,621	2.2%	980	0.8%	-1,641	-62.6%
Income taxes	1,084	0.9%	677	0.6%	-407	-37.5%
Income taxes-deferred	104	0.09%	-48	-0.04%	-152	-146.2%
Minority interests	20	0.02%	29	0.02%	9	45.0%
Net income	1,412	1.2%	321	0.3%	-1,091	-77.3%

Segment information

(million yen)

	1H FY3/2011		1H FY3/2012		Changes	
	Net sales	Pct.	Net sales	Pct.	Amount	Pct.
	Segment income		Segment income			
Electronic components	88,528	73.5%	83,411	71.7%	-5,117	-5.8%
	2,042	78.7%	636	79.0%	-1,406	-68.9%
Information equipment	24,384	20.2%	26,591	22.9%	2,207	9.1%
	139	5.4%	-77	-9.6%	-216	-155.4%
Software	2,715	2.3%	1,533	1.3%	-1,182	-43.5%
	298	11.5%	163	20.2%	-135	-45.3%
Other	4,841	4.0%	4,734	4.1%	-107	-2.2%
	209	8.1%	142	17.6%	-67	-32.1%
Total	120,470	100.0%	116,271	100.0%	-4,199	-3.5%
	2,594	100.0%	805	100.0%	-1,789	-69.0%

* Figures of each segment income are not inter-segment adjusted other than total.

Summary

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

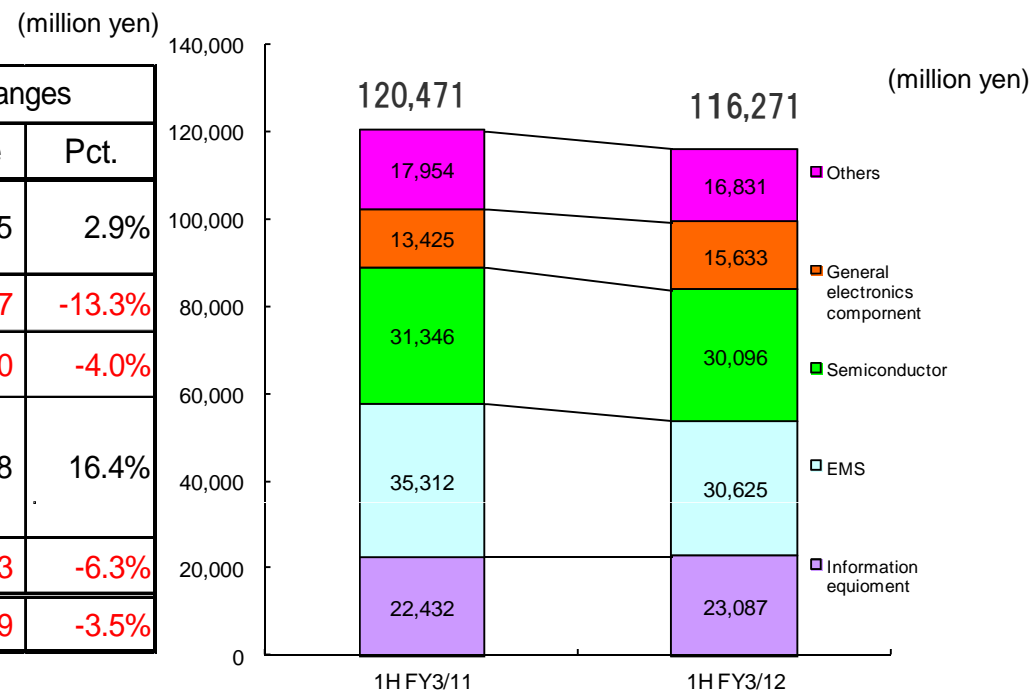
Sales activities focused on increasing sales to current customers, capturing more orders from overseas for the EMS business, increasing sales to companies in China and other countries. However, orders in Japan decreased from EMS customers and other users due to lower output at clients because of the Great East Japan Earthquake and slowing consumer spending. The result was segment sales of 83,411 million yen.

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

Performance reflected sales activities to increase sales of current products like PCs and PC peripherals, the addition of new products, and higher orders of terrestrial digital TV broadcast tuners following the July end of terrestrial analog TV broadcasts in Japan. The result was segment sales of 26,591 million yen.

Net Sales by Product (Reference)

	1H FY3/2011		1H FY3/2012		Changes	
	Net sales	Pct.	Net sales	Pct.	Change	Pct.
Information equipment	22,432	18.6%	23,087	19.9%	655	2.9%
EMS	35,312	31.1%	30,625	26.3%	-4,687	-13.3%
Semiconductor	31,346	26.0%	30,096	25.9%	-1,250	-4.0%
General electronics component	13,425	11.1%	15,633	13.4%	2,208	16.4%
Others	17,954	14.9%	16,831	14.5%	-1,123	-6.3%
Total	120,470	100.0%	116,271	100.0%	-4,199	-3.5%



Summary

■ EMS sales: Down 4,687 million yen (-13.3%)

EMS orders increased outside Japan, but these orders were lower in Japan mainly because of a decline in output at client because of the Great East Japan Earthquake and slowing consumer spending. The result was a decrease in sales of 4,687 million yen from one year earlier to 30,625 million yen.

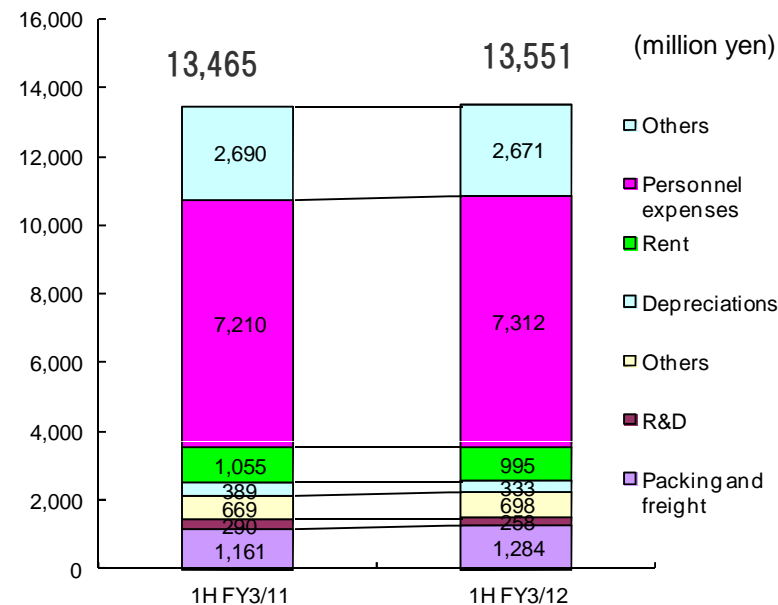
■ Semiconductor sales: Down 1,250 million yen (-4.0%)

Orders declined mainly because client for semiconductors cut production volume in response to the Great East Japan Earthquake and slowing consumer spending. The result was a decrease in sales of 1,250 million yen from one year earlier to 30,096 million yen.

Selling, General and Administrative Expenses

(million yen)

	1H FY3/2011		1H FY3/2012		Change	
	Amount	Pct.	Amount	Pct.	Change	Pct.
Packing and freight	1,161	8.6%	1,284	9.5%	123	10.6%
R&D	290	2.2%	258	1.9%	-32	-11.0%
Others	669	5.0%	698	5.2%	29	4.3%
Total selling expenses	2,120	15.7%	2,240	16.5%	120	5.7%
Depreciations	389	2.9%	333	2.5%	-56	-14.4%
Rent	1,055	7.8%	995	7.3%	-60	-5.7%
Personnel expenses	7,210	53.5%	7,312	54.0%	102	1.4%
Others	2,690	20.0%	2,671	19.7%	-19	-0.7%
Total administrative expenses	11,344	84.2%	11,311	83.5%	-33	-0.3%
Total SG&A expenses	13,465	100.0%	13,551	100.0%	86	0.6%



Summary

■ Selling expenses: Packing and freight :

High packing and freight expenses at KAGA ELECTRONICS and KAGA HIGHTECH were responsible for a 123 million yen increase over one year earlier.

■ Administrative expenses: Personnel expenses:

Personnel expenses were increased by 102 million yen and the workforce increased by 111 (5,439 to 5,550) from one year earlier.

*Increases: +178 workers at KAGA (Shenzhen) and +179 workers at KAGA Taxan (Suzhou) for overseas EMS factories

*Decreases: -223 workers at factories in China and Malaysia of the KAGA Components group

Consolidated Balance Sheets

(million yen)

	End of FY3/11	End of 1H FY3/12	Change
(ASSETS)	114,686	110,147	-4,539
Current assets	92,876	89,827	-3,049
Cash and cash equivalents	11,926	10,331	-1,595
Notes and account receivable-trade	54,173	51,883	-2,290
Merchandise and finished goods	15,775	16,126	351
Goods in progress	555	776	221
Raw materials and other supplies	3,189	3,597	408
Others	7,258	7,114	-144
Fixed assets	21,810	20,320	-1,490
Property, plant and equipment	9,724	9,445	-279
Intangible assets	2,599	2,391	-208
Investments and other assets	9,485	8,483	-1,002
Total assets	114,686	110,147	-4,539

	End of FY3/11	End of 1H FY3/12	Change
(LIABILITIES)	66,087	63,049	-3,038
Current liabilities	56,987	54,875	-2,112
Notes and accounts payable-trade	40,790	36,257	-4,533
Short-term bank loans	8,505	12,525	4,020
Others	7,692	6,093	-1,599
Long-term liabilities	9,099	8,173	-926
Long-term bank loans	4,636	3,729	-907
Others	4,463	4,444	-19
(NET ASSETS)	48,598	47,098	-1,500
Shareholders' equity			
Paid-in capital	12,133	12,133	0
Capital surplus	13,912	13,912	0
Retained earnings	25,038	24,946	-92
Treasury stock	-1,332	-1,332	0
Valuation and translation adjustment	-2,817	-4,129	-1,312
Minority interests	1,664	1,567	-97
Total liabilities and net assets	114,686	110,147	-4,539

Consolidated Cash Flows

(million yen)

	1H FY3/2011	1H FY3/2012	Change
Operating activities	4,591	-2,446	-7,037
Investing activities	-1,563	-1,449	114
Financials activities	-3,024	2,735	5,759
Net change in cash and cash equivalents	-351	-383	-32
Increase (decrease) in cash and cash equivalents	-348	-1,544	-1,196
Cash and cash equivalents at beginning of year	11,797	11,796	-1
Cash and cash equivalents at end of year	11,449	10,251	-525

Summary

- Operating activities:** Net cash used by operating activities was 2,446 million yen primarily due to a decrease in notes and accounts payable-trade
- Investing activities:** Net cash used in investing activities was 1,449 million yen primarily due to payments for the purchase of property, plant and equipment.
- Financing activities:** Net cash provided by financing activities was 2,735 million yen primarily due to an increase in Increase in short-term loans payable

Forecast for FY3/2012

Consolidated Statement of Income

(million yen)

	FY3/2011(actual)		FY3/2012(plan)		Change	
	Amount	Pct.	Amount	Pct.	Change	Pct.change
Net sales	237,951	100.0%	238,000	100.0%	49	0.0%
Cost of sales	207,298	87.1%	209,000	87.8%	1,702	0.8%
Gross profit	30,653	12.9%	29,000	12.2%	-1,653	-5.4%
SG&A expenses	27,089	11.4%	26,900	11.3%	-189	-0.7%
Operating income	3,563	1.5%	2,100	0.9%	-1,463	-41.1%
Non-operating income	175	0.07%	500	0.2%	325	185.7%
Ordinary income	3,738	1.6%	2,600	1.1%	-1,138	-30.4%
Net income	1,854	0.9%	1,300	0.5%	-554	-29.9%

Forecast for FY3/2012 (Consolidated Forecast by Segment)

(million yen)

	FY3/2011 (Actual)		FY3/2012 (Forecast)		Changes	
	Net sales	Pct.	Net sales	Pct.	Amount	Pct.
	Segment income		Segment income			
Electronic components	171,576	72.1%	162,500	68.3%	-9,076	-5.3%
	2,901	81.4%	800	38.1%	-2,101	-72.4%
Information equipment	50,885	21.4%	55,000	23.1%	4,115	8.1%
	72	2.0%	240	11.4%	168	233.3%
Software	5,687	2.4%	8,200	3.4%	2,513	44.2%
	487	13.7%	730	34.8%	243	49.9%
Other	9,801	4.1%	12,300	5.2%	2,499	25.5%
	230	6.5%	330	15.7%	100	43.5%
Total	237,951	100.0%	238,000	100.0%	49	0.0%
	3,563	100.0%	2,100	100.0%	-1,463	-41.1%

Summary

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

There are concerns about the impact of the flood in Thailand on the business operations of the KAGA Group. In response, group companies are working on increasing sales to current customers and adding new products and business activities in order to expand operations.

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

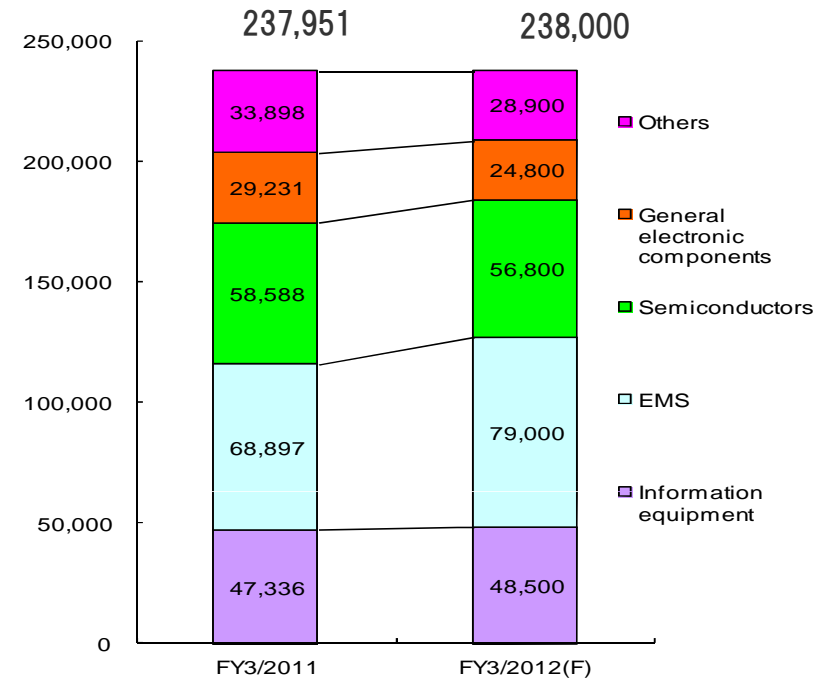
The primary goals to increase sales of existing products, such as PCs and PC peripherals, and to add more new products in categories like portable devices and increase sales of existing products in these categories.

Forecast for FY3/2012 (Net Sales by Product)

(million yen)

	FY3/2011		FY3/2012 (F)		Changes	
	Net sales	Pct.	Net sales	Pct.	Change	Pct.
Information equipment	47,336	19.9%	48,500	20.4%	1,164	2.5%
EMS	68,897	29.0%	79,000	33.2%	10,103	14.7%
Semiconductors	58,588	24.6%	56,800	23.9%	-1,788	-3.1%
General electronic components	29,231	12.3%	24,800	10.4%	-4,431	-15.2%
Others	33,898	14.2%	28,900	12.1%	-4,998	-14.7%
Total	237,951	100.0%	238,000	100.0%	49	0.0%

(million yen)



Summary

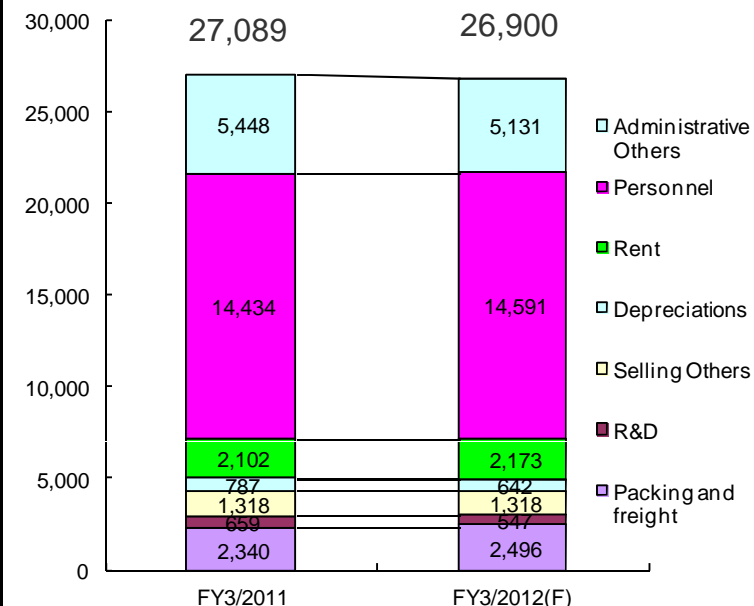
- **Information equipment:** Sales increased by 1,164 million yen (2.5%) because of growth in orders for PCS and PC peripherals and new products
- **EMS:** Sales increased by 10,103 million yen (14.7%) because of growth in orders in the overseas EMS business
- **Semiconductors:** Sales decreased 1,788 million yen (3.1%) mainly because of a downturn in shipments of TVs and digital consumer electronics
- **General electronic components:** Sales decreased 4,431 million yen (15.2%) mainly because of transfers of sales to the EMS business
- **Others:** Sales decreased 4,998 million yen (14.7%) mainly because of weaker demand in the golf product sales business

Forecast for FY3/2012 (Selling, General and Administrative Expenses)

(million yen)

	FY3/2011		FY3/2012(F)		Changes
	Amount	Pct.	Amount	Pct.	
Packing and freight	2,340	8.6%	2,496	9.3%	156
R&D	659	2.4%	547	2.0%	-112
Others	1,318	4.9%	1,318	4.9%	0
Total selling expenses	4,317	15.9%	4,361	16.2%	44
Depreciations	787	2.9%	642	2.4%	-145
Rent	2,102	7.8%	2,173	8.1%	71
Personnel expenses	14,434	53.3%	14,591	54.2%	157
Others	5,448	20.1%	5,131	19.1%	-317
Total administrative	22,771	84.1%	22,537	83.8%	-234
Total SG&A expenses	27,089	100.0%	26,900	100.0%	-189

(million yen)



Summary

■ Selling expenses:

Packing and freight – Increased by 156 million yen because of higher expenses at KAGA ELECTRONICS and KAGA HIGHTECH
 R&D – Decreased 112 million yen mainly because development of products at SI ELECTRONICS was completed

■ Administrative expenses:

Personnel expenses – Increased by 57 million yen *Primary cause is growth in the workforce at overseas EMS factories

Key Issues at the KAGA Group

1. **Cost cut**
2. **Rebuilding poorly performing subsidiaries**
3. **Create new businesses**

Key Issues at the KAGA Group (1)

1. Cost cut

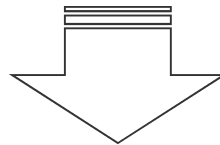
Reduce selling, general and administrative expenses

The KAGA Group's problem ⇒ Drop in earnings

(Causes)

- Weak sales

- Higher SG&A expenses



Large administrative workforce is holding down profitability.

Key Issues at the KAGA Group (2)

Measures to downsize the administrative workforce

Administrative departments ⇒ Lower the headcount

(1) Standardize tasks performed by group company administrative departments

(2) Downsize administrative staff by merging and liquidating subsidiaries

Technical departments ⇒ Use personnel as field application engineers who play a central role in sales activities

Cost-cutting measure

Switch from leased to company-owned head office building

First year after switch (2014)

Saving of about 100 million yen

Following years (starting in 2015)

Annual saving of about 400 million yen

Key Issues at the KAGA Group (3)

2. Rebuilding poorly performing subsidiaries

KAGA COMPONENTS
(Manufacturer of power supplies)



- (1) Thorough reexamination of the organizational structure
- (2) Reexamination of oversight of production processes
- (3) Development of highly profitable products

CYBERFRONT
(Game developer)



Improve management

KAGA COMPONENTS (HONG KONG) LTD.
(Overseas EMS business)

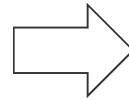


- (1) Reexamine manufacturing processes
- (2) Increase the volume of orders

Key Issues at the KAGA Group (4)

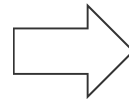
3. Create new businesses

(1) Expand overseas operations
(Hollowing out of Japanese
manufacturing sector)



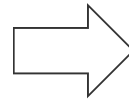
- Enlarge the overseas network
- Train overseas sales personnel
- Shift sales personnel from Japan to other countries
- Use M&A with companies in the same industry to compete with overseas companies
- Expand the infrastructure for overseas operations

(2) Add new products



- Seek new technologies and materials
- Target opportunities in new markets

(3) Expand activities involving the
environment



- Capture orders for LED lights, solar panels, storage batteries and other products

Expand overseas operations (1)

Aim is to expand overseas operations by establishing more business sites

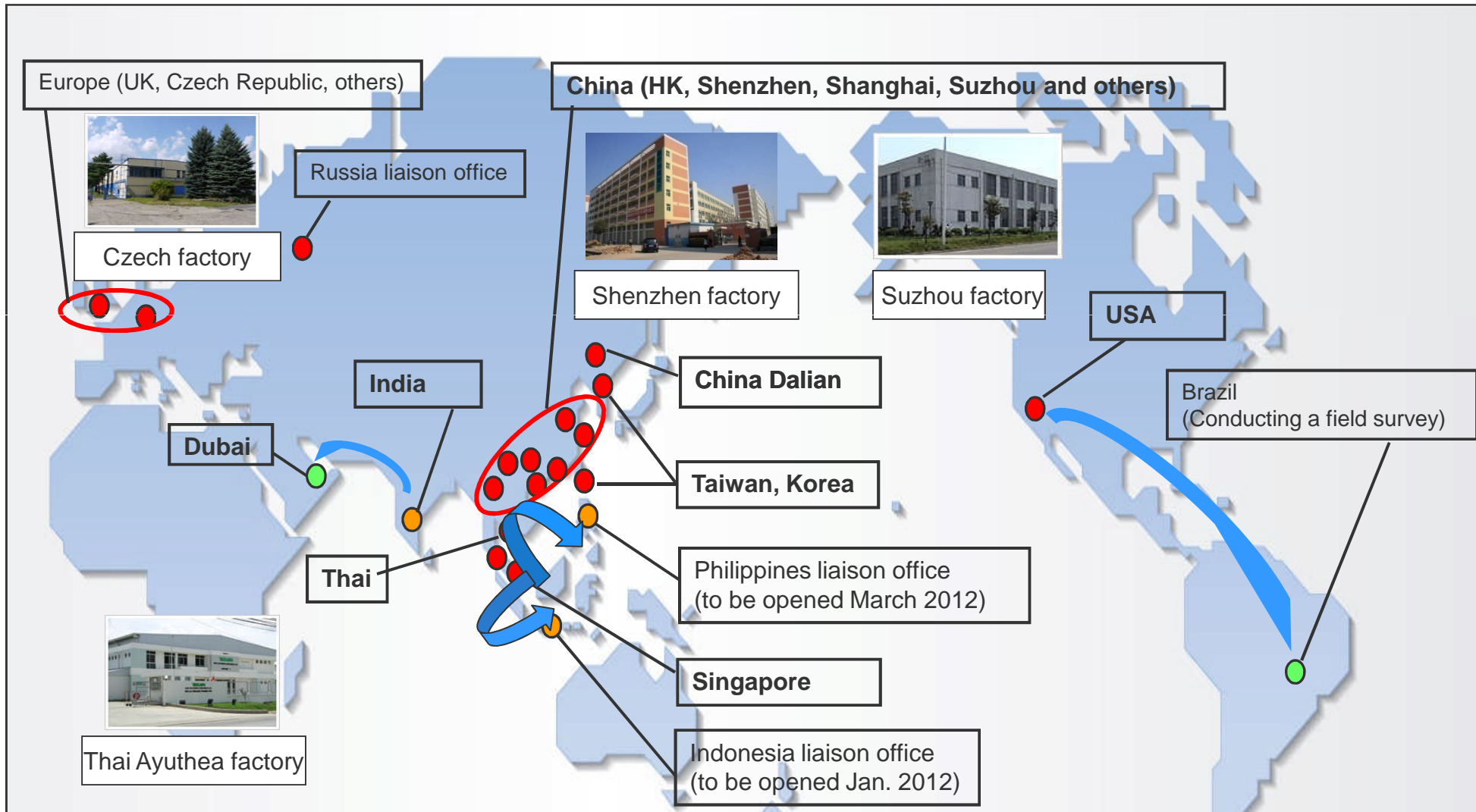
- Strategies**
- Strengthen operations in China (Beijing, Qingdao, Tianjin and cities in inland China)
 - Start operations in emerging countries (Asia, South America, Europe and other areas)
 - Develop relationships with local companies (move away from business activities that rely mostly on Japanese customers)

Operations in emerging countries

Established subsidiary in India (July 2011)	➔	Sells power semiconductors and electronic components of Mitsubishi Electric; goal is to serve Japanese and other companies in India. Will also be a base for extending operations to the Middle East and other nearby regions.
Indonesia Liaison Office (to be established in January 2012)	➔	Roles will be increasing sales to Japanese companies in Indonesia (audio products, office equipment, home appliances, etc.) and forming ties with other companies in Indonesia
Philippines Liaison Office (to be established in March 2012)	➔	Roles will be increasing sales to Japanese companies in the Philippines (automotive devices, etc.) and forming ties with other companies in the Philippines
Start operations in Brazil	➔	Studies are under way in order to establish a base for selling products to Japanese companies in Brazil

Expand overseas operations (2)

Overseas operations of KAGA Group





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