



# The Investors Meeting for a Results Briefing of the Interim FY 2008

September 26, 2007

KAGA ELECTRONICS CO., LTD. (TSE 1<sup>st</sup> section, 8154)

2-2-9 Hongo, Bunkyo-ku, Tokyo 113-8503 Tel: (03) 4455-3131 Fax: (03) 3815-6807

<http://www.taxan.co.jp>

# Financial Highlights of the Interim FY 2008

# Financial Highlights of Interim FY 2008

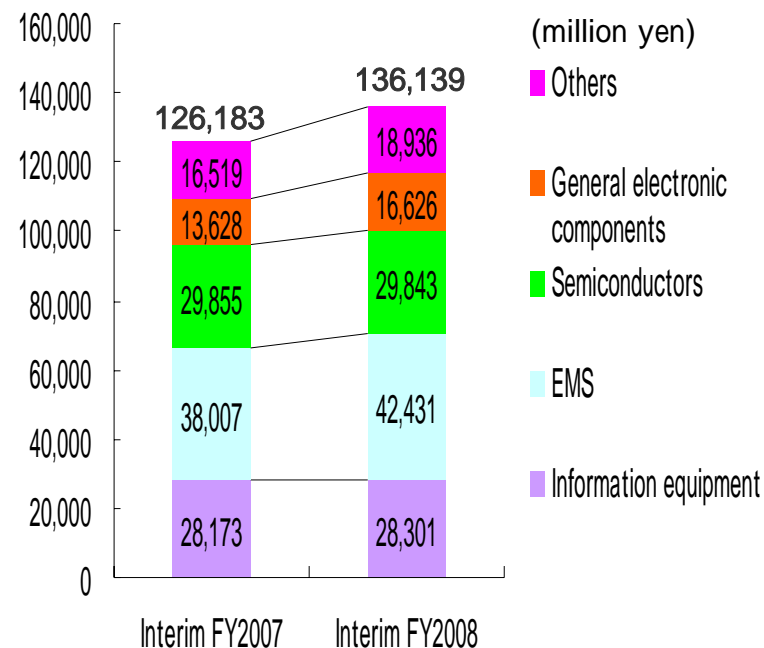
## Consolidated Statements of income

( million yen )

	Interim FY2007		Interim FY2008		Change
Net sales	126,183	100.00%	136,139	100.00%	9,956
Cost of sales	110,653	87.69%	119,310	87.64%	8,657
Gross Profit	15,530	12.31%	16,828	12.36%	1,298
Selling,general and administrative expenses	12,704	10.07%	13,951	10.25%	1,247
Operating income	2,826	2.24%	2,876	2.11%	50
Non-operating income	424	0.34%	482	0.36%	58
Non-operating expenses	209	0.17%	471	0.35%	262
Ordinary income	3,040	2.41%	2,887	2.12%	-153
Extraordinary income	-54	-0.04%	-591	-0.43%	-537
Income before income taxes and minority interests	2,987	2.37%	2,297	1.69%	-690
Income,Inhabitants and enterprise taxes	1,448	1.15%	1,459	1.07%	11
Income tax adjustment	-102	-0.08%	131	0.10%	233
Minority interest income/loss of consolidated subsidiaries	-4	-0.003%	-59	-0.04%	-55
Net income	1,645	1.30%	765	0.56%	-880

# Consolidated Sales by Business Category (Interim FY 2007 and 2008)

	Interim FY2007		Interim FY2008		Change
Information equipment	28,173	22.3%	28,301	20.8%	128
EMS	38,007	30.1%	42,431	31.2%	4,424
Semiconductors	29,855	23.7%	29,843	21.9%	-12
General electronic components	13,628	10.8%	16,626	12.2%	2,998
Others	16,519	13.1%	18,936	13.9%	2,417
<b>Total</b>	<b>126,183</b>	<b>100.0%</b>	<b>136,139</b>	<b>100.0%</b>	<b>9,956</b>



## Major changes

### EMS : Sales up ¥ 4,424 million (+11.6%)

Sales in this segment increased by 4,424 million yen year on year to 42,431 million yen. The primary reason was higher orders for LCD units used in amusement equipment in Japan, a market sector where the KAGA ELECTRONICS Group has a strong position.

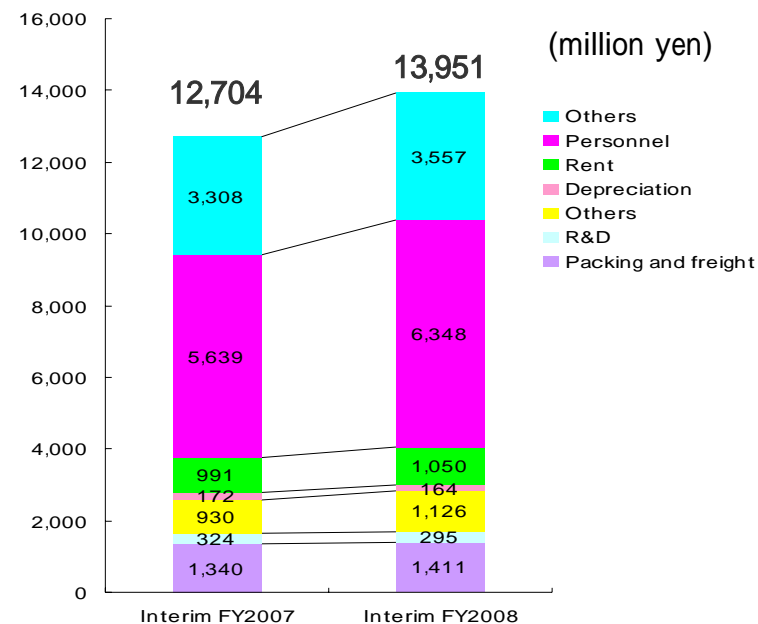
### General electronic components : Sales up ¥ 2,998million (+21.9%)

OTSUKA ELECTRIC, which sells thermal products and general electronic components, joined the KAGA ELECTRONICS Group in December 2006. As a result, this company is making its first full-year contribution to consolidated performance in the current fiscal year. In addition, sales in this segment benefited from growth in sales of electronic components used in amusement equipment in Japan. The result was a year-on-year increase of 2,998 million yen in segment sales.

# • Selling, General and Administrative Expenses (Interim 2007 and 2008)

Changes in SG&A expenses (million yen)

	Interim FY2007		Interim FY2008		Change
	Amount	Pct.	Amount	Pct.	
Packing and freight	1,340	10.5%	1,411	10.1%	71
R&D	324	2.6%	295	2.1%	-29
Others	930	7.3%	1,126	8.1%	196
Total selling expenses	2,594	20.4%	2,832	20.3%	238
Depreciation	172	1.4%	164	1.2%	-8
Rent	991	7.8%	1,050	7.5%	59
Personnel	5,639	44.4%	6,348	45.5%	709
Others	3,308	26.0%	3,557	25.5%	249
Total administrative expenses	10,110	79.6%	11,119	79.7%	1,009
<b>Total SG&amp;A</b>	<b>12,704</b>	<b>100.0%</b>	<b>13,951</b>	<b>100.0%</b>	<b>1,247</b>



## Major changes

**Selling expenses:** OTSUKA ELECTRIC, which was consolidated in the second half of the previous fiscal year, HANZAWA (HK), which was consolidated in the current fiscal year, and newly established subsidiary KAGA AMUSEMENT all contributed to growth in selling expenses. There was also growth in advertising, marketing and sales promotion expenses at KAGA COMPONENTS. The result was a year-on-year increase of 238 million yen in selling expenses.

**Administrative expenses:** Due to the inclusion of expenses at OTSUKA ELECTRIC, HANZAWA (HK) and KAGA AMUSEMENT, administrative expenses were 1,009 million yen higher than one year ago. In addition, personnel expenses climbed because of growth in the workforce as the scale of operations increased.

\*Increase in personnel expenses: The Group's workforce increased by 229 during the first half of the current fiscal year (43 in sales departments, 59 in administrative departments, 48 in technical departments and 79 in manufacturing and other positions).

# Financial Highlights of Interim FY 2008

## Consolidated Balance sheets

(million yen)

	Interim FY2007	Interim FY2008	Change
(ASSETS)	115,745	123,714	7,969
Current assets	98,597	105,644	7,047
Cash and cash equivalents	14,649	14,174	-475
Notes and accounts	59,780	65,515	5,735
Inventories	19,481	20,506	1,025
Others	4,687	5,449	762
Fixed assets	17,148	18,070	922
Property, plant and equipment	5,212	5,132	-80
Intangible assets	1,324	1,884	560
Investment and other assets	10,611	11,052	441
Total assets	115,745	123,714	7,969

	Interim FY2007	Interim FY2008	Change
(LIABILITIES)	65,128	70,764	5,636
Current liabilities	58,387	66,190	7,803
Notes and accounts payable	48,217	50,127	1,910
Short-term bank loans	4,714	9,823	5,109
Others	5,456	6,240	784
Long-term liabilities	6,741	4,574	-2,167
Long-term bank loans	3,437	1,370	-2,067
Others	3,304	3,204	-100
(NET ASSETS)	50,617	52,950	2,333
Owners' equity			
Paid-in capital	12,133	12,133	0
Capital surplus	13,912	13,912	0
Earned surplus	23,037	25,210	2,173
Treasury stock	-76	-83	-7
Valuation and translation	1,329	1,714	385
Minority interests	281	61	-220
Total liabilities and net assets	115,745	123,714	7,969

# Cash Flows (FY 2007 and Interim FY 2008)

	Fiscal 2007	Interim FY 2008	(million yen) Change
Operating activities	-1,120	-655	465
Investing activities	-2,141	-818	1,323
Financing activities	-2,586	1,034	3,620
Effect of foreign exchange	274	46	-228
Net change in cash and cash equivalents	-5,573	-394	5,179
Cash and cash equivalents at beginning of year	20,131	14,558	-5,573
Cash and cash equivalents at end of year	14,558	14,164	-394

## Major changes

### Operating activities

Net cash used in operating activities was 655 million yen . The major reasons were a decrease in notes and accounts receivable and an increase in income tax payments.

### Investing activities

Net cash used in investing activities was 818 million yen. The primary uses of cash were payments for the purchase of investment securities and for the purchase of property, plant and equipment.

### Financing activities

Net cash provided by financing activities was 1,034 million yen.. Cash was provided mainly by proceeds from short-term bank loans.

# Forecast for the Fiscal Year Ending March 2008

## Statements of income FY07 Performance and FY08 (Consolidated)

(million yen)

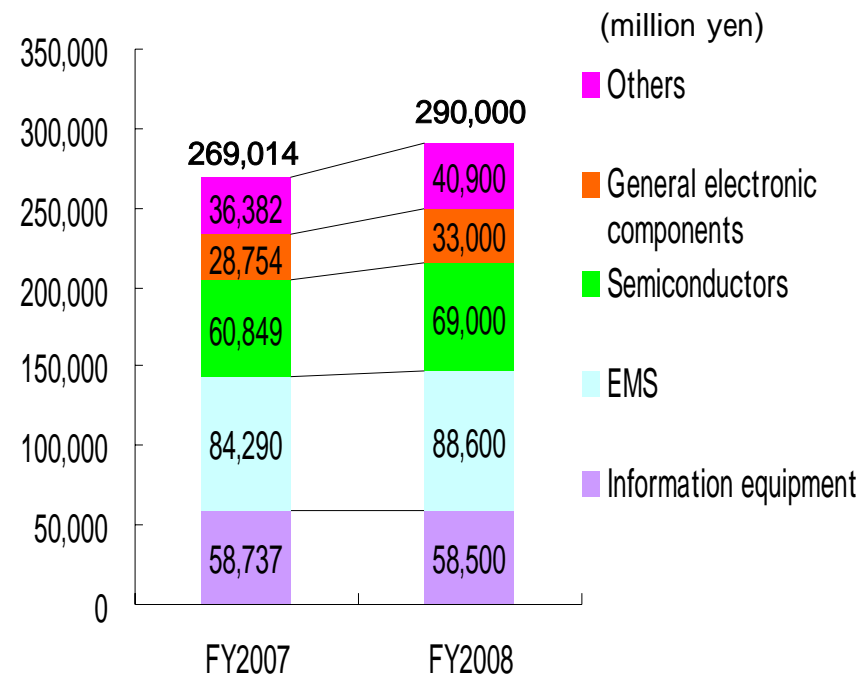
	Fiscal07		Fiscal 2008 (est.)		Change
Net sales	269,014	100.0%	290,000	100.0%	20,986
Cost of sales	236,214	87.8%	254,350	87.7%	18,136
Gross profit	32,799	12.2%	35,650	12.3%	2,851
Selling, general and administrative expenses	25,884	9.6%	27,800	9.6%	1,916
Operating income	6,915	2.6%	7,850	2.7%	935
Non-operating income	490	0.2%	250	0.1%	-240
Ordinary income	7,404	2.8%	8,100	2.8%	696
Extraordinary income and losses	5	0.0%	-150	-0.1%	-155
Income before income taxes and minority interest	7,410	2.8%	7,950	2.7%	540
Income tax	3,067	1.1%	3,750	1.3%	683
Net income	4,343	1.6%	4,200	1.4%	-143



# Consolidated Sales Forecast by Business Category (Fiscal 2007 and 2008)

(million yen)

	Interim FY2007		Interim FY2008		Change	%
Information equipment	58,737	21.8%	58,500	20.2%	-237	-0.4%
EMS	84,290	31.3%	88,600	30.6%	4,310	5.1%
Semiconductors	60,849	22.6%	69,000	23.8%	8,151	13.4%
General electronic components	28,754	10.7%	33,000	11.4%	4,246	14.8%
Others	36,382	13.5%	40,900	14.1%	4,518	12.4%
<b>Total</b>	<b>269,014</b>	<b>100.0%</b>	<b>290,000</b>	<b>100.0%</b>	<b>20,986</b>	<b>7.8%</b>



## Major changes

**EMS:** Sales were up 4,310 million yen (5.1%) because of strong sales of LCD units used in amusement equipment in Japan and growth in applications for overseas EMS operations.

**Information equipment:** Although a downturn in sales of PC-related products is foreseen, sales were down only 237 million yen (0.4%) year on year because of higher sales of new models of portable audio products in the United States.

**Semiconductors:** Higher sales of semiconductors used in amusement equipment and digital televisions were mainly responsible for the 8,151 million yen (13.4%) increase in sales.

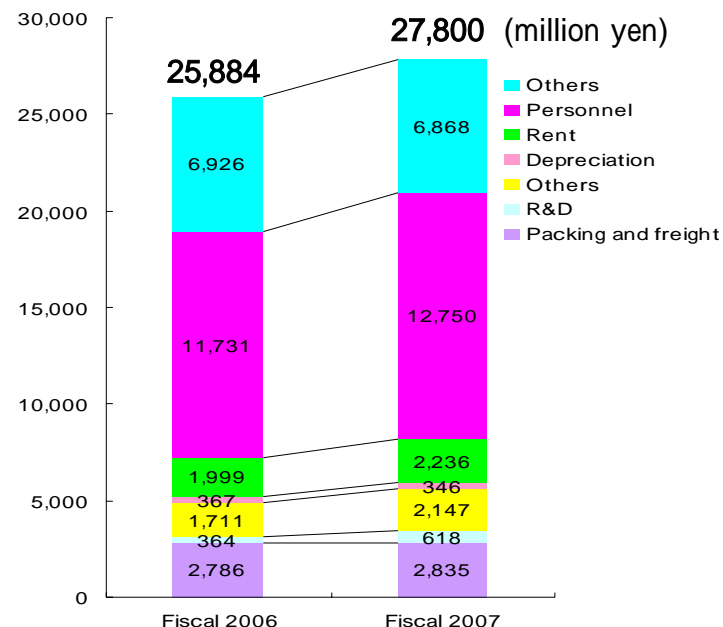
**General electronic components:** Sales increased 4,246 million yen (14.8%) because of higher sales at OTSUKA ELECTRIC and growth in sales of electronic components used in amusement equipment.

**Others:** Higher sales of Kodak products and new products resulted in sales growth of 4,518 million yen (12.4%).

# • Selling, General and Administrative Expense Forecast (Fiscal 2007 and 2008)

Changes in SG&A expenses (million yen)

	Interim FY2007		Interim FY2008		Change
	Amount	Pct.	Amount	Pct.	
Packing and freight	2,786	10.8%	2,835	10.2%	49
R&D	364	1.4%	618	2.2%	254
Others	1,711	6.6%	2,147	7.7%	436
<b>Total selling expenses</b>	<b>4,861</b>	<b>18.8%</b>	<b>5,600</b>	<b>20.1%</b>	<b>739</b>
Depreciation	367	1.4%	346	1.2%	-21
Rent	1,999	7.7%	2,236	8.0%	237
Personnel	11,731	45.3%	12,750	45.9%	1,019
Others	6,926	26.8%	6,868	24.7%	-58
<b>Total administrative expenses</b>	<b>21,023</b>	<b>81.2%</b>	<b>22,200</b>	<b>79.9%</b>	<b>1,177</b>
<b>Total SG&amp;A expenses</b>	<b>25,884</b>	<b>100.0%</b>	<b>27,800</b>	<b>100.0%</b>	<b>1,916</b>



## Major changes

**Selling expenses:** OTSUKA ELECTRIC, which was consolidated in the second half of the previous fiscal year, HANZAWA (HK), which was consolidated in the current fiscal year, and newly established subsidiary KAGA AMUSEMENT all contributed to growth in selling expenses. There was also growth in research and development expenses and advertising, marketing and sales promotion expenses at KAGA COMPONENTS. The result was a year-on-year increase of 739 million yen in selling expenses.

**Administrative expenses:** Due to the inclusion of expenses at OTSUKA ELECTRIC, HANZAWA (HK) and KAGA AMUSEMENT, administrative expenses were 1,177 million yen higher than one year ago. In addition, personnel expenses climbed because of growth in the workforce as the scale of operations increased.

\*Increase in personnel expenses: There was a net increase of 51 in the Group's workforce during the first half of the current fiscal year (increases of 25 in sales departments, 31 in administrative departments and 70 in technical departments and a decrease of 75 in manufacturing positions).

## ~ KAGA ELECTRONICS Group Subsidiaries and Overseas Strategy ~

**I. KAGA COMPONENTS**

**II. KAGA HIGHTECH**

**III. Overseas Strategy**

**IV. KAGA SPORTS/KGF**

# I. KAGA COMPONENTS

# Profile of KAGA COMPONENTS

KAGA COMPONENTS CO.,LTD.

Name: KAGA COMPONENTS CO., LTD.

Established: March 1968

Capital: ¥400 million

Head office: 2-2-9 Hongo, Bunkyo-ku, Tokyo

President: Yukio Takashi (director of KAGA ELECTRONICS)

Employees: 318

Activities: Development, design, manufacture and sale of power supplies  
Accessories for AV remote controls, etc.

Development, manufacture and sale of projectors and other finished  
electronic products and outsourced assembly of circuit boards

Branches: Osaka, Hamamatsu

Factories: Niigata, Kumamoto

Affiliates: KAGA COMPONENTS (MALAYSIA), KAGA COMPONENTS (H  
KONG), GUANGZHOU KEIDENKI, DONGGUAN POWERTEK  
ELECTRONICS, KAGA INSTRUMENTS SHANTOU



# Activities of KAGA COMPONENTS

~ KAGA COMPONENTS handles all EDMS operations of the KAGA ELECTRONICS Group ~

Advancing from EMS to EDMS    The transition from a “kitting business” to a “fabrication business”

Projector business

Planning, development, manufacture and sale of TAXAN projectors

DMS business

Development and manufacturing services for manufacturers in Japan

Power supply assembly business

Planning, development, manufacture and sale of power supply products using KAGA's own brands

Data Projector



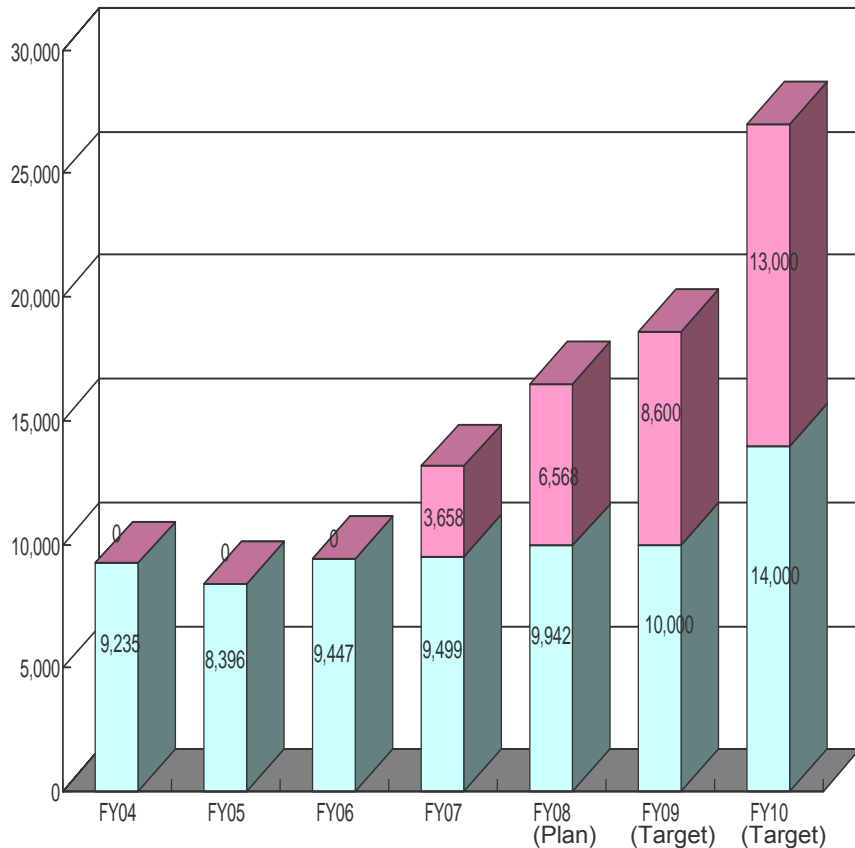
Supply



# KAGA COMPONENTS Sales and Earnings

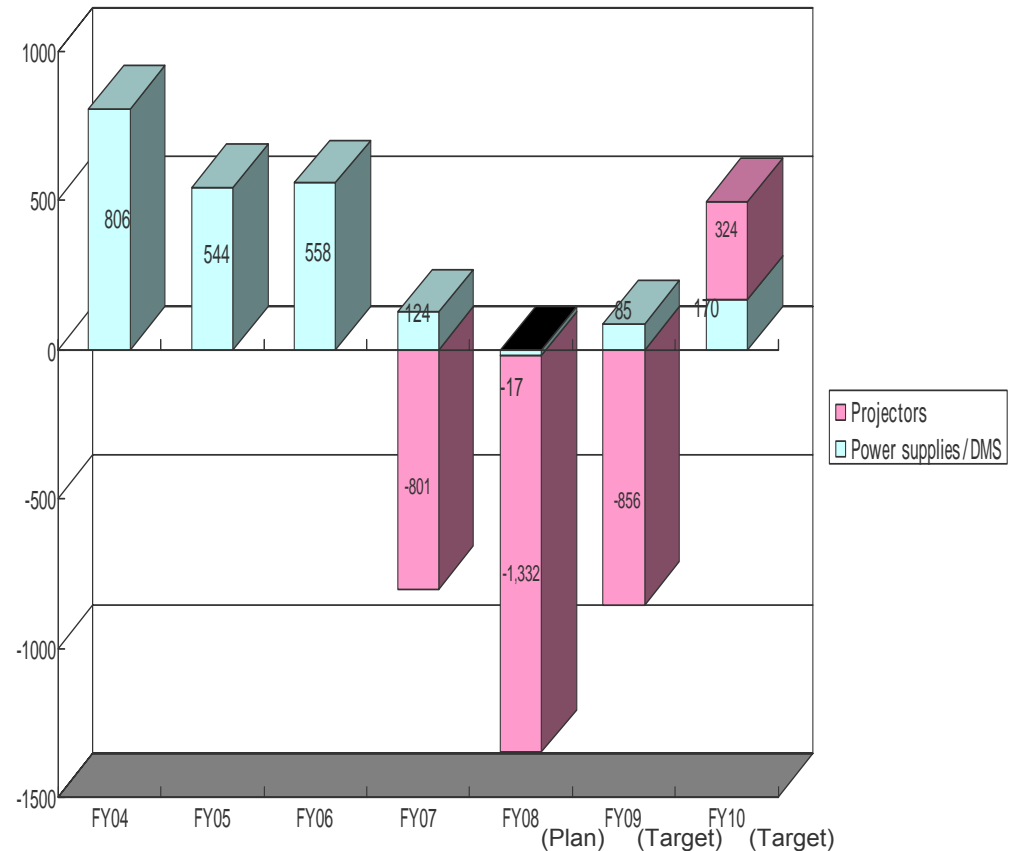
## < Net sales >

(Unit: Million yen)



## < Ordinary income >

(Unit: Million yen)



DMS business is included in the power supply business in the graphs.

# KAGA COMPONENTS and the Projector Business (1)

## ~ Highlights of the Projector Business ~

**2000** Started selling the projectors of PLUS Vision, a subsidiary of office products manufacturer PLUS, at major home electronics retailers in Japan.

**2001** In addition to selling finished products, **KAGA ELECTRONICS** started assisting Plus Vision by supplying components and providing EMS services.



TAXAN projector  
PS Series

**2006** Plus Vision asked **KAGA ELECTRONICS** to take over the projector business, and the business was transferred to **KAGA COMPONENTS**.



# KAGA COMPONENTS and the Projector Business (2)

## Strategy for the EMS business

< Future Threats > . . . 『Intense Competition』 and 『Slowing Growth』

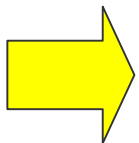


- Improvements in component procurement and technological skills at companies in China and other countries
- Generalization of the EMS business
- Return to internal manufacturing by customers (manufacturers)

< Create a distinctive EMS business >

- Specialize in specific markets (office equipment, heating and cooling equipment, automotive devices, etc.) Maintain current level of activities
- Base EMS operations on exclusive core technologies
- Offer skills for all processes, beginning with planning and designs (ODM)

**The need to add EDMS to the existing EMS business**



**Become a 『fabrication business』**

# KAGA COMPONENTS and the Projector Business (3)

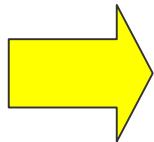
## Why did we select the projector business?

	Leverage existing technologies of the KAGA ELECTRONICS Group and establish core technologies	Establish image-related technologies that can become the nucleus of future core technologies
Optical technology	Developed LCOS television	Pursue new technologies for light sources
DLP optical technology	Acquire through joint development activities with PLUS Vision	
Imaging technology	Development of TAXAN monitors	Further refinements in existing technologies
Power supply technology	Ballast power supply* technology developed by KAGA COMPONENTS will be a key device for projectors	Start increasing sales of projector light source power supplies

\*Ballast power supply: A power supply that converts high voltages and controls current.

... Use 『existing technologies』 of the KAGA ELECTRONICS Group

Capture synergies with the projector business



Create a new EDMS business by leveraging and building on technological skills

# KAGA COMPONENTS and the Projector Business (4)

## ~ Strategy for projector business ~

<b>Today</b> Offer a broad line of models as a projector manufacturer using its own brand	<b>Goal</b> Offer specialized products for specific markets as a projector manufacturer using its own brand
Product strategy · Sell projectors using KAGA's TAXAN brand	Differentiation from competitors · Dust-prevention/Durability to prevent malfunctions
Regional strategy 80% share of overseas sales The entire world is the targeted market	Limit sales to selected areas · Focus on regions (markets) where KAGA has a powerful sales network · In China, 26 sales bases/Strength in education and public-sector markets · In India, 8 sales bases/Strength in education market
Sales strategy · Sell products anywhere opportunities exist	Sales strategy for specific markets · Focus on schools and other public-sector institutions · Markets that are growing and that competitors cannot enter

Reexamine business plan through FY08, including the possibility of withdrawing from this business

## [Additional information] Strategy for the projector business

### < Problems involving profitability >

Started development activities from the ground up .. There were no new products when the business was sold (April 2006) because product development activities had stopped.

- Develop new products    Substantial up-front R&D expenses and expenses for new product development workforce

Shortage of products that match market needs

- No products that reflect market needs    Insufficient sales



Unable to reach the break-even point

### < Cost cuts and sales growth >

Focus on product development ··· Develop products for specific markets (concentration of R&D and new product development personnel expenses)

Use a different production system ··· Move production to China (was forced to manufacture products in Japan when the business was purchased)

Focus sales activities on selected regions ··· Concentrate sales resources on KAGA's own sales channels

Increase sales by using efficient sales activities

『Tight strategic focus』    Target only selected markets, use local manufacturing and sales  
(FY09 target is sales of 85,000 units)

(Sales plan: ¥8.6 billion)

## II. KAGA HIGHTECH

# Profile of KAGA HIGHTECH



Name: KAGA HIGHTECH CO., LTD.

Established: November 1947

Capital: ¥310 million

Head office: 2-2-9 Hongo, Bunkyo-ku, Tokyo

President: Shinsuke Takahashi (director of KAGA ELECTRONICS)

Employees: 232

Activities: Sale of film, color paper and other photography products, cameras and digital cameras

Sales agent for Kodak products in Japan

Sale of PCs, audio devices, media and other products to major retailers in Japan

Branches: Sendai (Eastern Japan Sales Division)

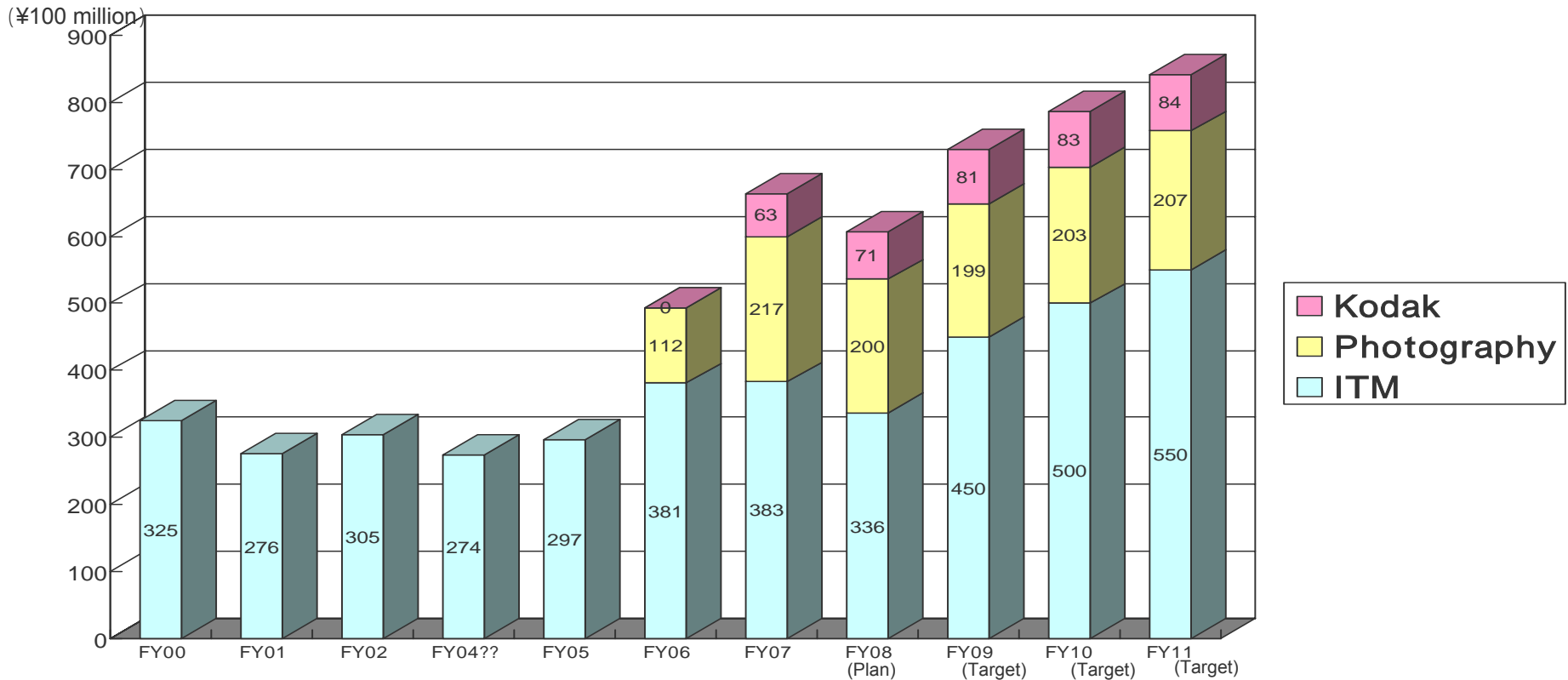
Nagoya, Osaka, Fukuoka (Western Japan Sales Division)

Factories: Niigata, Kumamoto

Affiliate: Kashimura Agency Co., Ltd.



# KAGA HIGHECH Sales



\* KASHIMURA (now KAGA HIGHECH) became a consolidated subsidiary in October 2006.

\* KASHIMURA became the Japanese sales agent for Kodak in July 2006 following the sale by Kodak of its domestic sales operations for consumer products.

\* KASHIMURA was renamed KAGA HIGHECH in October 2006. At the same time, the major operations of KAGA ELECTRONICS' ITM business were combined with this company. In the above graph, ITM sales for FY00 through FY04 are the performance as the ITM business of KAGA ELECTRONICS.

# Activities of KAGA HIGHTECH

(Unit: Million yen)

	Products sold	Customers		FY07		FY08		FY09 (Target)	
				1H	2H	1H	2H	1H	2H
Photography business	<ul style="list-style-type: none"> <li>Cameras</li> <li>Digital cameras · Single-use cameras</li> <li>Film</li> <li>Photo printing paper</li> <li>Camera-related products</li> <li>Batteries</li> </ul>	<ul style="list-style-type: none"> <li>Camera shops</li> <li>DPE shops</li> <li>Convenience stores</li> <li>Drug stores</li> <li>Home improvement centers</li> <li>Large retailers</li> <li>Kiosk</li> <li>Large consumer electronics stores</li> <li>Consumer electronics specialty shops</li> </ul>	Net sales	9,810	11,312	10,062	10,000	9,000	11,000
			Operating income	-425	-156	-20	-39	60	60
Kodak business	<ul style="list-style-type: none"> <li>~ Kodak products ~</li> <li>Digital cameras · Single-use cameras</li> <li>Film</li> <li>Photo printing paper</li> <li>Camera-related products</li> <li>Batteries</li> </ul>	<ul style="list-style-type: none"> <li>Camera shops</li> <li>DPE shops</li> <li>Convenience stores</li> <li>Drug stores</li> <li>Home improvement centers</li> <li>Large retailers</li> <li>Kiosk</li> <li>Large consumer electronics stores</li> <li>Consumer electronics specialty shops</li> </ul>	Net sales	2,681	4,310	3,753	3,418	3,700	4,300
			Operating income	88	-19	34	-7	36	40
ITM business	<ul style="list-style-type: none"> <li>Personal computers</li> <li>Portable audio players</li> <li>Digital cameras</li> <li>Memory cards</li> <li>Projectors</li> <li>Printers</li> <li>DVD players</li> </ul>	<ul style="list-style-type: none"> <li>Large consumer electronics stores</li> <li>PC specialty shops</li> <li>EC shops</li> </ul>	Net sales		20,194	16,208	17,415	18,000	21,000
			Operating income		490	33	214	207	240

\* KASHIMURA became the Japanese sales agent for Kodak in July 2006 following the sale by Kodak of its domestic sales operations for consumer products.

\* KASHIMURA was renamed KAGA HIGHTECH in October 2006. At the same time, the major operations of KAGA ELECTRONICS' ITM business were combined with this company.

\* In FY07, ITM sales and earnings are available only for the second half.



# KAGA HIGHECH Issues and Risks

## < Issues >

### 1. New products and businesses

- Add new domestic and overseas suppliers

Increase sales and improve the gross margin by adding new products and businesses

### 2. Improve sales efficiency

Integrate core IT systems · · To be completed by March 2008

Review distribution costs · · Consolidate distribution warehouses and improve how each customer is served

Realign organization and use workers more productively

SG&A expense ratio: Goal is to cut this ratio from 10.1% (FY07) to 7.6% in FY09



## < Risks >

- Switch by suppliers to direct sales    Example) Sale of Apple products directly to large retailers
- Contraction of chemical film market

# New Businesses at KAGA HIGHTECH

## < Development of new businesses >

Photo and imaging product

Photo catcher

Digital photo frame

Photo book

PC data devices

Create original products that use  
KAGA ELECTRONICS technologies

Content



Digital photo frame



Photo catcher



Photo book



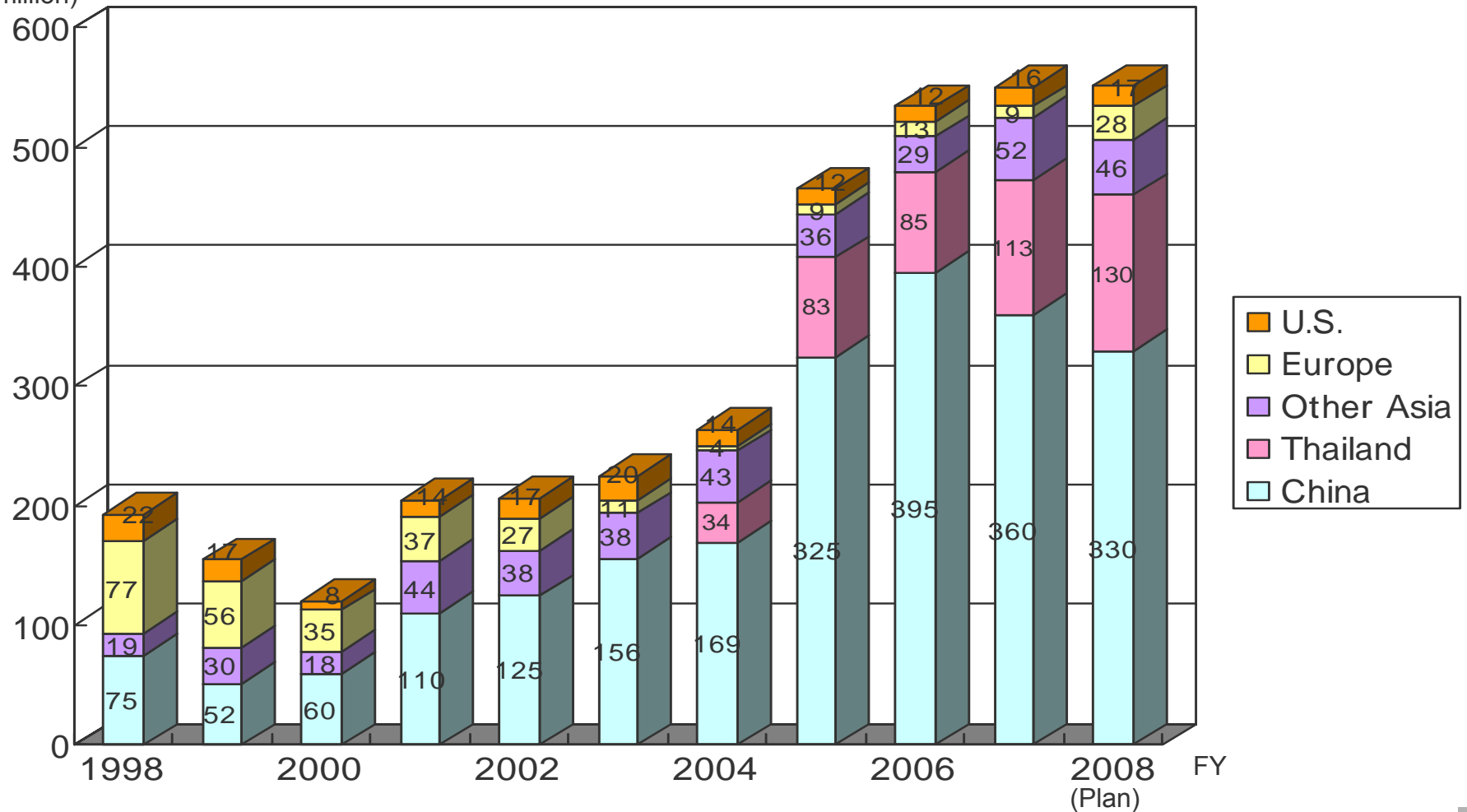
Operation of e-commerce site

# **III. Overseas Strategy of the KAGA ELECTRONICS Group**

# Overseas strategy

## Sales at Overseas Subsidiaries

(¥100 million)



# Overseas strategy

< EMS business > ~ Achieve greater specialization and efficiency by focusing on selected applications ~  
 ~ Shift focus from electronics to mechatronics ~

		~ Current major applications ~ (FY07 actual)	~ Applications to be added ~ (FY08 plan)	FY11 target
KAGA (HONG KONG)		Multi-function printers, printers, projectors	ATMs, information equipment, video equipment (simple TVs), automotive devices	
	Net sales	¥19.9 billion	¥17.3 billion	¥25 billion
KAGA SHANGHAI ELECTRONICS		Multi-function printers, printers, projectors Musical instruments (electronic pianos), health-monitoring and related devices, Housing devices	automotive devices, industrial devices	¥25 billion
	Net sales	¥11.5 billion	¥9.0 billion	
KAGA ELECTRONICS (THAILAND)		Heating and cooling equipment, office equipment, consumer electronics (TVs)	Automotive equipment, flat-screen TVs	¥16.8 billion
	Net sales	¥11.5 billion	¥12.7 billion	
KAGA EUROPE		Air conditioning equipment, office equipment	Automotive equipment, flat-screen TVs	¥4.0 billion
	Net sales	¥1.1 billion	¥2.9 billion	
HANZAWA HK		Amusement products, educational toys sold under its own brand	Educational toys	¥4.8 billion
	Net sales	0	¥2.1 billion	
KAGA COMP MALYSIA		Information equipment, optical products	Information equipment, optical products	¥3.0 billion
	Net sales	¥1.7 billion	¥2.0 billion	

# Overseas strategy

< Components business > ~ Closely monitor opportunities associated with shift of manufacturing from Japan to other countries ~  
 ~ Increase efforts to start operations in areas where KAGA is not yet active ~

		~ Current major applications ~ (Fiscal 2007 results)	~ New applications ~ (Fiscal 2011 plan)	Fiscal 2011 targets
KAGA USA		Amusement /video equipment	Provide group companies with information about advanced technologies etc. in the U.S.	
	Net sales	¥1.9 billion	¥1.8 billion	¥5.0 billion
KAGA EUROPE		Air conditioning equipment, video/audio equipment	Increase sales to European operations of Japanese companies and search for new products to sell Start operations in Central and Eastern Europe, including Turkey Focus on digital televisions, including automotive products	¥4.0 billion
	Net sales	¥1.0 billion	¥2.9 billion	
KAGA KOREA		Communication equipment	Increase sales to major overseas communications equipment manufactures and develop ties with new customers	¥4.5 billion
	Net sales	¥900 million	¥1.5 billion	
KAGA SINGAPORE		Video/audio equipment	Increase sales to current customers and serve as a market research base for the ASEAN region	¥6.0 billion
	Net sales	¥3.9 billion	¥3.8 billion	
KAGA (TAIWAN) ELECTRONICS		IT devices	Manufacturers of semiconductors, LCDs and other products in Taiwan	¥10.0 billion
	Net sales	¥3.5 billion	¥2.6 billion	
KAGA DEVICES (H.K.)		Video equipment	Increase sales to current customers and increase sales in China. Search for new products.	¥17.5 billion
	Net sales	¥8.4 billion	¥8.0 billion	
KAGA (DALIAN) ELECTRONICS		IT/video equipment	Provide component kitting and EMS services to the Japanese companies with operations in northern China.	¥2.5 billion
	Net sales	¥900 million	¥900 million	
KAGA IMPEX		Marketing	Marketing and sales for Electronics-related businesses in Russia	¥6.0 billion
	Net sales	0	0	

# Overseas Strategies

~ New overseas strategies ~

## 1. The Components Business

- **Locate new vendors**

  - Purchase quality, value-added products at low prices**

- **A closer relationship with sales activities in Japan**

  - Target opportunities created by the shift of manufacturing from Japan to other countries**

- **Increase overseas sales activities targeting foreign companies**

  - Work more closely with overseas trading companies**



**Take advantage of KAGA's position as an independent trading company**

  - **Able to do business with all electronic component manufacturers worldwide**

  - **Use the KAGA global network to gather information on new technologies and capture sales agency contracts**

# Overseas strategies

~ New overseas strategies ~

## 2. The EMS Business

- **Improve procurement capabilities**

  - Establish a system for the procurement of parts · · · Use IT to enable component manufacturers and the KAGA ELECTRONICS Group to share information

- **Expand operations to more regions**

  - Look for more opportunities in regions where KAGA already has operations (Hong Kong, Shanghai, Thailand, etc.)

  - Start operations in countries with emerging economies

- **Asia · · · Vietnam, Philippines**

- **BRICS · · · India, Brazil, Russia, Eastern Europe**

- **Target more applications      Extend operations to cover mechatronics**



**Focus on marketing activities in regions where KAGA already has operations to capitalize on growth opportunities**

**Start operations in countries with emerging economies to benefit from new sources of demand**

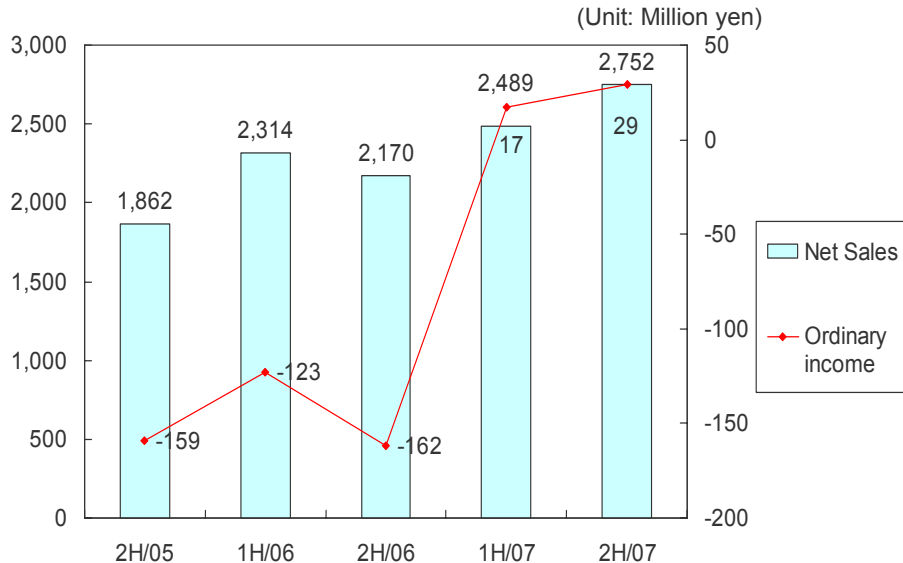


# IV. Operations of KAGA SPORTS and KGF

# KAGA SPORTS and KGF

## KAGA SPORTS

- Became profitable as lease negotiations produced an improvement in profit margin

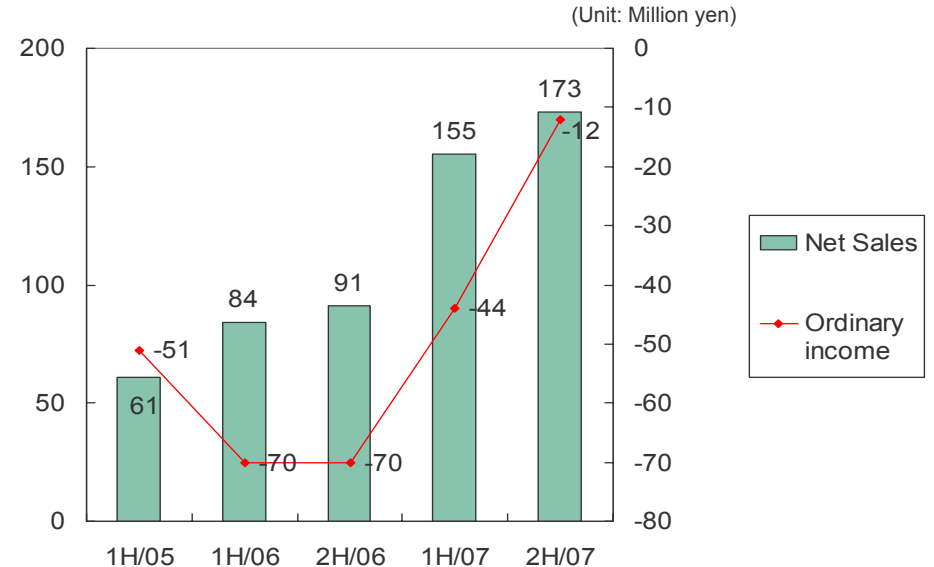


< Cost cutting and higher sales of new products ··· Back to profitability >

- Negotiated lower leases for unprofitable stores and reduced floor area of stores
- Negotiated lower prices from vendors
- Prioritized sales of original products with high profit margins
- Increased sales of golf club head speed meters and other electronic products

## KFG

- Smaller loss because of separation of external sales operations and other actions



< Improved organization and reviewed exhibition plans ··· Smaller loss >

- Spun off external sales operations to focus exclusively on the restaurant business
- Restricted new restaurants to sites with good prospects for strong earnings
- Reviewed the cost of food and other materials procured



KAGA ELECTRONICS CO., LTD.

Century Tower, 2-2-9 Hongo, Bunkyo-ku, Tokyo 113-8503

Contact: Public Relations Department

Tel: 03-4455-3131

Fax: 03-3815-6807

E-mail : webmaster@taxan.co.jp

<http://www.taxan.co.jp>