

## Summary of Consolidated Financial Results For the First Quarter Ended June 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/  
 Representative Title: President & COO  
 Name: Ryoichi Kado  
 Contact Person Title: Managing Director, Administration Headquarters  
 Name: Eiji Kawamura  
 Phone: +81-(0)3-5657-0111  
 Date of quarterly securities report (tentative): August 12, 2016  
 Date of commencement of dividend payment (tentative): -  
 Quarterly earnings supplementary explanatory documents: None  
 Quarterly earnings presentation: None

(Yen in millions, rounded down)

### 1. Financial results for the first quarter of the fiscal year ending March 2017 (April 1, 2016 – June 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 quarter ended June 2016	52,221	(10.5)	765	(52.1)	608	(65.7)	1,396	21.7
First quarter ended June 2015	58,349	2.6	1,598	89.6	1,773	73.3	1,147	153.9

Note: Comprehensive income: 1Q FY3/2017: -422 million yen [-132.8%], 1Q FY3/2016: 1,289 million yen [377.1%]

	Earnings per share		Earnings per share fully diluted	
	Yen		Yen	
First quarter ended June 2016	49.41		-	
First quarter ended June 2015	40.60		-	

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2016	115,489	60,396	52.3
As of March 31, 2016	124,281	61,808	49.7

Reference: Shareholders' equity

As of June 30, 2016: 60,348 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	-				
Fiscal year ending March 2017 (est.)		20.00	-	20.00	40.00

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 special dividend of 15.00 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
First Half	108,000	(12.2)	1,500	(64.2)	1,500	(66.1)	1,800	(38.8)	63.71
Full year	230,000	(6.3)	5,700	(26.8)	6,400	(19.1)	4,700	(13.6)	166.34

Note: Change in the forecast from the latest announcement: Yes

Please refer "Notice of Revision in Forecast for First Half of the Fiscal Year Ending March 2017" announced on 2 August, 2016.

**\* 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 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 June 30, 2016:	28,702,118	As of March 31, 2016:	28,702,118
----------------------	------------	-----------------------	------------

(b) Treasury shares

As of June 30, 2016:	446,980	As of March 31, 2016:	446,824
----------------------	---------	-----------------------	---------

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

Period ended June 30, 2016:	28,255,197	Period ended June 30, 2015:	28,256,017
-----------------------------	------------	-----------------------------	------------

**\* 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 quarter 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. For information about the forecasts, please see “1. Results of Operations (3) Forecast for fiscal year ending in March 2017” on page 3 of Supplementary Information.

## Index for Supplementary Information

1.	Results of Operations .....	2
(1)	Overview on consolidated business performance .....	2
(2)	Overview of financial condition .....	2
(3)	Forecast for fiscal year ending in March 2017.....	3
2.	Other Information (Note).....	3
(1)	Changes in significant subsidiaries:.....	3
(2)	Use of of accounting methods specifically for the preparation of the quarterly consolidated financial statements: .....	3
(3)	Changes in accounting principles and estimates, and retrospective restatement:.....	3
(4)	Supplementary information .....	3
3.	Quarterly Consolidated Financial Statements .....	4
(1)	Quarterly consolidated balance sheet.....	4
(2)	Quarterly consolidated statements of income and consolidated statements of comprehensive income .....	6
	For the first quarter (April 1, 2016 – June 30, 2016).....	6
(3)	Notes to quarterly consolidated financial statement.....	7
	(Notes to going concern assumptions) .....	7
	(Significant change in shareholders' equity).....	7
	(Segment information, etc.).....	7

## 1. Results of Operations

### (1) Overview on consolidated business performance

In the first quarter of the fiscal year, there was an improvement in employment in Japan because of actions by the Japanese government and Bank of Japan. However, the Japanese economy remained sluggish as capital expenditures and consumer spending were weak. In addition, the economic outlook is uncertain due mainly to slowing economic growth in China and other emerging countries and concerns about the impact on corporate earnings in Japan of the yen's strength resulting from Britain's decision to leave the EU.

In the electronics industry, the principal area of operations for the KAGA ELECTRONICS Group, market conditions were challenging because of slow sales of PCs, smartphones and other mobile wireless devices, and amusement products. But the markets for automotive electronics and the IoT<sup>(\*)1</sup> continued to grow.

Based on the management philosophy of "Everything we do is for our customers," the KAGA ELECTRONICS Group integrated and reorganized business operations to improve efficiency and directed substantial resources to expanding market sectors to aim for growth. There were also measures for increasing sales to current major customers in Japan and expanding activities outside Japan. However, first quarter performance was impacted to cuts in production by major customers and changes in distribution channels.

First quarter consolidated net sales decreased 10.5% from one year earlier to 52,221 million yen, operating income decreased 52.1% to 765 million yen, ordinary income decreased 65.7% to 608 million yen, and profit attributable to owners of parent decreased 21.7% to 1,396 million yen because of a decrease in income taxes – deferred due to tax effect accounting.

\*1 Internet of Things is a generic name given to new services and business models based on connecting all things through the Internet or underlying technologies that enable it.

Business segment performance was as follows.

#### (a) Electronic components (Development, manufacture and sale of semiconductors, general electronic components and other products, electronics manufacturing service (EMS) (\*2), and other activities)

Sales of EMS for electronic products were down because major customers in Japan and overseas reduced production. In addition, a shift in the policy of semiconductor manufacturers concerning the use of sales agents caused the volume of semiconductors in Japan to decline. First quarter performance was also affected by lower sales of some electronic parts and products because of the April 2016 earthquake in Kumamoto. The result was a 13.9% decrease in segment sales to 39,237 million yen and a 57.7% decrease in operating income to 623 million yen.

\*2 EMS: 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)

Although sales of housing-related products and digital cameras were slow, the volume of PCs and other consumer products increased due to sales campaigns and other steps to strengthen sales activities. During the first quarter, subsidiaries were realigned in this segment to improve efficiency. The result was a 4.7% increase in sales to 10,116 million yen and a 12.8% increase in operating income to 105 million yen.

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

Orders for the production of computer graphics for animation and the development of software were weak. Segment sales increased 1.2% to 477 million yen and operating income decreased 47.6% to 75 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 8.7% to 2,391 million yen and the operating loss was 70 million yen compared with an 88 million yen loss one year earlier.

### (2) Overview of financial condition

#### Assets, liabilities and net assets

Assets decreased 8,791 million yen from the end of the previous fiscal year to 115,489 million yen at the end of the first quarter mainly because of a decrease in notes and accounts receivable-trade. Liabilities decreased 7,379 million yen to 55,093 million yen mainly because of a decrease in notes and accounts payable-trade.

Net assets decreased 1,411 million yen to 60,396 million yen because of a decrease in the foreign currency translation adjustment due to fluctuation of exchange rate.

(3) Forecast for fiscal year ending in March 2017

- (a) Revision of the consolidated forecast for first half of the fiscal year ending March 2017 (April 1, 2016 – September 30, 2016)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Earnings per share
	Million yen	Million yen	Million yen	Million yen	Yen
Previous forecast (A)	103,000	1,100	1,200	1,100	38.93
Revised forecast (B)	108,000	1,500	1,500	1,800	63.71
Change (B-A)	5,000	400	300	700	-
Percent change (%)	4.9	36.4	25.0	63.6	-
(Ref.) Previous fiscal year (First half FY3/16)	122,975	4,195	4,427	2,943	104.17

- (b) Reasons for revision of forecast

Sales in the EMS business in Japan and overseas and sales of PCs and other products for consumers have been higher than the forecast. Furthermore, efficiency is improving because of the integration and reorganization of group business operations. As a result, the first half consolidated forecast has been increased.

There are no revisions to the fiscal year forecast because the outlook for the operating environment for the KAGA ELECTRONICS Group remains uncertain. An announcement will be made promptly if a revision is needed to reflect performance in the current fiscal year.

## 2. Other Information (Note)

- (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 restatement:

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 quarter ended June 2016 (As of June 30, 2016)
<b>ASSETS</b>		
Current assets		
Cash and deposits	22,516	22,412
Notes and accounts receivable-trade	54,795	46,419
Securities	166	181
Merchandise and finished goods	14,898	15,409
Work in process	266	624
Raw materials and supplies	4,010	3,566
Deferred tax assets	849	1,553
Other	4,638	3,538
Allowance for doubtful accounts	(179)	(161)
Total current assets	101,961	93,543
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	5,112	5,028
Machinery, equipment and vehicles, net	1,992	1,933
Tools, furniture and fixtures, net	813	760
Land	4,138	4,136
Construction in progress	0	0
Total property, plant and equipment	12,058	11,859
Intangible assets		
Goodwill	495	472
Software	422	410
Other	85	82
Total intangible assets	1,003	966
Investments and other assets		
Investment securities	6,519	6,213
Deferred tax assets	257	474
Guarantee deposits	739	722
Insurance funds	916	917
Other	1,931	1,792
Allowance for doubtful accounts	(1,107)	(1,000)
Total investments and other assets	9,257	9,119
Total noncurrent assets	22,319	21,945
Total assets	124,281	115,489

(Million yen)

	Fiscal year ended March 2016 (As of March 31, 2016)	First quarter ended June 2016 (As of June 30, 2016)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable-trade	36,858	32,233
Short-term loans payable	6,295	5,535
Accrued expenses	3,311	2,723
Income taxes payable	995	475
Provision for directors' bonuses	185	46
Other	3,523	3,269
Total current liabilities	51,169	44,284
Noncurrent liabilities		
Long-term loans payable	6,007	5,650
Deferred tax liabilities	1,246	1,160
Provision for directors' retirement benefits	1,211	1,195
Net defined benefit liability	1,774	1,777
Asset retirement obligations	142	138
Other	919	885
Total noncurrent liabilities	11,303	10,808
Total liabilities	62,472	55,093
<b>NET ASSETS</b>		
Shareholder's equity		
Capital stock	12,133	12,133
Capital surplus	13,912	13,912
Retained earnings	35,195	35,602
Treasury shares	(539)	(539)
Total shareholders' equity	60,702	61,109
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	681	454
Deferred gains or losses on hedges	4	(0)
Foreign currency translation adjustment	713	(898)
Remeasurements of defined benefit plans	(338)	(316)
Total accumulated other comprehensive income	1,061	(760)
Non-controlling interests	44	47
Total net assets	61,808	60,396
Total liabilities and net assets	124,281	115,489

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income  
For the first quarter (April 1, 2016 – June 30, 2016)

(Million yen)

	First quarter ended June 2015 (April 1, 2015 – June 30, 2015)	First quarter ended June 2016 (April 1, 2016 – June 30, 2016)
Net sales	58,349	52,221
Cost of sales	50,334	45,426
Gross profit	8,014	6,795
Selling, general and administrative expenses	6,416	6,030
Operating income	1,598	765
Non-operating income		
Interest income	26	12
Dividends income	63	65
Commission fee	53	36
Other	78	67
Total non-operating income	221	181
Non-operating expenses		
Interest expenses	27	33
Foreign exchange losses	3	293
Other	15	11
Total non-operating expenses	46	337
Ordinary income	1,773	608
Extraordinary income		
Gain on sales of noncurrent assets	0	0
Gain on sales of investment securities	1	0
Gain on transfer of business	-	35
Total extraordinary income	1	35
Extraordinary loss		
Loss on retirement of noncurrent assets	0	3
Loss on valuation of investment securities	2	-
Loss on valuation of golf club membership	-	10
Other	0	0
Total extraordinary loss	2	13
Profit before income taxes	1,772	630
Income taxes-current	347	212
Income taxes-deferred	281	(983)
Total income taxes	629	(771)
Profit	1,143	1,401
Profit attributable to owners of parent	1,147	1,396
Profit (loss) attributable to non-controlling interests	(3)	5
Other comprehensive income		
Valuation difference on available-for-sale securities	136	(227)
Deferred gains or losses on hedges	(19)	(5)
Foreign currency translation adjustment	79	(1,613)
Remeasurements of defined benefit plans, net of tax	(50)	21
Total other comprehensive income	146	(1,824)
Comprehensive income	1,289	(422)
Comprehensive income attributable to owners of parent	1,293	(426)
Comprehensive income attributable to non-controlling interests	(3)	3



- (3) Notes to quarterly consolidated financial statement  
(Notes to going concern assumptions)  
None

(Significant change in shareholders' equity)  
None

(Segment information, etc.)  
Segment information

I For the first quarter ended June 2015 (Apr. 1, 2015 – June 30, 2015)

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

	Reporting segments					Adjustment (Note 1)	(Million yen)
	Electronic components	Information equipment	Software	Others	Total		Amount on the quarterly consolidated statements of income and consolidated statements of comprehensive income (Note 2)
Net sales							
of which to outside customers	45,592	9,666	471	2,618	58,349	-	58,349
of which inter-segment	187	170	684	238	1,281	(1,281)	-
Total	45,779	9,837	1,156	2,857	59,631	(1,281)	58,349
Segment income (loss)	1,472	93	144	(88)	1,622	(24)	1,598

Notes: 1. The adjustment -24 million yen includes amounts for intersegment cancellation of 14 million yen and amortization of goodwill of -38 million yen.

2. Segment income (loss) is adjusted for operating income (loss) on the quarterly consolidated statements of income and consolidated statements of comprehensive income.

2. Information on impairment losses on fixed assets or goodwill, etc. for reporting segment  
(Significant impairment losses on fixed assets)  
None

(Significant changes in the amount of goodwill)  
None

(Significant gain on bargain purchase)  
None

II For the first quarter ended June 2016 (Apr. 1, 2016 – June 30, 2016)  
Information about sales and income (loss) by reportable segments

(Million yen)

	Reporting segments					Adjustment (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	39,237	10,116	477	2,391	52,221	-	52,221
of which inter- segment	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. The adjustment 30 million yen includes amounts for intersegment cancellation of 30 million yen.  
2. Segment income (loss) is adjusted for operating income (loss) on the quarterly consolidated statements of income and consolidated statements of comprehensive income.

2. Information on impairment losses on fixed assets or goodwill, etc. for reporting segment  
(Significant impairment losses on fixed assets)

None

(Significant changes in the amount of goodwill)

None

(Significant gain on bargain purchase)

None