

Summary of Consolidated Financial Results for the Third Quarter Ended December 31, 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/
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Date of filing of quarterly securities report (tentative):	February 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 third quarter of the fiscal year ending March 2017 (April 1, 2016 – December 31, 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	%
Third quarter ended December 2016	167,486	(8.1)	5,178	(15.7)	5,500	(14.6)	4,863	11.2
Third quarter ended December 2015	182,205	(2.9)	6,145	23.0	6,442	7.0	4,372	18.4

Note: Comprehensive income: 3Q of FY3/2017: 5,017 million yen (30.0 %) 3Q of FY3/2016: 3,858 million yen (-39.2 %)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
Third quarter ended December 2016	172.92	-
Third quarter ended December 2015	154.73	-

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2016	127,550	63,629	49.8
As of March 31, 2016	124,281	61,808	49.7

Reference: Shareholders' equity

As of December 31, 2016: 63,572 million yen As of March 31, 2016: 61,764 million yen

2. Dividends

	Dividend per share				
	1Q	2Q	3Q	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2016	-	20.00	-	35.00	55.00
Fiscal year ending March 2017	-	25.00	-		
Fiscal year ending March 2017 (Forecast)				25.00	50.00

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

Breakdown of year-end dividend for FY3/16: Ordinary dividend: 20.00 yen; Extraordinary dividend: 15.00 yen

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: 5.00 yen

3. Forecast for the fiscal year ending March 2017 (Consolidated, April 1, 2016 – 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
Full year	230,000	(6.3)	5,700	(26.8)	6,400	(19.1)	5,800	6.7	207.38

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

(Note) There was a change in a specified subsidiary not accompanied by a change in the scope of consolidation. For more information, please see "2. Summary Information (1) Changes in significant subsidiaries" on page 3 of Supplementary Information.

(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: Yes

(b) Changes other than (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

Note: For more information, please refer "2. Summary Information (3) Changes in accounting policies, estimates, and retrospective restatement" on page 3.

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury shares)

As of December 31, 2016:	28,702,118	As of March 31, 2016:	28,702,118
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(b) Treasury shares

As of December 31, 2016:	1,266,358	As of March 31, 2016:	446,824
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(c) Average number of shares (quarterly consolidated during the period)

Period ended December 31, 2016:	28,126,870	Period ended December 31, 2015:	28,255,740
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*** 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 Consolidated Financial Results. The financial statements for the third quarter were under review at the time this Summary of Consolidated 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.

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1. Results of Operations

(1) Overview of consolidated business performance

In the third quarter of the fiscal year ending March 31, 2017, the Japanese economy showed a gradual recovery due to improvement in employment and income environment, supported by the government's economic stimulus measures and the monetary policies of the Bank of Japan. However, economic uncertainty lingered as there were concerns over potential impact on corporate earnings of fluctuations in stock and foreign exchange markets due to overseas situations including economic slowdown in China and other emerging countries, the presidential election in the U.S., and the U.K.'s exit from the EU.

In the electronics industry, the principal sector of operations of the KAGA ELECTRONICS Group ("the Group"), market conditions were challenging mainly due to continuing soft demands in the mobile device market for PCs and smartphones and amusement machines market. On the other hand, there were growing demands in automotive devices markets with an increasing use of electronics in automobiles and new markets for IoT^(Note 1), big data, and artificial intelligence.

Under such environment, based on our corporate philosophy of "Everything we do is for our customers," the Group has improved management efficiency through business integration and reorganization, and proactively invested resources in growing sectors, as well as focused on increasing sales to existing customers in Japan and expanding overseas businesses. However, performance was impacted by production adjustments by major customers and changes in commercial distribution of products.

Consolidated net sales decreased 8.1% year on year to 167,486 million yen, operating income decreased 15.7% to 5,178 million yen, and ordinary income fell 14.6% to 5,500 million yen. Profit attributable to owners of parent increased 11.2% to 4,863 million yen mainly due to a decrease in income taxes caused by tax effect accounting.

(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)

The volume of semiconductors decreased due to production adjustments by major customers in Japan and overseas, stagnant amusement machines business, and a change in the agency policy by semiconductor manufacturers. As a result, net sales decreased 10.4% to 127,268 million yen, and segment income decreased 25.9% to 4,061 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)

The volume of information equipment increased due to reinforced marketing campaigns for PCs and other consumer products as well as favorable growth in sales of housing-related products. We also strived to improve management efficiency through reorganization of subsidiaries. As a result, net sales increased 3.5% to 30,647 million yen, and segment income rose 160.8% to 844 million yen.

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

The segment focused on production of computer graphics for animation and development of various kinds of software. As a result, net sales increased 15.2% to 1,992 million yen, but segment income decreased 32.1% to 300 million yen.

- (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 were sluggish due to a downturn in consumer spending. As a result, net sales decreased 14.9% to 7,577 million yen, and operating loss was 144 million yen (operating loss of 166 million yen one year earlier).

(2) Overview of financial condition

Assets, liabilities and net assets

Total assets as of December 31, 2016 increased 3,269 million yen to 127,550 million yen mainly due to increase in cash and deposits.

Liabilities increased 1,448 million yen to 63,921 million yen mainly due to increase in notes and accounts payable - trade.

Net assets increased 1,821 million yen to 63,629 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, 2017 that was announced on November 1, 2016 in “Summary of Consolidated Financial Results for the First Half Ended September 30, 2016 [Japan GAAP].”

2. Summary Information

(1) Changes in significant subsidiaries

Not applicable

Although not falling under a change in a specified subsidiary accompanied by changes in the scope of consolidation, during the first quarter of the fiscal year ended March 31, 2017, our consolidated subsidiaries KAGA SOLUTION NETWORK CO., LTD. and KAGA HIGHTECH CO., LTD. merged, with KAGA SOLUTION NETWORK as the surviving company. As a result, KAGA SOLUTION NETWORK has become a specific subsidiary of the Company.

(2) Use of specific accounting treatments for the preparation of the quarterly consolidated financial statements

Not applicable

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

Changes in accounting policies

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

Following the revisions to the Corporate Tax Law, the Company has applied Practical Solution on a change in depreciation method due to Tax Reform 2016 (Practical Issues Task Force No. 32, June 17, 2016) effective April 1, 2016. As a result, the depreciation method for leasehold improvements and structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The impact of the revision on earnings was insignificant.

(4) Additional information

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

Beginning with the first quarter of the current fiscal year, the Company 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)	Third quarter ended December 2016 (As of December 31, 2016)
ASSETS		
Current assets		
Cash and deposits	22,516	25,143
Notes and accounts receivable - trade	54,795	52,530
Securities	166	178
Merchandise and finished goods	14,898	16,391
Work in process	266	798
Raw materials and supplies	4,010	4,885
Deferred tax assets	849	1,042
Other	4,638	4,538
Allowance for doubtful accounts	(179)	(188)
Total current assets	101,961	105,319
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,112	4,932
Machinery, equipment and vehicles, net	1,992	1,971
Tools, furniture and fixtures, net	813	719
Land	4,138	4,127
Construction in progress	0	-
Total property, plant and equipment	12,058	11,751
Intangible assets		
Goodwill	495	428
Software	422	356
Other	85	76
Total intangible assets	1,003	862
Investments and other assets		
Investment securities	6,519	6,764
Deferred tax assets	257	411
Guarantee deposits	739	728
Insurance funds	916	926
Other	1,931	1,514
Allowance for doubtful accounts	(1,107)	(728)
Total investments and other assets	9,257	9,617
Total non-current assets	22,319	22,231
Total assets	124,281	127,550

(Million yen)

	Fiscal year ended March 2016 (As of March 31, 2016)	Third quarter ended December 2016 (As of December 31, 2016)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	36,858	41,194
Short-term loans payable	6,295	5,675
Accrued expenses	3,311	2,788
Income taxes payable	995	555
Provision for directors' bonuses	185	175
Other	3,523	3,268
Total current liabilities	51,169	53,658
Non-current liabilities		
Long-term loans payable	6,007	4,870
Deferred tax liabilities	1,246	1,448
Provision for directors' retirement benefits	1,211	1,205
Net defined benefit liability	1,774	1,770
Asset retirement obligations	142	144
Other	919	824
Total non-current liabilities	11,303	10,262
Total liabilities	62,472	63,921
NET ASSETS		
Shareholders' equity		
Capital stock	12,133	12,133
Capital surplus	13,912	13,912
Retained earnings	35,195	38,363
Treasury shares	(539)	(2,039)
Total shareholders' equity	60,702	62,369
Accumulated other comprehensive income		
Valuation difference on available-for-sale	681	1,105
Deferred gains or losses on hedges	4	32
Foreign currency translation adjustment	713	337
Remeasurements of defined benefit plans	(338)	(273)
Total accumulated other comprehensive	1,061	1,202
Non-controlling interests	44	56
Total net assets	61,808	63,629
Total liabilities and net assets	124,281	127,550

(2) Quarterly consolidated statements of income and comprehensive income

For the third quarter (April 1, 2016 – December 31, 2016)

(Million yen)

	Third quarter ended December 2015 (April 1, 2015 – December 31, 2015)	Third quarter ended December 2016 (April 1, 2016 – December 31, 2016)
Net sales	182,205	167,486
Cost of sales	156,974	144,409
Gross profit	25,231	23,076
Selling, general and administrative expenses	19,085	17,898
Operating income	6,145	5,178
Non-operating income		
Interest income	53	43
Dividend income	96	99
Commission fee	156	140
Other	254	201
Total non-operating income	560	484
Non-operating expenses		
Interest expenses	93	99
Foreign exchange losses	114	25
Other	54	36
Total non-operating expenses	263	161
Ordinary income	6,442	5,500
Extraordinary income		
Gain on sales of non-current assets	3	22
Gain on sales of investment securities	1	41
Gain on bargain purchase	-	28
Gain on transfer of business	-	89
Total extraordinary income	4	181
Extraordinary losses		
Loss on retirement of non-current assets	5	7
Loss on sales of investment securities	6	31
Loss on valuation of investment securities	2	-
Merger expenses	67	-
Impairment loss	-	10
Business structure improvement expenses	9	10
Loss on valuation of golf club memberships	39	11
Special retirement expenses	20	-
Other	8	0
Total extraordinary losses	160	73
Profit before income taxes	6,287	5,608
Income taxes - current	1,492	1,073
Income taxes - deferred	427	(339)
Total income taxes	1,920	734
Profit interests	4,366	4,874
Profit attributable to owners of parent	4,372	4,863
Profit (loss) attributable to non-controlling interests	(5)	11

(Million yen)

	Third quarter ended December 2015 (April 1, 2015 – December 31, 2015)	Third quarter ended December 2016 (April 1, 2016 – December 31, 2016)
Other comprehensive income		
Valuation difference on available-for-sale securities	238	425
Deferred gains or losses on hedges	(23)	28
Foreign currency translation adjustment	(711)	(376)
Remeasurements of defined benefit plans, net of tax	(12)	64
Total other comprehensive income	(508)	142
Comprehensive income	3,858	5,017
Comprehensive income attributable to owners of parent	3,863	5,004
Comprehensive income attributable to non-controlling interests	(5)	12

(3) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Significant change in shareholders' equity)

Pursuant to the resolution at the Board of Directors held on November 1, 2016, the Company acquired 818,900 shares of treasury shares. As a result, the Company's treasury shares increased by ¥1,499 million during the nine months ended December 31, 2016 to ¥2,039 million as of December 31, 2016.

(Segment information, etc.)

Segment information

I. For the third quarter ended December 2015 (April 1, 2015 – December 31, 2015)

1. 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	141,964	29,611	1,730	8,899	182,205	-	182,205
Inter-segment sales or transfers	713	424	2,495	1,437	5,070	(5,070)	-
Total	142,677	30,036	4,225	10,336	187,276	(5,070)	182,205
Segment income (loss)	5,480	323	442	(166)	6,081	64	6,145

Notes: 1. Adjustment in segment income of 64 million yen includes 102 million yen for elimination of inter-segment trade and -38 million yen for amortization of goodwill.
2. Segment income (loss) is adjusted for operating income (loss) on the quarterly consolidated statements of income and comprehensive income.

2. Information on impairment losses for non-current assets or goodwill, etc. for reportable segment

(Significant impairment losses for non-current assets)

Not applicable

(Significant changes in goodwill)

Not applicable

(Significant gain on bargain purchase)

Not applicable

II. For the third quarter ended December 2016 (April 1, 2016 – December 31, 2016)

1. 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	127,268	30,647	1,992	7,577	167,486	-	167,486
Inter-segment sales or transfers	611	368	1,249	1,975	4,204	(4,204)	-
Total	127,879	31,015	3,242	9,552	171,690	(4,204)	167,486
Segment income (loss)	4,061	844	300	(144)	5,061	116	5,178

- Notes:
1. Adjustment in segment income of 116 million yen includes 116 million yen for elimination of inter-segment trade.
 2. Segment income (loss) is adjusted for operating income (loss) on the quarterly consolidated statements of income and comprehensive income.

2. Information on impairment losses for non-current assets or goodwill, etc. for reportable segment

(Significant impairment losses for non-current assets)

Omitted as it is immaterial.

(Significant changes in goodwill)

Not applicable

(Significant gain on bargain purchase)

Omitted as it is immaterial.