

Summary of Consolidated Financial Results for the First Half Ended September 30, 2017 [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
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Date of filing of quarterly securities report (tentative):	November 14, 2017
Date of commencement of dividend payment (tentative):	December 1, 2017
Quarterly earnings supplementary explanatory documents:	Yes
Quarterly earnings presentation:	Yes (For institutional investors and analysts)

(Yen in millions, rounded down)

1. Financial results for the first half of the fiscal year ending March 2018 (April 1, 2017 – September 30, 2017)

(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 half ended September 2017	116,582	6.3	4,394	36.8	4,703	54.4	3,516	13.0
First half ended September 2016	109,659	(10.8)	3,212	(23.4)	3,045	(31.2)	3,111	5.7

Note: Comprehensive income: First half of FY3/2018: 4,095 million yen (524.0%)

First half of FY3/2017: 656 million yen (-67.5%)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
First half ended September 2017	128.16	-
First half ended September 2016	110.11	-

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2017	127,204	69,006	54.2
As of March 31, 2017	125,751	65,932	52.4

Reference: Shareholders' equity

As of September 30, 2017: 68,935 million yen

As of March 31, 2017: 65,872 million yen

2. Dividends

	Dividend per share				
	1Q	2Q	3Q	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2017	-	25.00	-	35.00	60.00
Fiscal year ending March 2018	-	30.00	-	-	-
Fiscal year ending March 2018 (Forecast)	-	-	-	35.00	65.00

Notes: Change in the dividend forecast from the latest announcement: Yes

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: 15.00 yen

Breakdown of interim dividend for FY3/18: Ordinary dividend: 25.00 yen; Extraordinary dividend: 5.00 yen

With regard to the revision of dividend forecast, please refer to "KAGA ELECTRONICS Announces Interim Dividend Payout from Retained Earnings" announced on November 8, 2017.

3. Forecast for the fiscal year ending March 2018 (Consolidated, April 1, 2017 – March 31, 2018)

(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	232,000	2.1	7,500	9.0	8,200	11.7	6,300	(9.7)	229.63

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

(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: None

(b) Changes other than (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury shares)

As of September 30, 2017:	28,702,118	As of March 31, 2017:	28,702,118
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(b) Treasury shares

As of September 30, 2017:	1,267,060	As of March 31, 2017:	1,266,468
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(c) Average number of shares (quarterly consolidated during the period)

Period ended September 30, 2017:	27,435,430	Period ended September 30, 2016:	28,255,145
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* The quarterly review procedures are not applicable to this Financial Results report.

* Cautionary statement regarding forecasts of operating results and special notes

(Remarks on forward-looking statements)

Forward-looking statements in these materials are based on information currently available to the Company and certain assumptions deemed reasonable. Actual results may vary from the forecast for a variety of reasons.

(Supplementary materials for financial results and the details of the financial results meeting)

A financial results meeting for institutional investors and analysts will be held on Thursday, November 30, 2017. The details about the meeting and its audio, along with the presentation materials will be made available on our website shortly after the meeting.

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1. Results of Operations

(1) Overview of consolidated business performance

In the first half of the fiscal year, the Japanese economy witnessed a gradual recovery as capital expenditures and consumer spending showed a sign of recovery, supported by an improvement in corporate earnings as well as employment and income environment.

In the electronics industry, the principal sector of operations of the KAGA ELECTRONICS Group (“the Group”), while markets for PCs and amusement machines remained stagnant, markets for smartphones and automotive devices showed a steady growth with an increasing use of electronics in automobiles, and innovative technology-related markets including IoT^(Note 1), big data, and artificial intelligence also showed favorable growth.

Under such environment, based on our corporate philosophy of “Everything we do is for our customers,” the Group focused on increasing sales to existing major customers in Japan and expanding EMS^(Note 2) businesses overseas.

Consolidated net sales increased 6.3% year on year to 116,582 million yen, operating income increased 36.8% to 4,394 million yen, and ordinary income rose 54.4% to 4,703 million yen. Profit attributable to owners of parent increased 13.0% to 3,516 million yen.

(Note 1) Internet of Things: New services and business models, or technologies that connect all things through the Internet

(Note 2) Electronics Manufacturing Service: Provision of product development and manufacturing services on an outsourcing basis

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), and other activities)

EMS business for electronic equipment and sales of semiconductors showed a favorable growth. As a result, net sales increased 3.8% to 85,918 million yen, and segment income rose 22.2% to 2,893 million yen.

(b) Information equipment (Sales of PCs, PC peripherals, home electric appliances, photograph and imaging products, original brand products, and other products)

Sales of housing-related and commercial facilities-related products saw favorable growth, and PC sales also recovered. As a result, net sales increased 14.2% to 23,446 million yen, and segment income rose 107.0% to 1,116 million yen.

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

The segment focused on development of new areas including VR^(Note 3) and AR^(Note 4). However, orders for production of computer graphics animation and development of game software were sluggish. As a result, net sales decreased 20.8% to 1,142 million yen, and segment income decreased 63.6% to 111 million yen.

(Note 3) Virtual Reality

(Note 4) Augmented Reality

(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 showed solid growth. As a result, net sales increased 23.8% to 6,075 million yen, and segment income was 198 million yen (segment loss of 57 million yen one year earlier).

(2) Overview of financial condition

(a) Assets, liabilities and net assets

Total assets as of September 30, 2017 increased 1,452 million yen from March 31, 2017 to 127,204 million yen mainly due to increase in cash and deposits.

Liabilities as of September 30, 2017 decreased 1,622 million yen from March 31, 2017 to 58,197 million yen mainly due to a decrease in notes and accounts payable - trade.

Net assets as of September 30, 2017 increased 3,074 million yen from March 31, 2017 to 69,006 million yen as a result of recording profit attributable to owners of parent.

(b) Cash flows

Cash and cash equivalents as of September 30, 2017 increased 3,365 million yen from March 31, 2017 to 29,387 million yen.

(Operating activities)

Net cash provided by operating activities was 5,875 million yen (7,723 million yen provided one year earlier) mainly due to recording profit before income taxes.

(Investing activities)

Net cash used in investing activities was 1,345 million yen (246 million yen used one year earlier) mainly due to purchase of property, plant and equipment.

(Financing activities)

Net cash used by financing activities was 1,265 million yen (2,253 million yen used one year earlier) mainly due to cash dividends paid and repayments of long-term loans payable.

(3) Qualitative information on consolidated earnings forecast

There are no revisions to the forecast for the fiscal year ending March 31, 2018 that was announced on October 25, 2017 in “KAGA ELECTRONICS Revises Consolidated Performance Forecast.”

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal year ended March 2017 (As of March 31, 2017)	First half ended September 2017 (As of September 30, 2017)
ASSETS		
Current assets		
Cash and deposits	26,423	30,393
Notes and accounts receivable - trade	46,774	45,860
Electronically recorded monetary claims - operating	5,234	4,164
Securities	188	175
Merchandise and finished goods	14,675	14,253
Work in process	365	644
Raw materials and supplies	4,284	4,238
Deferred tax assets	1,340	1,059
Other	4,562	3,612
Allowance for doubtful accounts	(166)	(164)
Total current assets	103,684	104,238
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,859	4,849
Machinery, equipment and vehicles, net	2,014	2,168
Tools, furniture and fixtures, net	742	751
Land	4,126	4,036
Construction in progress	3	194
Total property, plant and equipment	11,745	11,999
Intangible assets		
Goodwill	406	361
Software	363	328
Other	71	64
Total intangible assets	841	754
Investments and other assets		
Investment securities	6,761	7,563
Deferred tax assets	240	223
Guarantee deposits	735	681
Insurance funds	936	944
Other	1,529	1,385
Allowance for doubtful accounts	(723)	(586)
Total investments and other assets	9,479	10,211
Total non-current assets	22,067	22,966
Total assets	125,751	127,204

(Million yen)

	Fiscal year ended March 2017 (As of March 31, 2017)	First half ended September 2017 (As of September 30, 2017)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	37,553	35,512
Short-term loans payable	4,883	5,455
Accrued expenses	3,387	3,402
Income taxes payable	888	911
Provision for directors' bonuses	204	139
Other	3,325	3,551
Total current liabilities	50,242	48,972
Non-current liabilities		
Long-term loans payable	4,603	3,804
Deferred tax liabilities	1,213	1,697
Provision for directors' retirement benefits	1,222	1,241
Net defined benefit liability	1,669	1,634
Asset retirement obligations	144	168
Other	723	678
Total non-current liabilities	9,576	9,224
Total liabilities	59,819	58,197
NET ASSETS		
Shareholders' equity		
Capital stock	12,133	12,133
Capital surplus	13,912	13,853
Retained earnings	40,476	43,032
Treasury shares	(2,040)	(2,041)
Total shareholders' equity	64,481	66,977
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,159	1,466
Deferred gains or losses on hedges	0	(0)
Foreign currency translation adjustment	421	642
Remeasurements of defined benefit plans	(190)	(150)
Total accumulated other comprehensive income	1,391	1,958
Non-controlling interests	59	71
Total net assets	65,932	69,006
Total liabilities and net assets	125,751	127,204

(2) Quarterly consolidated statements of income and comprehensive income

For the first half (April 1, 2017 – September 30, 2017)

(Million yen)

	First half ended September 2016 (April 1, 2016 – September 30, 2016)	First half ended September 2017 (April 1, 2017 – September 30, 2017)
Net sales	109,659	116,582
Cost of sales	94,486	100,363
Gross profit	15,172	16,218
Selling, general and administrative expenses	11,959	11,824
Operating income	3,212	4,394
Non-operating income		
Interest income	24	49
Dividends income	71	82
Commission fee	114	100
Foreign exchange gains	—	21
Other	124	146
Total non-operating income	335	401
Non-operating expenses		
Interest expenses	66	60
Foreign exchange losses	415	—
Other	20	32
Total non-operating expenses	502	92
Ordinary income	3,045	4,703
Extraordinary income		
Gain on sales of non-current assets	13	21
Gain on sales of investment securities	2	518
Gain on transfer of business	89	12
Total extraordinary income	105	552
Extraordinary loss		
Loss on retirement of non-current assets	6	8
Loss on sales of investment securities	31	—
Loss on valuation of investment securities	—	111
Business structure improvement expenses	11	—
Loss on valuation of golf club membership	11	3
Impairment loss	—	219
Other	0	0
Total extraordinary loss	60	343
Profit before income taxes	3,090	4,913
Income taxes - current	688	756
Income taxes - deferred	(717)	628
Total income taxes	(29)	1,385
Profit	3,119	3,527
Profit attributable to owners of parent	3,111	3,516
Profit attributable to non-controlling interests	7	11
Other comprehensive income		
Valuation difference on available-for-sale securities	(134)	307
Deferred gains or losses on hedges	(11)	(0)
Foreign currency translation adjustment	(2,360)	220
Remeasurements of defined benefit plans, net of tax	43	40
Total other comprehensive income	(2,462)	568
Comprehensive income	656	4,095
Comprehensive income attributable to owners of parent	649	4,083
Comprehensive income attributable to non-controlling interests	6	12

(3) Consolidated statement of cash flows

(Million yen)

	First half ended September 2016 (April 1, 2016 – September 30, 2016)	First half ended September 2017 (April 1, 2017 – September 30, 2017)
Cash flows from operating activities		
Profit before income taxes	3,090	4,913
Depreciation	743	694
Impairment loss	—	219
Amortization of goodwill	44	44
Increase (decrease) in provision for directors' retirement benefits	(13)	19
Increase (decrease) in allowance for doubtful accounts	(0)	(61)
Interest and dividend income	(96)	(132)
Interest expenses	66	60
Loss (gain) on sales of investment securities	28	(518)
Loss (gain) on valuation of investment securities	—	111
Decrease (increase) in notes and accounts receivable - trade	5,320	2,061
Decrease (increase) in inventories	(1,108)	289
Decrease (increase) in accounts receivable - other	(33)	1,105
Decrease (increase) in advance payments	115	(300)
Increase (decrease) in notes and accounts payable - trade	759	(2,205)
Increase (decrease) in accrued expenses	(44)	(20)
Decrease (increase) in consumption taxes refund receivable	173	171
Decrease (increase) in other current assets	67	(26)
Increase (decrease) in other current liabilities	(442)	107
Other, net	(117)	(39)
Subtotal	8,552	6,493
Interest and dividend income received	96	130
Interest expenses paid	(65)	(59)
Income taxes paid	(852)	(688)
Other, net	(6)	(0)
Net cash provided by (used in) operating activities	7,723	5,875
Cash flows from investing activities		
Payments into time deposits	(301)	(1,057)
Proceeds from withdrawal of time deposits	503	463
Purchase of property, plant and equipment	(535)	(835)
Proceeds from sales of property, plant and equipment	93	86
Purchase of intangible assets	(71)	(76)
Purchase of investment securities	(149)	(1,000)
Proceeds from sales of investment securities	175	1,058
Payments of short-term loans receivable	(1)	—
Proceeds from cancellation of insurance funds	2	—
Payments for guarantee deposits	(5)	(41)
Proceeds from collection of guarantee deposits	15	95
Other payments	(42)	(42)
Other proceeds	67	2
Net cash provided by (used in) investing activities	(246)	(1,345)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	(476)	665
Repayments of long-term loans payable	(714)	(896)
Cash dividends paid	(987)	(958)
Other, net	(74)	(76)
Net cash provided by (used in) financing activities	(2,253)	(1,265)
Effect of exchange rate change on cash and cash equivalents	(1,419)	101
Net increase (decrease) in cash and cash equivalents	3,804	3,365
Cash and cash equivalents at beginning of period	21,879	26,021
Cash and cash equivalents at end of period	25,683	29,387

(4) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Significant change in shareholders' equity)

Not applicable

(Additional information)

(Adoption of consolidated taxation system)

From the first quarter of the fiscal year ending March 31, 2018, the Company and its certain domestic subsidiaries have adopted the consolidated taxation system.

(Segment information, etc.)

Segment information

I. For the first half ended September 2016 (April 1, 2016 – September 30, 2016)

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	82,784	20,524	1,442	4,909	109,659	—	109,659
Inter-segment sales or transfers	511	261	1,041	1,584	3,399	(3,399)	—
Total	83,295	20,786	2,483	6,493	113,059	(3,399)	109,659
Segment income (loss)	2,366	539	307	(57)	3,156	56	3,212

- Notes: 1. Adjustment in segment income of 56 million yen includes 56 million yen for elimination of inter-segment trade.
2. Segment income (loss) is adjusted for operating income on the quarterly consolidated statements of income and comprehensive income.

II. For the first half ended September 2017 (April 1, 2017 – September 30, 2017)

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	85,918	23,446	1,142	6,075	116,582	—	116,582
Inter-segment sales or transfers	593	503	463	336	1,896	(1,896)	—
Total	86,511	23,949	1,605	6,412	118,479	(1,896)	116,582
Segment income	2,893	1,116	111	198	4,319	74	4,394

- Notes: 1. Adjustment in segment income of 74 million yen includes 74 million yen for elimination of inter-segment trade.
2. Segment income is adjusted for operating income on the quarterly consolidated statements of income and comprehensive income.