

Kaga Electronics Group

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# Integrated Report 2018



## Corporate Philosophy

# Everything we do is for our customers

Kaga Electronics Co., Ltd. had very humble beginnings 50 years ago, starting out in a very small office. We have since grown into a general electronics trading company with operations that now span the globe. Our corporate philosophy, "Everything we do is for our customers," has remained unchanged since our earliest days. Based on this philosophy, we will keep contributing to the creation of an affluent society by continuing to support the development of our customers.

## F.Y.T. (fight) action guidelines

### F = Flexibility

Agility to respond to change

### Y = Young at heart

Always take a fresh approach to creating new ideas or taking action

### T = Try

Never forget your commitment to take on daring challenges

The spirit behind the acronym F.Y.T. (pronounced "fight") personifies our action guidelines. "F" stands for "Flexibility" and represents our commitment to be agile in response to change; "Y" stands for "Young at heart," representing our fresh approach to creating new ideas and taking action regardless of career or age; and "T" stands for "Try," demonstrating our dedication to boldly take on daring challenges.

## 3G action guidelines

### General

No matter what the product

### Global

We will look around the world, and

### Group

Leverage group strengths to give customers what they need

The opportunities granted to us by our customers have provided the impetus for growth, and we have always sought to leverage the power of the Group as a means to give back to our customers. The 3G action guidelines reflect our willingness to meet the needs of our customers through the products and services we handle.



## Who We Are



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"Everything we do is for our customers," in the past and into the future

Isao Tsukamoto, Founder & CEO



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Kaga Electronics will make effective use of its strengths, based on tangible and intangible capital for its global customers, for continued growth.

## Medium- to Long-term Growth Strategy



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We aim to outstrip the global competition and be the industry leader

Ryoichi Kado, President & COO



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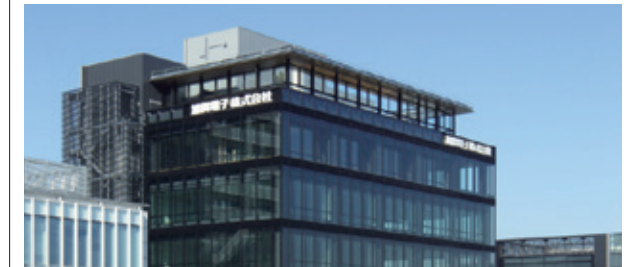
Susumu Miyoshi, Outside Director



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### Period covered

This report covers from April 1, 2017 to March 31, 2018, except certain parts that include information prior and subsequent to these dates, as required.

### Financial figures

Figures related to financial content in this report are rounded to the nearest unit. Ratios are rounded to one decimal place after calculation in yen.

### Scope of report

Data calculation in this report covers Kaga Electronics Co., Ltd. and its 43 consolidated subsidiaries (15 in Japan and 28 overseas), all companies included in the scope of the Company's consolidated accounting, except where stated.

Notation and coverage

The Company: Kaga Electronics Co., Ltd.

The Group: Kaga Electronics Co., Ltd. and its 43 consolidated subsidiaries

Domestic facilities: Kaga Electronics Co., Ltd. and its 15 domestic consolidated subsidiaries

### Forward-looking statements

Certain statements in this document may constitute "forward-looking statements." Such statements are based on currently available information and certain premises deemed rational at the time of writing. As such, actual results may differ from those projected due to various factors. Key factors that could cause actual results to differ from those projected include, but are not limited to, general economic conditions in Japan and overseas surrounding the Company's business domains, as well as trends in demand for the Company's products and services, and trends in foreign exchange rates and stock markets.



# 50 Years in Business

“Everything we do is for our customers,” in the past and into the future

## Never say “no”

In this first Integrated Report for the Kaga Electronics Group, I would like to touch on the intangible assets that have become our cornerstone—the strengths that we have built up over our history of 50 years—before I talk about our medium- to long-term growth strategy.

Half a century ago, when the Company was established, I had very little money and had achieved very few results. Fortunately, I was able to make a number of good personal connections and was committed to delivering whatever a customer ordered with a single phone call. As such, Kaga Electronics started out by selling electronics parts, basically handling anything and everything related to those parts.

Later, I noticed a change in the kind of requests our customers made, due in part to advancements in the times and technology, and in part to exchange rates and the economic environment. The vacuum tube is an example of a product we handled around the time we were founded. This product soon made way for the transistor, integrated circuit (IC) and ultralarge-scale integration (LSI), ushering in a rapid shift from the analog to the digital. By continuing to meet customer needs with simple honesty, we succeeded in enhancing and expanding our product lineup, handling everything from parts procurement to kit-parts sales and even contract production, known as electronics manufacturing services (EMS). We have also spread our wings beyond our

position as a trading company to include assistance with development and support services. These factors have helped to form the backbone of the company known as Kaga Electronics today.

Although it would be trendy to refer to our operations as offering one-stop services, our true origin lies in our customer-first approach. In addition, our present global network, one of our strengths, evolved from our efforts to venture overseas to procure parts and meet EMS needs locally in conjunction with our customers. This was a response to Japanese companies that transferred their production operations to China and other parts of Asia to counter the rising yen in particular.

A key to our business is the enhancement of customer satisfaction. Over the past 50 years, we have worked tirelessly to gain the trust of our customers based on the motto “Never say no,” according to which we strive to fulfill any and all requirements, whatever they may be.

## Personal connections are intangible assets

Over the years, the idea that “personal connections are intangible assets” has formed one of the pillars of what we call KAGAism, the essence of who we are.

To begin with, independent trading companies like Kaga Electronics handle an incredibly large number of product items by necessity to ensure that the customer

comes first. This is because there are no limitations, unlike with manufacturing-type trading companies that are bound to a certain supplier for a certain product. This has enabled us to build up an exceptionally broad business network for an exclusive electronics trading company, with approximately 4,000 customers and 2,000 suppliers. But that does not mean we have created this network solely by dealing with products we think our customers really want. We combine the wealth of information we gain through frequent conversations with many customers so that we can constantly anticipate what the next trend may be. In other words, as human connections intensify, our ability to look ahead grows stronger and more refined.

Our capacity to respond quickly and accurately to changes in the environment and needs can be attributed to our personal connections and business networks that we have built up through our relationships of trust. These connections and networks have become an integral part of our management foundation, as intangible assets in our work as a trading company.

## Inventory is a liability

There are also benefits to being free of inventory. In our earliest days, we had no choice but to place orders for products after receiving an order from a customer, since we lacked ample capital. There was really no other option, as it was more a case of not being able

Isao Tsukamoto

Founder & CEO



Our founder outside the Company's first office

## Since 1968 History of the Kaga Electronics Group

**Sep. 1968** KAGA ELECTRONICS CO., LTD. founded at 3-8-3 Soto-Kanda, Chiyoda-ku, Tokyo, with a paid-in capital of ¥1 million.

**Mar. 1980** Net sales exceed ¥10 billion.

**July 1981** TSK ELECTRONICS CORPORATION established in the United States.

**Dec. 1986** Stock listed on the Second Section of the Tokyo Stock Exchange.

to have any inventory than not having any inventory. Nonetheless, such zero inventory management became the fundamental principle for Kaga Electronics and has evolved into how we receive and place orders, a critical feature of the Company. This may seem like a harsh way to phrase it, but without surplus capital, inventory would have been a dormant capital investment. Investing what capital we had in inventory would have meant borrowing money at interest when we required capital for other purposes. In addition, inventory would mean incurring other costs, including rent fees for storage space and insurance premiums. This is why we view inventory as a liability.

Because we do not have any inventory, sales managers throughout the Group actively go out to gather order information from customers as swiftly as possible, which enables us to respond even more quickly to changing needs. In addition, conveying order schedule information to suppliers helps them to plan production better, which is greatly appreciated.

Based on this information cycle, we have been able to create a sustainable business model built on win-win relationships with customers and suppliers. In a trading company business, the emphasis is on being quick to seize an opportunity. Ever since realizing that we can establish a culture in which we never miss an opportunity by being inventory free, we have continued to consciously communicate to employees the advantages this brings and hone them into our own unique ordering system.

## An organization driven by communication

The Kaga Electronics Group consists of more than 40 companies covering a wide range of business domains, from electronic parts and semiconductors to information equipment, amusement equipment and sports. There are limits to a person’s capacity to respond to changes and uncertainty in the environment and to quickly seize an opportunity. To maximize our capabilities, our organizational approach is critical.

The keys to this are never saying “no” when it comes to the ambitions of employees and actively delegating authority once a decision has been made. People inherently want to grow and develop. That is why it is important to entrust them with tasks that help them to grow. A company will not grow if it does not nurture its people. Naturally, not all challenges go well, but it is vital to learn from failure. I have personally learned a great deal from my many mistakes, and these experiences have laid the platform for a culture in which we never fail to reward good work or punish bad work.

Moreover, it is communication that really grabs the attention when encouraging employees to take on challenges and when delegating authority. Soon after founding the Company, I discovered that socializing with employees after work and communicating with them closely brought about a sense of unity. Having comrades around you makes you want to do your very best and work

together to achieve goals. Based on such experience, we strive to create an organization that promotes communication in its different forms and the reconciling of values to ensure a more open workplace where everyone works toward the same objectives.

This idea is connected to our belief that the Company belongs to everyone, not merely the founder, and that all finances should be transparent as a result. If the Company is profitable because of its employees’ efforts, then everyone should have a share in its profits. During hard times, everyone should practice a little perseverance and aim for the next leap forward. I believe that true management lies in creating an environment in which the Company’s condition is open to scrutiny and all employees are free to discuss the future from a managerial point of view.

## People are a finite asset; companies are perpetual entities

On a global basis, Japanese companies often lag in responding to changes in the business environment. The changing speed of business is high not only in Silicon Valley but also in China, South Korea and Taiwan. In a short space of time, we have seen the steady emergence of high-growth companies in China in particular in such fields as robotics and fuel cells.

The electronics industry is expected to change and grow dramatically, driven by advancements in the Internet of Things (IoT) and artificial intelligence (AI) related technologies across the board. Against this backdrop, in the fast-changing domains of automotive electrification and computerization, it is now more important than ever to make decisions with overwhelming speed to succeed in business. And that is exactly why we need to keep a watchful eye from a broad perspective and remain sensitive to changes in the industry. This may mean trying to determine which parts are required for electric vehicles (EVs), what kind of ICs the market demands, and which units to focus on.

People are a finite asset; companies are perpetual entities. There is no end goal to corporate activities. Even at Kaga Electronics—a company with 50 years of experience that aims to thrive and celebrate its centenary—we must keep changing to drive sustainable growth. With this in mind, our efforts include earmarking ¥5 billion for investment in a venture company and developing new products and services to meet growing needs in society for safety, security and environmental preservation. As we take on these new endeavors, one thing has remained unchanged from times gone by and will continue into the future: our philosophy that “Everything we do is for our customers.”

## 1990– History of the Kaga Electronics Group

- June 1992** KAGA (H.K.) ELECTRONICS LIMITED established in Hong Kong.
- July 1994** KAGA (SINGAPORE) ELECTRONICS PTE. LTD. established in Singapore.
- Feb. 1995** KAGA (KOREA) ELECTRONICS CO., LTD. established in the Republic of Korea.
- Mar. 1995** Net sales exceed ¥50 billion.
- Dec. 1995** KAGA (TAIWAN) ELECTRONICS CO., LTD. established in Taiwan.
- Sep. 1997** Stock listed on the First Section of the Tokyo Stock Exchange.



Stock listed on the First Section of the Tokyo Stock Exchange

## 2000– History of the Kaga Electronics Group

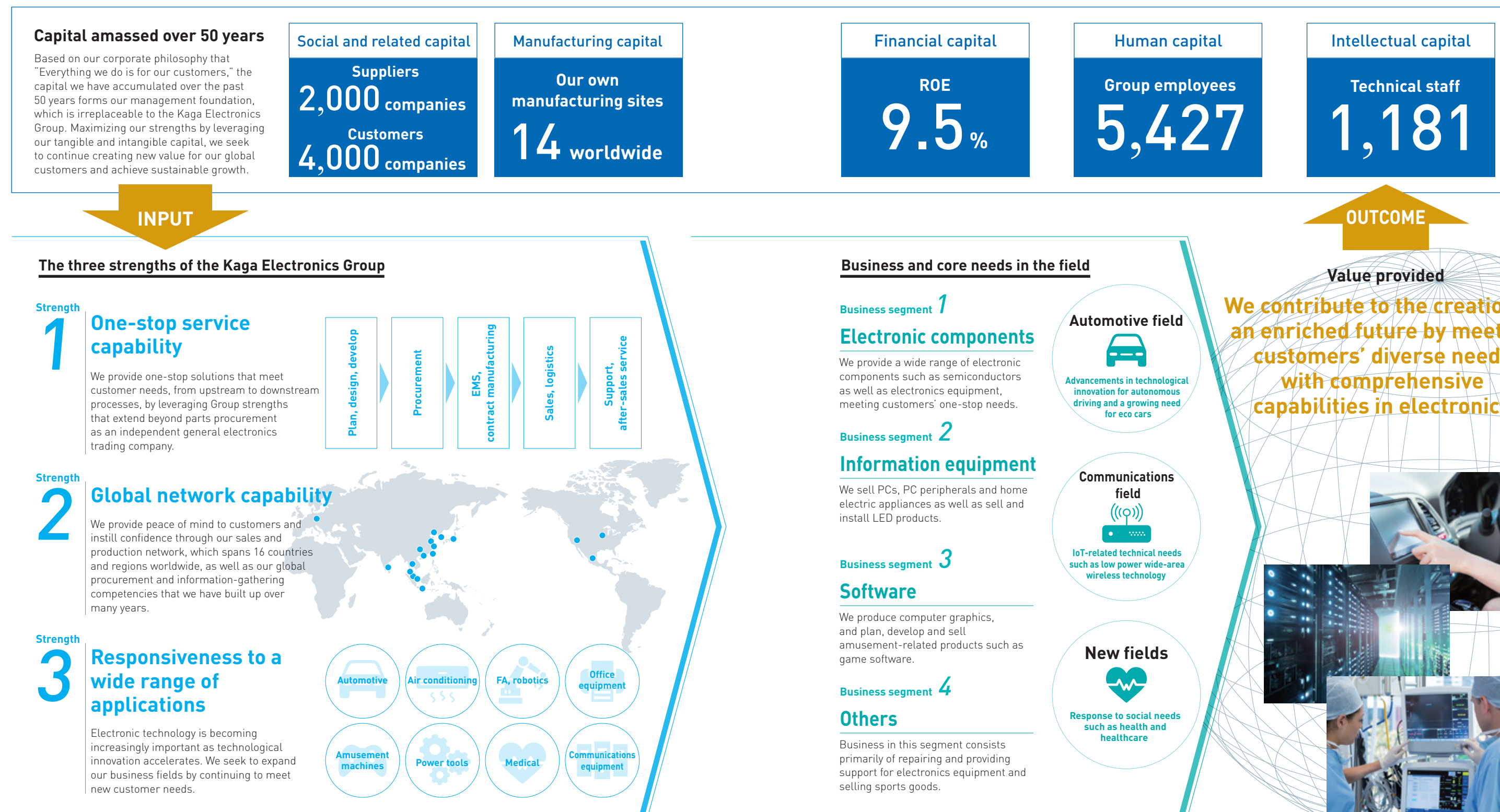
- Aug. 2000** KAGA (SHANGHAI) ELECTRONICS CO., LTD. established in China.
- Mar. 2001** Net sales exceed ¥100 billion.
- Apr. 2002** KAGA ELECTRONICS (THAILAND) COMPANY LIMITED established in Thailand.
- Dec. 2003** KAGA ELECTRONICS (USA) INC. established in the United States.
- Aug. 2006** KAGA (DALIAN) ELECTRONICS CO., LTD. established in China.
- Mar. 2008** Net sales surpassed the ¥290 billion mark.
- Apr. 2009** KAGA (EUROPE) ELECTRONICS LTD. established in the UK. KD TEC s.r.o. established in the Czech Republic.
- Mar. 2014** Transferred to current Head Office building (company-owned building)
- Jan. 2017** TAXAN MEXICO S.A. de C.V. established in Mexico.
- July 2017** KAGA ELECTRONICS (VIETNAM) CO.,LTD. established in Vietnam.



Head Office building [Chiyoda Ward, Tokyo]

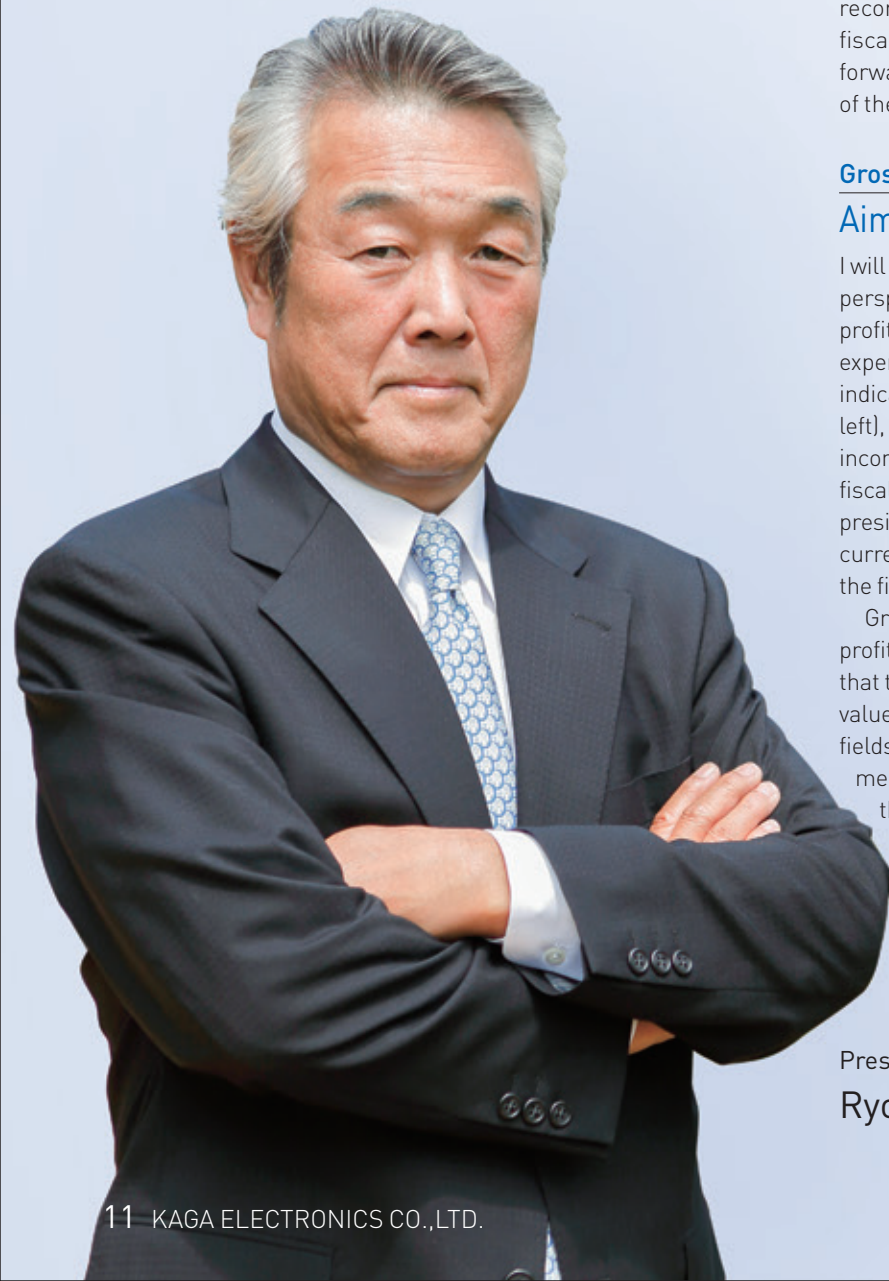


# Kaga Electronics will make effective use of its strengths, based on tangible and intangible capital for its global customers, for continued growth.



# Solidifying Foundations for the Next 50 Years

We aim to outstrip the global competition and be the industry leader



## Review of the fiscal year ended March 31, 2018 Achieved record-high ordinary income for the first time in 13 periods

To begin with, I would like to report the main points of the Kaga Electronics Group's consolidated financial results for the year ended March 31, 2018 (from April 1, 2017 to March 31, 2018).

Performance for the fiscal year exceeded initial projections in all items, from net sales to profit attributable to owners of the parent. While business conditions for amusement machines were tougher than anticipated, this was offset by strong sales for electronics manufacturing services (EMS) and housing and commercial facilities, enabling us to revise forecasts upward twice during the period, and I believe we succeeded in following through on our commitments. We were able to firmly put down roots with these businesses as the foundation for profit, which helped us to post a record high for ordinary income for the first time in 13 fiscal years. This shows that we have taken a solid step forward to establishing profit-oriented management, one of the aims of our Medium-Term Management Plan 2018.

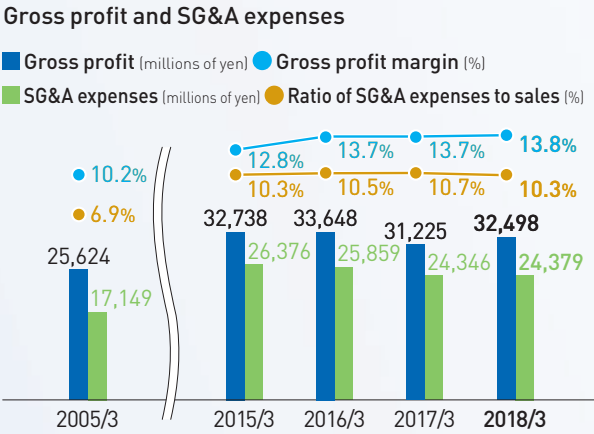
## Gross profit and SG&A expenses Aiming for profit-oriented management

I will outline the initiatives we have taken from the perspective of profit-oriented management using gross profit and selling, general and administrative (SG&A) expenses. The graph you see here presents these financial indicators for the fiscal year ended March 31, 2005 (at left), when we posted our previous record high for ordinary income, as a comparison with the four years starting in the fiscal year ended March 31, 2015, when I was appointed president, up to the fiscal year under review (at right). The current Medium-Term Management Plan commenced in the fiscal year ended March 31, 2017.

Gross profit has increased significantly, and the gross profit margin is also improving. On analysis, we can see that the keys to this were twofold—expanding the high-value-added EMS business and actively cultivating new fields that we did not have in 2005 such as the automotive, medical and power tools domains. We have achieved this based on efforts to strengthen organizational capabilities and business foundations through such means as allocating the right person to the right position with the aim of enhancing profitability. As the next step, we will look to achieve a profit ratio around the 14% or 15% range.

President & C00  
Ryoichi Kado

While the absolute value of SG&A expenses as well as the ratio of SG&A expenses to sales increased in the fiscal year ended March 31, 2015 compared with the fiscal year ended March 31, 2005, in the past three years we have worked to hold both of these indicators in check as we forge ahead with structural reforms at Group companies. In 2016 we merged three Group companies engaged in the information equipment business. In 2017, we transferred shares in a subsidiary developing and producing SiC boards to an outside entity, and this fiscal year we integrated two domestic manufacturing subsidiaries. For our next step, we aim to lower the ratio of SG&A expenses to sales to under the 10% mark.

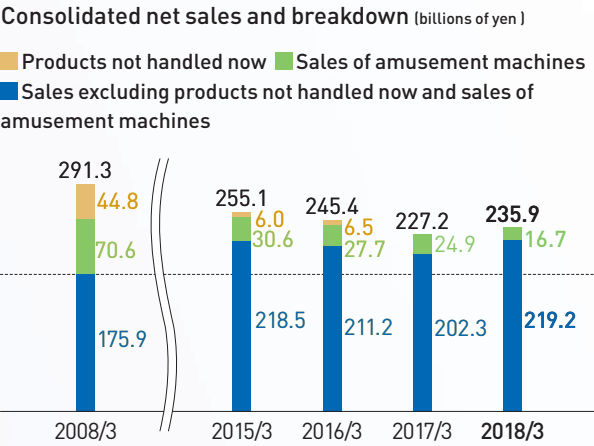


## Strengthening resistance to changes in the external environment Expanding the scale of the EMS business

Changes in trading rights, channels and amounts are practically an everyday occurrence for a trading company: losing, for example, agency rights for merchandise that have been painstakingly nurtured or facing a decline in orders of parts following a slowdown in customers' product sales despite the recent strong showing. The most important management challenge for us is to work out how to respond quickly to such changes in the external environment.

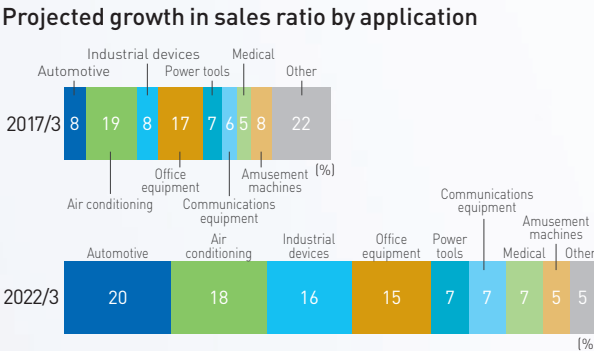
With this in mind, if we compare net sales between the fiscal year ended March 31, 2008, when we achieved our previous record high, and the fiscal year ended March 31, 2018, we can see that the figure has dropped by more than ¥50 billion over that 10-year period. At the start of that period, we actually posted more than ¥40 billion in sales of products that we no longer handle, including PCs made by Apple and SanDisk memory. In addition, the business for amusement machines, which peaked around the same time, has witnessed a contraction in the market over time due to the impact of the repeated reinforcement of

regulations, driving sales down by more than ¥50 billion over that 10-year period. Excluding these factors, however, net sales for the fiscal year ended March 31, 2018 increased relative to 10 years ago in real terms.



One of the biggest reasons we have been able to raise our resistance to changes in the external environment and ensure stable profit has been expansion of the EMS business. We have leveraged our ability to procure a wide range of parts as an independent general electronics trading company and our production system capable of high-mix, low-volume manufacturing to move into different industries and expand the applications we can handle. We have also established production bases around the world. As a result of these efforts, we have grown more resilient to changes in the environment and developed into a business that is more diversified and flexible.

I would like to see us double sales in the EMS business, which amounted to just under ¥90 billion for the fiscal year ended March 31, 2017, during the period of our next Medium-Term Management Plan. We will aim to drive further growth by targeting growing fields: namely, the automotive field, where automation and computerization continue to advance; the air conditioning field, where there is demand for greater environmental compatibility; the industrial device field, including robots and factory automation (FA) equipment; and the medical field, where precise processing technology is required.





Forecast for the fiscal year ending March 31, 2019

A commitment to achieving the targets of the Medium-Term Management Plan

We have already secured a series of new projects for the fiscal year ending March 31, 2019 on the back of efforts to expand overseas sites for the EMS business, and the future looks extremely bright. The demand-supply situation has tightened up for certain electronic components and semiconductors, however. In the EMS business, if we run out of just one part, our line stops flowing, so it is crucial for us to ensure the stable procurement of everything we need. We decided not to disclose financial forecasts at the start of the fiscal year given these uncertain factors.

Nonetheless, since the fiscal year ending March 31, 2019 marks the final year of the current Medium-Term Management Plan, I remain committed to the end to achieve our targets. We are still within range, especially after factoring in the contribution upon making Fujitsu Electronics Inc. a subsidiary, a move announced recently (see page 14). We plan to announce financial forecasts when we present results for the second quarter in November, when the outlook is clearer.

Shareholder return

Increased dividends for the fifth consecutive term

Kaga Electronics has positioned the return of profits to shareholders as one of its most important management policies. We would like to reciprocate our shareholders' support by providing dividends from our surplus so that they feel they can continue to support us by retaining the Company's shares over the long term. Based on the belief that we have held since our earliest days that profit generated by everyone's hard work will be shared with everyone, we make it a principle to conduct transparent management in which we return profits to shareholders through extraordinary dividends when we expect to generate a level of profit that exceeds our initial target.

I am pleased to report that we increased dividends once again for the fiscal year ended March 31, 2018, making it five consecutive years of dividend growth since the fiscal year ended March 31, 2014, as a result of revising the dividend forecast upward twice following dual financial forecast revisions during the period. Going forward, our basic policy regarding the distribution of profit we generate is to maintain a stable and continuous payment of dividends to shareholders while investing to drive further growth toward the next leap ahead as well as to ensure a sound financial position from a long-term perspective.

Direction of the next Medium-Term Management Plan

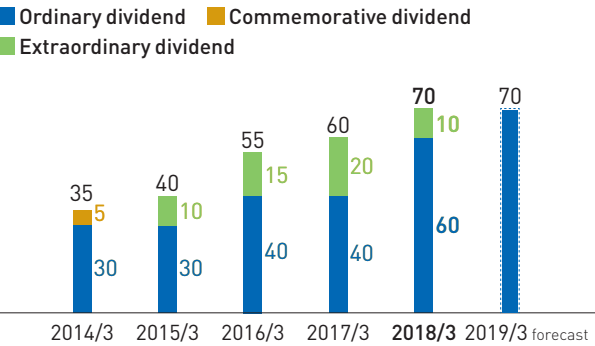
Aiming to be a leading global company

We are now within reach of our targets under the current Medium-Term Management Plan 2018, including the aforementioned targets. As such, we are pushing ahead with formulation of our next Medium-Term Management Plan. We plan to report the full picture when we announce results for the second quarter of the fiscal year.

We aim to become the industry leader in Japan and be a world-class company, a goal common to the current plan as well. To achieve this, we will further pursue establishment of profit-oriented management, where it is essential for us to considerably raise the scale of both sales and profit. Not even a specialist trading company can lay claim to be top in the industry unless it can achieve ¥500 billion in sales in quantitative terms. From a global point of view, the trillion yen mark has become the benchmark. That is the level required to outstrip the global competition and develop a profile that will make the international community take notice. At the same time, we aim to boost ROE, which currently sits just over 9%, to beyond the 10% level, from the perspective of management efficiency.

A key theme from a qualitative standpoint is the establishment of a corporate style and governance system befitting the aforementioned company scale and industry positioning. We are currently engaged in deep discussions inside the Company about a range of matters in accordance with set priorities, including whether to shift to a flexible holding company structure in preparation for further corporate acquisitions and industrial reorganization; whether we need to strengthen personnel by adding another two outside directors; determining if our diversity policy is progressing effectively; and determining if our shareholder returns are sufficient. In any event, we will continue to strive for new growth without fear of change.

Dividends (yen)



NEWS Notice related to making Fujitsu Electronics Inc. a subsidiary (released on September 10, 2018)

Toward our goal of becoming industry leader in Japan by evolving into a corporate group with net sales of ¥500 billion

At the board of directors meeting held on September 10, 2018, Kaga Electronics resolved to acquire shares in Fujitsu Electronics Inc. and make it a subsidiary.

A share transfer agreement was concluded between the Company and Fujitsu Semiconductor Limited, the parent company of Fujitsu Electronics. Under the agreement, as the first phase, 70% of the shares of Fujitsu Electronics will be acquired in January 2019 and it will become a subsidiary. The remaining 30% will be split into two lots of 15% to be transferred in December 2020 and December 2021, at which time Fujitsu Electronics will become a wholly owned subsidiary of Kaga Electronics. The acquisition price may be adjusted based on the consolidated net assets of Fujitsu Electronics. At this time, we project around ¥20.5 billion and plan to finance the acquisition through self-funding and a new bridge loan. We will consider switching to the procurement of long-term funding for this bridge loan.

Fujitsu Electronics has an engineering team capable of developing, designing and mass producing electronic devices internally, and provides state-of-the-art solutions to a broad array of customer needs as a trading company of the Fujitsu Group dealing with electronic devices. By adding this company to the Kaga Electronics Group, we believe we can evolve into a corporate group with net sales of ¥500 billion and solidify

our management foundation toward the goal of becoming the industry leader in Japan, as set out in our Medium-Term Management Plan. Based on this, we will further promote an ongoing growth strategy, aiming to be a world-class company that can stand up to overseas competitors with sales crossing the trillion yen mark.

The share acquisition is expected to produce the following synergies.

1 Market share expansion for the electronic parts and semiconductor business

We seek to expand our share in the electronic parts and semiconductor markets by complementing the offerings and sales channels of both companies.

2 Expansion in scale of the EMS business

We will strive to achieve discontinuous growth of the high-value-added EMS business, an area of comparative strength, by adding Fujitsu Electronics' broad customer base, one of its competitive advantages, to our global network of EMS business bases.

3 Further improvement in management efficiency through business integration

We will strive to further improve profitability by optimizing and sharing, to the greatest extent possible, the sales-related organizations and other functions of the two companies.

Top 10 electronics trading companies in terms of sales (2018/3)

Order	Company	Net sales (billions of yen )
1	MACNICA FUJI ELECTRONICS HOLDINGS, INC.	504.1
2	MARUBUN CORPORATION	347.5
3	UKC Holdings Corporation	301.4
4	Fujitsu Electronics Inc.	258.7
5	Ryosan Company, Limited	254.1
6	Ryoden Corporation	236.5
7	KAGA ELECTRONICS CO., LTD.	235.9
8	SIIX Corporation	233.2
9	TOMEN DEVICES CORPORATION	197.6
10	Elematec Corporation	196.2

Top 5 in terms of sales following acquisition

Order	Company	Net sales (billions of yen )
1	MACNICA FUJI ELECTRONICS HOLDINGS, INC.	504.1
2	KAGA ELECTRONICS CO., LTD. + Fujitsu Electronics Inc.	494.6
3	MARUBUN CORPORATION	347.5
4	UKC Holdings Corporation	301.4
5	Ryosan Company, Limited	254.1

Notes:  
1. Sales figure for Kaga Electronics + Fujitsu Electronics determined via simple sum. SIIX figures are for the year ended December 31, 2017.  
2. Aside from Fujitsu Electronics, this table includes only listed companies.  
3. Data source: Kaga Electronics research.

Overview of Fujitsu Electronics

Name	Fujitsu Electronics Inc.	Net sales	¥258.7 billion (fiscal year ended March 31, 2018)
Location of Headquarters	Kohoku-ku, Yokohama-shi, Kanagawa Prefecture, Japan	Number of employees	892
Representative Business	Junji Ogihara, President and Representative Director Design, development and sale of electronic devices	Following acquisition of the 70% stake in January 2019, Isao Tsukamoto (current Founder & CEO of Kaga Electronics) is scheduled to take office as chairman and representative director of the company.	
Capital	¥4,878 million		



# EMS business evolving to meet customers' needs

The Electronics Manufacturing Service (EMS) business of Kaga Electronics leverages the strengths of a flexible production system enabling high-mix, low-volume production. From semi-finished to finished products, we continue to pursue higher quality, higher performance and lower cost to meet the needs of our customers. In our EMS business, we are aiming to further expand and enhance our global hubs and drive evolution in our production process as a means to satisfy the growing needs of European, U.S. and Chinese companies.

Everything we do is for our customers around the world. We introduce the unique form of our EMS business, as we continue seeking to provide even greater levels of convenience in close proximity to the customer.



## EMS business and our corporate philosophy of "Everything we do is for our customers"

"Everything we do is for our customers." This is the philosophy of Kaga Electronics that also runs through the veins of the EMC business.

Some 40 years ago, when the EMS business got underway, Kaga Electronics referred to the segment as "processing transactions." The EMS business was born from service that came perfectly naturally to Kaga Electronics, a company that has continued to respond to the increasingly sophisticated needs of customers. Starting from orders for standalone electronic parts, these have evolved to ones for delivery of multiple components as a kit and the actual assembly and processing of these kits.

Now, our EMC business is one of the Kaga Electronics Group's growth drivers based on two key advantages unique to a trading company. First, we make effective use of our ability to procure items from suppliers in the United States, Europe and Asia, which makes it possible to propose alternative parts and materials that suit each customer best. Second, our production system enables high-mix, low-volume production. The Kaga Electronics Group produces around 3,000 different circuit board models a month, with annual production volume amounting to 100 million units. As such, even with small orders of, say, 100 units a month, we can make high-volume orders to our suppliers by combining similar orders. This enables us to cut down on component costs.

Also, in the EMS business, relationships with customers tend to be long term, as in 10-20 years, rather than short term. I am confident that our sustained efforts to lower costs and raise quality have helped us to gain the trust of the market.

## Constant evolution in the EMS business 1

### Establishment of a global EMS network

The Kaga Electronics Group is working to expand and enhance its overseas bases, a core program aimed at bolstering the EMS business.

In the beginning, we outsourced production to affiliated factories in Japan before building our own first facility in Shenzhen, China in 1999. The objective of this move was to meet the increasingly complex quality requirements of customers as applications expanded for precision products with advanced mounting accuracy for office automation equipment, information and communication devices and other areas. Following construction of this facility, we set about building a host of other production bases in Thailand, Czechia, Malaysia, Indonesia and Shanghai, Suzhou and Hubei in China in response to our customers' shift of production bases and an increase in application compatibility. By doing so, we established a framework facilitating the provision of EMS business locally in line with customer requirements and created a substantial support system based on local subsidiaries.

Motonori Toshinari

Director,  
Division Manager of EMS Sales Division



## Special Feature 1

### Kaga Electronics Group's EMS Business

#### Global EMS network

The Kaga Electronics Group's global EMS network is nearing completion with the establishment of a production base in India (planned for 2018).

This marks a move toward further expansion in the EMS business, framed around our 15 production facilities worldwide.

● Sales bases ● Production bases ● Considering entry



New factory in Mexico

In recent years, the core application of the Kaga Electronics Group's EMS business has shifted to new fields, namely, automotive devices, information and communication and IoT-related devices, beginning with modules for the low power wide area (LPWA)\* market, industrial devices and medical devices. As customers for these products set their sights firmly on the global stage, the Group has pushed ahead with the establishment of new EMS bases at a quick pace. We have set up production bases in different parts of the world such as Vietnam to reinforce our production system in the ASEAN region, in Mexico to expand business for automotive devices in North America, and in Turkey, where our production base is increasing in importance as the hub servicing Europe. Nowadays, our mission is to cultivate new markets, and with the establishment of a production base in India (planned for later in 2018), where we have already started activities to receive orders, we will be close to completing the Group's global EMS network.

\* LPWA refers to a wireless communications technology that is indispensable in the advancement of the IoT, since it significantly reduces traditional power consumption and helps achieve wide area, long distance communications.

#### Constant evolution in the EMS business 2

##### Creation of a system that meets global standards

To drive growth in the EMS business going forward, it is important to increase the number of international companies we have as customers to complement the Japanese companies we deal with, an area of comparative strength for the Group. In the near future, we would like to boost the proportion of European, U.S. and Chinese customers to 20% and then eventually to up to 50% of the total. To achieve this, it is critical for us to build a management structure that enables more advanced quality control and greater speed, at levels that are global standards, in addition to creating a value chain for procurement, production and logistics.

With this in mind, the Group is currently activating a project to innovate core systems with the aim of strengthening global business management foundations. This means ensuring that every layer of our global EMS network, which is nearing completion, has integrated into it a system for standardizing and boosting efficiency and quality of operations. Specifically, we will centralize parts and materials procurement, standardize manufacturing equipment, incorporate stricter quality control processes and take other steps to enhance competitiveness. By doing so, we are looking to the future in creating a global EMS headquarter function in which we can access massive amounts of information without delay, including issues that

arise and where, and thereby control the various elements we must contend with and respond in real time.

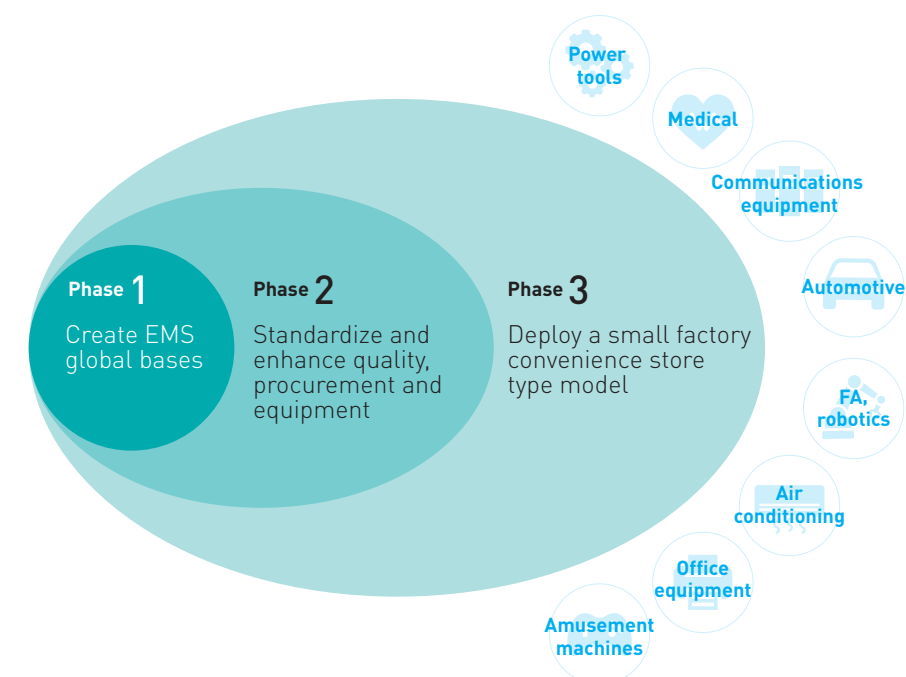
#### Constant evolution in the EMS business 3

##### Toward a convenience store type of EMS close to our customers

Moving ahead, we expect the basic direction of global manufacturing to change due in part to economic advancement in emerging nations. This means a shift from a conventional "export model," where producing country and consuming country differ, to a "local production for local consumption model," where both manufacturing and consumption occur locally. As such, in terms of our customers' production systems, we believe that the number of relatively small-scale factories will increase while production and sales lots will decrease. By necessity, this will drive higher demand for small EMS factories that can handle detailed customer requirements locally.

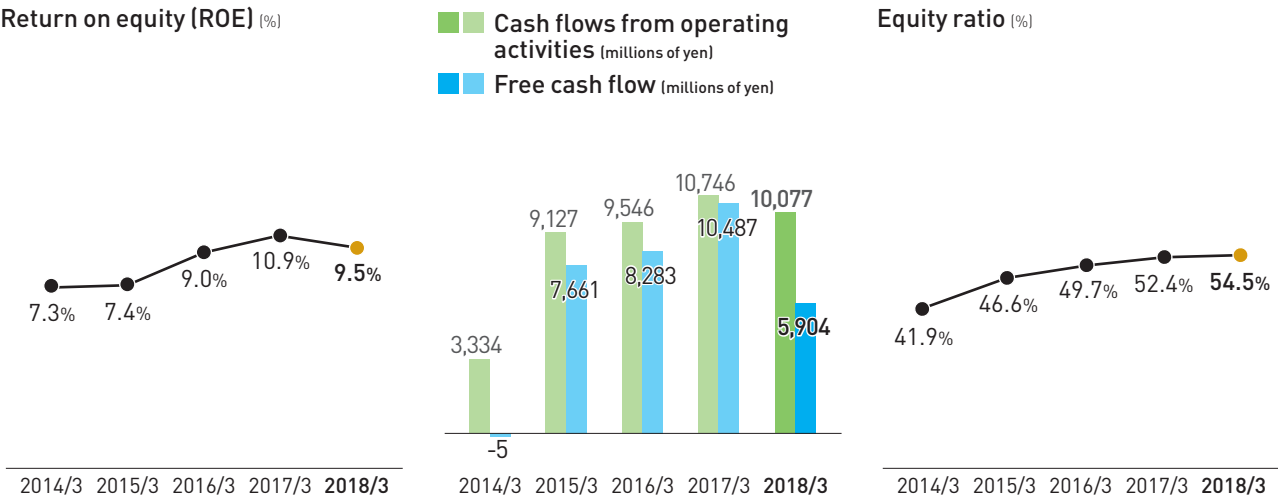
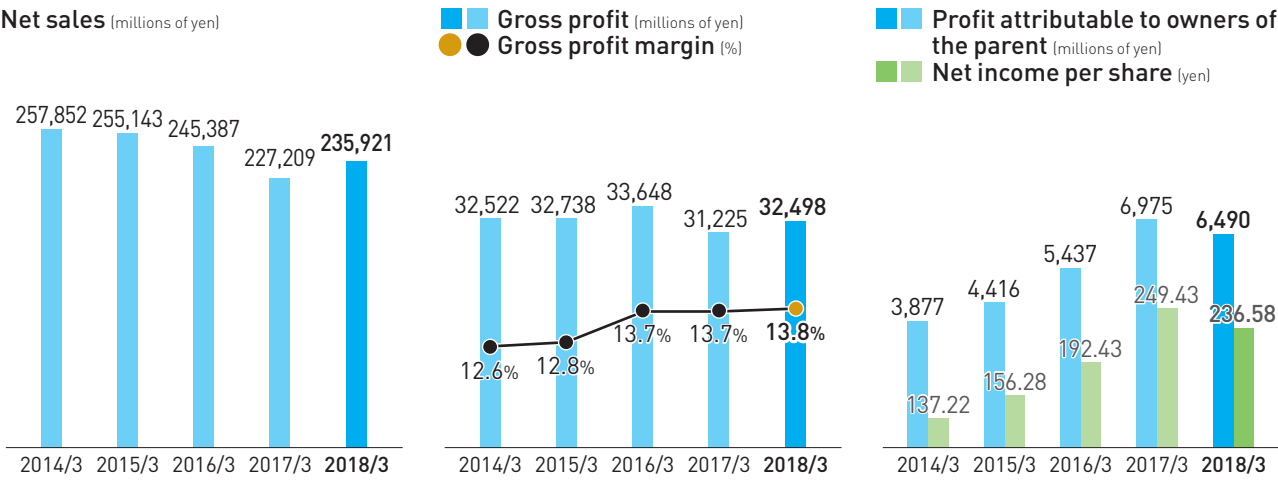
In light of these market changes, we aim to create a new EMS business model. Using the distribution industry as an analogy, this would mean rather than provide service from a large supermarket, we would do so from multiple convenience store locations. To respond to high-mix, low-volume orders at factories closest to the customer, we are pushing ahead with the creation of shared platforms and compiling information into a manual so that we can control logistics, procurement, production and quality control in a centralized manner at headquarters. We will also leverage the comprehensive capabilities of the Group to provide one-stop service up to and including after-sales maintenance.

The Kaga Electronics Group's EMS business has, over many years, gained the trust of customers by meeting all of their needs through its bases that are close to the community. By ensuring an excellent balance between the competencies at individual locations and the advantages of a global framework based on standardized platforms, we are confident that we can realize a convenience store type of EMS that is both convenient and valuable for customers.





Financial highlights



Overview of FY2018/3 results

In the fiscal year ended March 31, 2018, the Japanese economy witnessed a gradual recovery on the back of resurging economies overseas, which improved corporate earnings, and steady growth in capital expenditures, despite a break seen in the recovery trend of consumer spending.

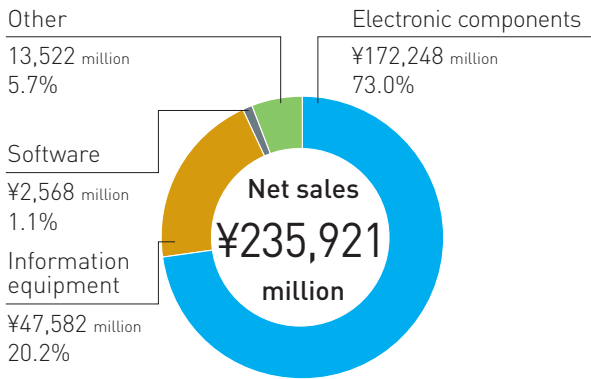
In the electronics industry, the principal sector of the Kaga Electronics Group, the markets for PCs and amusement machines remained stagnant, but steady growth was observed in the smartphone market. This reflected increasing demand in emerging countries and more advanced functionality, as well as the market

for automotive devices, where use of electronics is expanding. Furthermore, innovative technology-related markets, including the Internet of Things (IoT), big data and artificial intelligence (AI), also showed favorable growth.

Against this backdrop, based on our corporate philosophy of "Everything we do is for our customers," the Group focused on boosting sales to existing major customers in Japan and expanding the electronics manufacturing service (EMS) business, particularly overseas.

As a result, consolidated net sales in the fiscal year ended March 2018 totaled ¥235,921 million, up ¥8,712 million, or 3.8%, from the previous fiscal year, driven by the electronic components and information equipment businesses. Operating income amounted to ¥8,119 million, an increase of ¥1,240 million, or 18.0%, due to an improvement in the gross profit margin reflecting mainly enhanced productivity as well as efforts to control selling, general and administrative (SG&A) expenses. Ordinary income was ¥8,740 million, up ¥1,397 million, or 19.0%, marking yet another record high. Profit attributable to owners of the parent decreased to ¥6,490 million, down ¥485 million, or 7.0%, due largely to a rise of ¥1,950 million in total income taxes.

Net sales by segment and composition



Outlook for FY2019/3, and progress in the Medium-Term Management Plan 2018

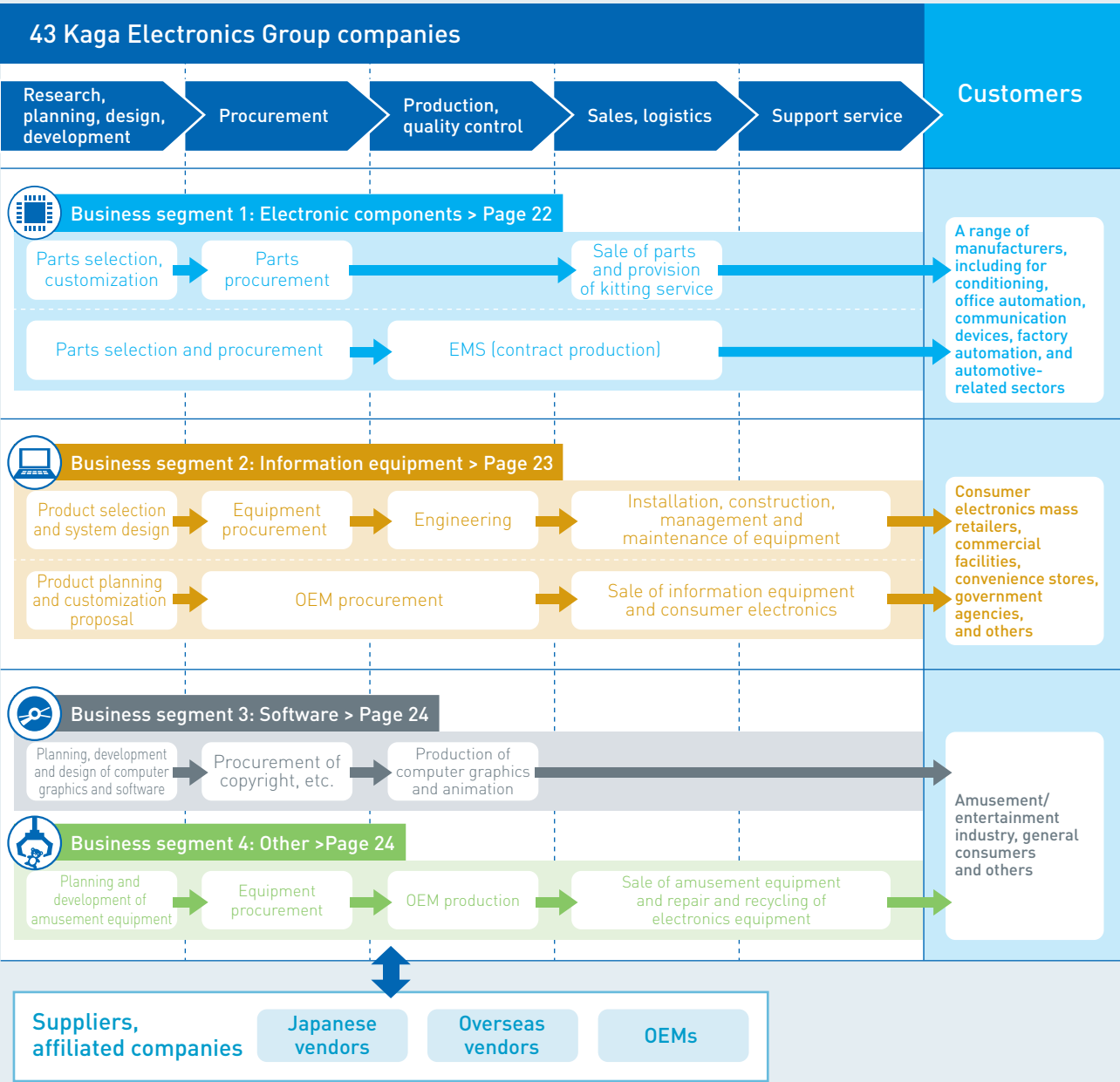
In the fiscal year ended March 31, 2018, Kaga Electronics implemented numerous measures that included expanding the EMS business and reorganizing Group companies in the interim year of the Medium-Term Management Plan 2018 in line with the plan's basic policy. As a result, we were able to achieve a profit ratio that exceeded our start-of-term forecasts by improving on target figures such as net sales and profit attributable to owners of the parent, even though we revised these forecasts upward twice during the fiscal year.

With regard to financial forecasts for the next fiscal year ending March 31, 2019, the final year of the Medium-Term Management Plan 2018, we expect the materialization of a tight demand-supply situation for certain electronic components such as power semiconductors and capacitors, and as a result of the ensuing uncertainty, we are refraining from disclosing full-year financial forecasts. Nonetheless, we will continue to work Groupwide to boost earnings to achieve the targets of the final fiscal year of the plan, while persevering with the management policies we have executed thus far.

Overview of Medium-Term Management Plan 2018

Basic Policy	Management Target (FY2019/3)
(1) Enhance the revenue base	Net sales: ¥290.0 billion
(2) Create new business	Ordinary income: ¥10.0 billion
(3) Strengthen the management foundation	ROE: 8.0% or higher

# The Kaga Electronics Group's “One-Stop Service System”



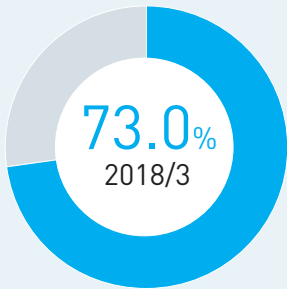
The Kaga Electronics Group, as an independent general trading company, has been expanding its business domains in accordance with customer needs that change with the times.

We currently have four business segments: electronic components, information equipment, software, and other.

In each of these businesses, Group companies worldwide work together to create a “one-stop service system” that transcends the boundaries of a trading company and covers everything from upstream to downstream processes, providing diverse added value to customers.

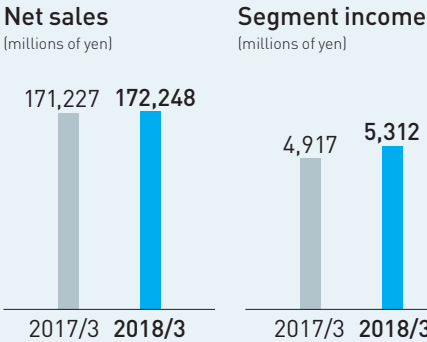
## Outline of business segments

### Electronic components



**Business description**  
Development, manufacture and sale of semiconductors, general electronic components and other products, EMS, and other activities

**Review of FY2018/3 performance**  
In the electronic components segment, EMS business for electronic equipment and sales of semiconductors in particular showed favorable growth. As a result, net sales increased 0.6% year on year to ¥172,248 million and segment income rose 8.0% to ¥5,312 million.



## TOPICS

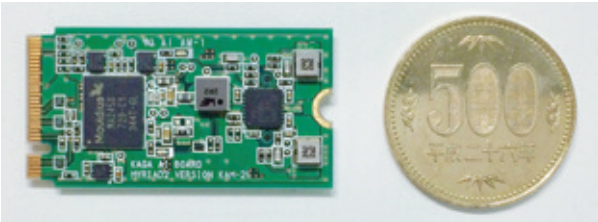
### Contributing to evolution in next-generation eco cars and streamlining of production processes through advanced technology

Kaga Electronics has released its IVT-S series of shunt resistor type current sensor modules that apply Ohm's law, a world first for mass-produced products. In conventional current sensor modules, multiple sensors were required to measure a wide range of currents whereas this can be accomplished with a single device in this series. This contributes to a more compact design in the measurement system. The series also enables current measurement at the micro level, allowing detailed control of battery charge and discharge, and precise calculation of electric power. The products are expected to be in high demand for battery management systems in next-generation eco cars such as electric vehicles (EVs) and plug-in hybrid electric vehicles (PHEVs), areas where adoption is set to continue growing.

In addition, an AI inference accelerator board\* developed by the Company saves on energy and space,

and achieves a lower cost than conventional graphics processing units. The device uses AI to facilitate the identification of specific physical objects in images taken with a camera, for instance, as well as computation of position. The technology has raised expectations for broad application in such domains as inspection lines, security and behavioral analysis inside factories.

\* An accelerator board is a circuit board built into equipment such as small, space-saving edge computers and surveillance (object detection) cameras to amplify functions.





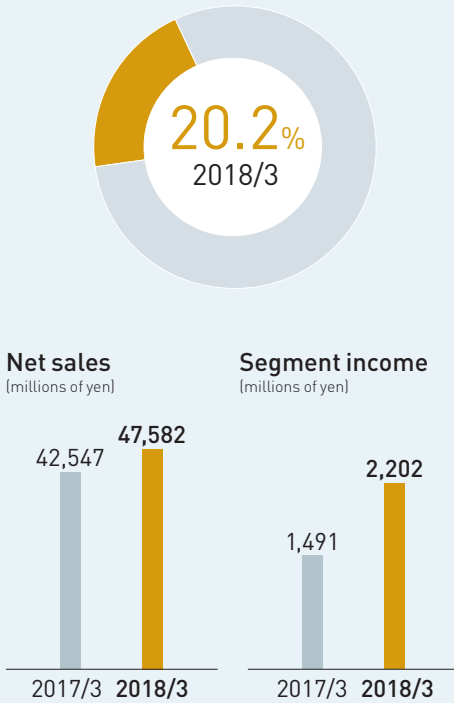
Outline of business segments

Information equipment



**Business description**  
Sales of PCs, PC peripherals, home electric appliances, photograph and imaging products, original brand products, and other products

**Review of FY2018/3 performance**  
In the information equipment segment, sales of housing-related and commercial facilities-related products showed solid growth. As a result, net sales increased 11.8% year on year to ¥47,582 million and segment income rose 47.7% to ¥2,202 million.



TOPICS

Developing energy-saving products for large commercial facilities and convenience stores

The Kaga Electronics Group company KAGA TECHNOSERVICE CO., LTD. is an engineering-based company boasting construction technologies in such areas as communications, electricity and interiors. By utilizing the extensive procurement and sales channels that are a competitive advantage of the Group, KAGA TECHNOSERVICE is able to enhance efficiency in the office environment for its customers and provide high-quality service in the network solutions, energy saving and security fields.

In the fiscal year ended March 31, 2018, as part of efforts in its business activities the company installed LED lighting in large commercial facilities and convenience stores with multiple locations nationwide, which contributed to financial results. In addition to procuring the optimal LED lighting equipment through the Group's companies to satisfy customer needs, the construction is done after closing time to ensure there

is no interference with everyday operations, which is especially helpful to retailers. Moreover, extra effort is made to protect the many products while the construction is carried out. Further, the company works hard to provide service unique to the Kaga Electronics Group that guarantees high levels of satisfaction. This includes thorough safety management and quality control to ensure zero accidents in construction and a satisfied customer, underlining our commitment to ensure that "Everything we do is for our customers."



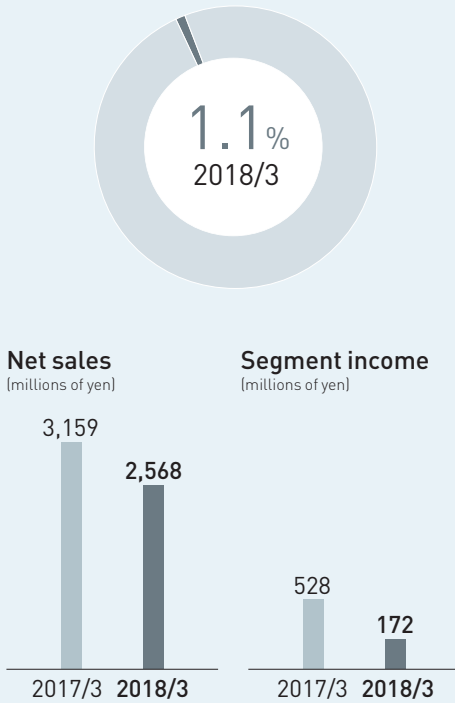
Outline of business segments

Software



**Business description**  
Production of computer graphics, planning and development of amusement products, and other activities

**Review of FY2018/3 performance**  
In the software segment, orders for production of computer graphics animation and development of game software were sluggish compared with typical years. As a result, net sales decreased 18.7% year on year to ¥2,568 million and segment income was down 67.4% to ¥172 million.

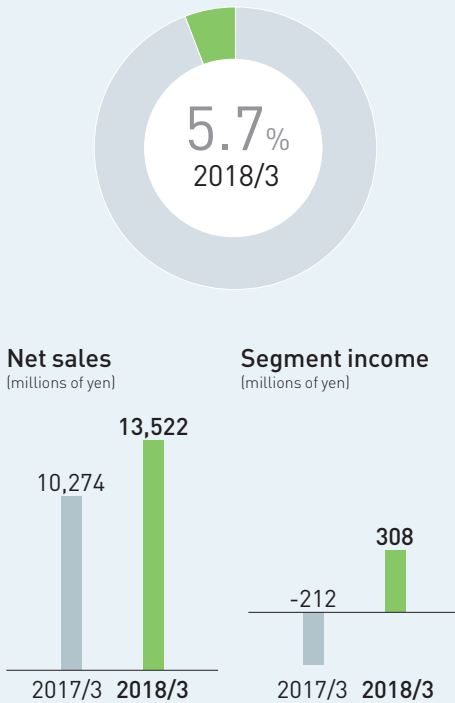


Other



**Business description**  
Repair and supports for electronics equipment, manufacture and sales of amusement equipment, and sales of sports goods, and other activities

**Review of FY2018/3 performance**  
In the other segment, sales in Japan of arcade amusement machines and golf products showed solid growth. As a result, net sales increased 31.6% year on year to ¥13,522 million and segment income was ¥308 million whereas a segment loss of ¥212 million was recorded in the previous fiscal year.





Directors and Auditors [As of June 28, 2018]



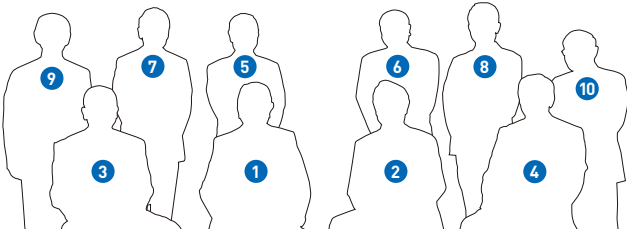
Directors

Founder & CEO 1  
Isao Tsukamoto

- 1967 Joined Sanko Electronics Co., Ltd.
- 1968 Founded Kaga Electronics (private management)
- 1968 Established Kaga Electronics Co., Ltd.
- President & COO
- 2007 Founder & CEO

President & COO 2  
Ryoichi Kado

- 1980 Joined Kaga Electronics Co., Ltd.
- 1991 Division Manager of Sales Department No. 3, Sales Headquarters
- 1995 Division Manager of East Japan Sales Department, High Tech Business Division
- 2002 Managing Director
- 2005 Senior Managing Director, General Manager of Specific Industry Business Headquarters
- 2012 Vice President
- 2014 President & COO



Senior Managing Director 3  
Shinsuke Takahashi

- 1980 Joined Kaga Electronics Co., Ltd.
- 1991 Division Manager of Specific Industry Sales Department
- 1995 Director
- 2002 Managing Director
- 2005 Senior Managing Director

Senior Managing Director 4  
Yukio Takashi

- 1977 Joined Kaga Electronics Co., Ltd.
- 1991 Division Manager of Sales Department No. 2, Sales Headquarters
- 1996 Director
- 1996 Managing Director
- 2005 Senior Managing Director

Senior Managing Director 5  
Shintaro Kakei

- 1980 Joined ITOMAN Co., Ltd.
- 1993 Division Manager of Overseas Business Division, Electronics Business Headquarters
- 2000 Joined Kaga Electronics Co., Ltd.
- 2000 Director
- 2005 Managing Director
- 2014 Senior Managing Director

Managing Director 6  
Eiji Kawamura

- 1979 Joined Kaga Electronics Co., Ltd.
- 1985 President, Taxan [U.K.] Ltd.
- 1993 Division Manager of Overseas Sales Department, Sales Headquarters No. 2
- 2005 Executive Officer, Head of Accounting Division and Head of Information Systems Department
- 2012 Executive Officer, Head of Administration Headquarters and Head of Accounting Division
- 2012 Director, Head of Administration Headquarters and Head of Accounting Division
- 2015 Managing Director, Head of Administration Headquarters

Director 7  
Motonori Toshinari

- 1982 Joined Kaga Electronics Co., Ltd.
- 1992 President & COO of Kaga (H.K.) Electronics Limited
- 1998 President of Taxan USA Corp.
- 2004 Division Manager of Overseas Sales Division, Overseas Business Division, Electronics Business Headquarters
- 2010 President & COO of Kaga (H.K.) Electronics Limited
- 2012 Executive Officer, Division Manager of EMS Business Division and President & COO of Kaga (H.K.) Electronics Limited
- 2015 Director, Division Manager of EMS Business Division

Director 8  
Mitsuhiro Nohara

- 1982 Joined Kaga Electronics Co., Ltd.
- 1997 Division Manager of Domestic Sales Department No. 1, Sales Headquarters
- 2003 President & CEO, Kaga (Shanghai) Electronics Co., Ltd.
- 2004 President of Kaga Electronics (USA) Inc.
- 2011 Division Manager of Electronics Business Division
- 2012 Executive Officer, Division Manager of Electronics Business Division, and Division Manager of Special Sales Department
- 2015 Director, Division Manager of Electronics Business Division

Outside Director 9  
Susumu Miyoshi

- 1963 Joined Toyota Motor Co., Ltd. (currently Toyota Motor Corporation)
- 2001 Executive Vice President and Representative Director
- 2002 President & COO of Osaka Toyopet Co., Ltd. (currently Osaka Toyota Motor Co., Ltd.)
- 2005 Advisor to Toyota Motor Corporation, Chairman of Osaka Toyopet Co., Ltd.
- 2009 Executive Advisor to Hitachi Maxell, Ltd. (currently Maxell Holdings, Ltd.) (present position)
- 2015 Director of the Company

Outside Director 10  
Akira Tamura

- 1970 Joined the Bank of Japan
- 1978 Deputy Director of the International Finance Bureau, Ministry of Finance
- 1998 Director of Information Systems Department, the Bank of Japan
- 2008 Representative Director and Senior Executive Officer, Sohgo Security Services Co., Ltd. (ALSOK)
- 2011 Advisor to Okigin Economic Research Institute
- 2012 Advisor to Niigata Sohgo Security Services Co., Ltd. (ALSOK)
- 2015 Director of the Company

Auditors



Auditor (Full-time)  
Kazunori Kameda



Auditor (Full-time)  
Takahiro Ishii



Outside Auditor  
Susumu Kitsunai



Outside Auditor  
Yoichi Sato



Corporate Governance

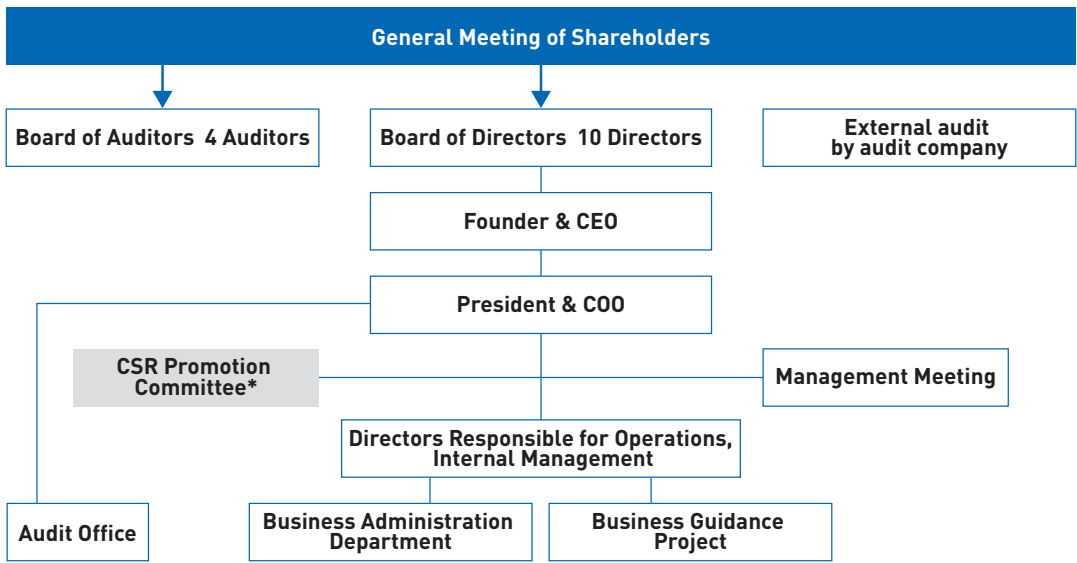
Basic approach and structure of corporate governance

Kaga Electronics recognizes that enhancing corporate governance is a key management issue. The Company is creating a corporate governance system with the fundamental policies and aims of ensuring total compliance with corporate ethics and laws and regulations, reinforcing internal control systems, and ensuring the soundness, efficiency and transparency of business operations.

Kaga Electronics adopts a system of corporate auditors and a corporate governance system based on collaborations between the Board of Directors, auditors and Board of Auditors, and the accounting auditor. The Board of Directors comprises 10 directors and four auditors. In principle, the Board meets once a month

and holds extraordinary meetings when necessary. The Board makes decisions on important matters related to items stipulated by laws and regulations and to management, and supervises the execution of duties by directors. Auditors regularly attend Board of Directors meetings and participate in other important internal meetings as part of efforts to monitor and audit the business conditions of the Company. Kaga Electronics has appointed two outside directors and four auditors (including two outside auditors) to ensure the effectiveness of the corporate governance system.

The Company implements and complies with all of these principles in consideration of the principles and spirit of Japan's Corporate Governance Code.



\*The Company has established the following committees under the CSR Promotion Committee.  
1. Compliance Committee 2. Risk Management Committee 3. Information Disclosure Committee 4. Personal Information Management Committee

CSR Promotion Committee

The Company has established a CSR Promotion Committee chaired by the President and COO, which promotes corporate social responsibility (CSR) alongside efforts to enhance corporate value. The Information Disclosure Committee, Risk Management Committee, Compliance Committee and Personal information Disclosure Committee have been established under the CSR Promotion Committee. Each of these committees actively implements activities in their respective domains.

Audit Office

The Company has established an Audit Office to handle internal audits in conjunction with the auditors. The Audit Office discusses audit plans with the auditors in advance and regularly reports audit findings to the auditors. The Office also cooperates with the auditors as required, such as when requested for reports.

Outside officers

The Company has appointed two outside directors and two outside auditors. Based on the Tokyo Stock Exchange standards on independence, we appoint outside officers who do not have any special interests with the Company and that they have extensive experience and broad powers of judgment in corporate management. The auditors are also required to have highly specialized knowledge and maintain independence from management executives.

The Company has established a staff office of the Board of Directors, which distributes materials related

to matters of deliberation by the Board to all officers including outside officers, ahead of the meeting day. The staff office provides supplementary explanations to the outside officers when needed to ensure that adequate information is imparted in advance. This helps support lively debate at Board of Directors meetings. By the end of each fiscal year, the staff office sets the schedule for the regular Board of Directors meetings for the following fiscal year and notifies all officers including outside officers, as a means to improve attendance.

Attendance at Board of Directors and Board of Auditors meetings

	Board of Directors meetings (held 18 times)		Board of Auditors meetings (held 17 times)	
	Attendance (times)	Attendance rate (%)	Attendance (times)	Attendance rate (%)
Outside Director Susumu Miyoshi	18	100.0	—	—
Outside Director Akira Tamura	18	100.0	—	—
Outside Auditor Yuichiro Tanaka	18	100.0	17	100.0
Outside Auditor Isamu Yonekawa	17	94.4	16	94.1

Reasons for appointing two new outside auditors

**Susumu Kitsunai**  
The Company appointed Susumu Kitsunai because he will be able to provide meaningful checks and balances from the standpoint of a certified public accountant on decisions concerning the fairness and transparency of management policy relating to financial accounting.

**Yoichi Sato**  
The Company appointed Yoichi Sato because he will be able to provide meaningful checks and balances that leverage his knowledge as a lawyer on decisions concerning such matters as compliance and legal risk.

Remuneration system for officers

Remuneration of directors is determined by a resolution of the Board of Directors and remuneration of auditors is determined through discussion by the auditors, within an amount approved at the General Meeting of Shareholders. For executive directors, in addition to fixed remuneration, the Company has established an incentive system that involves bonuses commensurate with performance and the granting of restricted stock compensation. Upon discussion, approval was gained at the General Meeting of

Shareholders held in June 2018 to abolish the retirement benefit plan for officers and introduce a system of granting restricted stock compensation.

Remuneration of officers for the year ended March 31, 2018

	Allowance (millions of yen)	Number of recipients
Directors (of which, outside directors)	524 (23)	10 (2)
Auditors (of which, outside auditors)	47 (10)	4 (2)

Dialog with shareholders and investors

Kaga Electronics has established an Investor Relations & Public Relations Office as a department specializing in investor relations (IR). The Office works to disclose information in a timely manner through the Company's website and other means, and to enhance the quality and quantity of information. The Company also makes efforts to facilitate communication with shareholders and investors, which includes holding financial results briefings for analysts and institutional investors following announcement of interim and full-year financial results as well as actively holding company information sessions for individual investors.



An information meeting for individual investors

Internal Control / Compliance

Basic approach to internal control systems

The Kaga Electronics Group has established a fundamental policy for the creation of internal control systems in order to ensure compliance with corporate ethics and laws and regulations as well as the soundness, efficiency and transparency of management. Based on this policy, the Company is working to establish internal control systems and make sure that they are continually improved.

The Company has established Rules on Officers and Board of Directors Rules to ensure the proper execution of duties by directors and the Board of Directors. The directors monitor the execution of duties of one another at regular and extraordinary meetings of the Board of Directors. The Company has also established Organization Rules, Rules on the Allocation of Work Duties, Rules on Work Authority and Rules on Internal Approval to clarify the scope of authority of each director.

As a company adopting a system of corporate auditors, each auditor, including each outside auditor, conducts detailed audits on the execution of duties by directors.

In addition, the Company has formulated the Basic Compliance Rules, which serve as a code of conduct to ensure compliance with laws and regulations and the Articles of Incorporation as a means to enable proper execution of duties by employees of the Company and Group companies.

The Company has also established the CSR Promotion Committee chaired by the President & COO and set up the Information Disclosure Committee, Risk Management Committee, Compliance Committee and Personal Information Management Committee under its umbrella. Through these initiatives, the Company strives to ensure appropriate execution of business throughout the Group.

Risk management system

Potential risks that the Group faces include a wide range of factors relating to economic conditions, exchange rates, country risks, price competition, product procurement capabilities, internal brand risks, legal regulation, market risks, major litigation, severance pay obligations, personal information, accidents, the environment, and information management.

Divisions have been set up and risk control officers and managers appointed to each to deal with each risk in the Group as part of efforts to create the necessary,

appropriate systems to manage risk. In the event that risk materializes, the division responsible for dealing with said risk will immediately adopt the necessary, appropriate response to minimize damage under the direction of the risk control officers and managers.

In addition, with the establishment of the Risk Management Committee under the CSR Promotion Committee, the Company has established a system to respond promptly and appropriately to risks foreseen by the Group.

Internal reporting system

The Kaga Electronics Group has established an internal reporting (whistleblowing) system concerning action that violates laws and regulations or the Articles of Incorporation. This allows employees to directly report such conduct to the Founder & CEO, President & COO, auditors, CSR Promotion Committee and Sexual Harassment Investigation and Countermeasures Committee without having to go through anyone else. There is a system in place enabling reports to be made anonymously and through the use of a private comments box so that reporting individuals are not disadvantaged.



Online system for anonymous reporting



Private comments box

Ensuring appropriate operations of Group companies

The Company has established the Rules on Management of Affiliated Companies to ensure appropriate business operations at Group companies and executes controls based on these rules. In addition, it is an obligation that any coordination between Group companies as well as important matters are first discussed by the Company's Management Meeting and Board of Directors before decisions are made. The Company's Audit Office works in collaboration with the Business Administration Department, which is the Company's legal affairs division, to conduct audits primarily regarding the

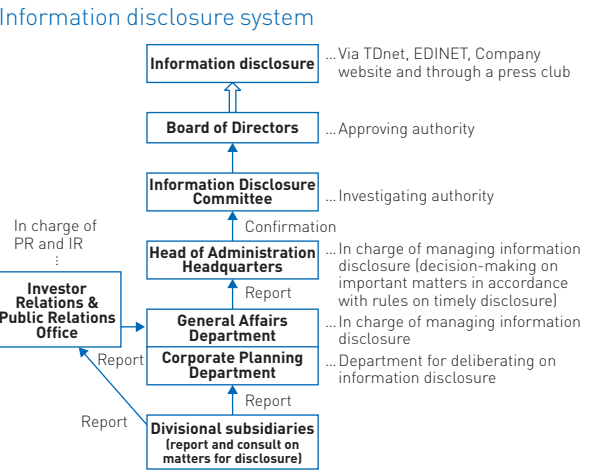
appropriateness of overall business activities throughout the Group as well as ensure compliance with laws and regulations and the Articles of Incorporation. The Office also provides guidance to make improvements in business activities.

Further, Group companies submit the minutes from all Board of Directors meetings to the Company and make monthly reports on business activities, status of budget implementation, and important matters relating to ensuring the appropriateness of business activities.

Information management

Kaga Electronics has established the Information Disclosure Committee, Risk Management Committee, Compliance Committee and Personal Information Management Committee under the CSR Promotion Committee to strengthen its information management system.

Additionally a Corporate Planning Department has been set up to manage information in an integrated manner from the Group's subsidiaries and affiliated companies as a division under the direct control of the President & COO in an effort to ensure timely and appropriate information disclosure throughout the Group.



Efforts toward the elimination of antisocial forces

The basic approach of the Kaga Electronics Group is not to maintain any relationships whatsoever with antisocial forces that threaten social order and safety and to maintain a resolute attitude regarding the refusal of all improper demands from antisocial forces as set forth in its Fundamental Compliance Rules and Employment Rules. In cases where the Company receives improper demands from antisocial forces, the General

Affairs Department and CSR Promotion Committee collaborate and cooperate with crisis management advisors and company attorneys to make the required organizational response. The Company also holds regular discussions with the company attorneys, meets with police departments and other external specialized organizations, and participates in training and other activities in an effort to gather information.



# I contribute to our growth as a global company through monitoring of and advice on corporate management.

Companies are public entities of society with a responsibility to contribute to the advancement of society.  
Based on this belief, I monitor and check corporate management from the perspectives of compliance and CSR, and leverage my experience and background to provide advice aimed at driving future growth.

Susumu Miyoshi  
Outside Director

- Apr. 1963    Joined Toyota Motor Co., Ltd. (currently Toyota Motor Corporation)
- Sept. 1994    Director
- June 2001    Executive Vice President and Representative Director
- June 2002    Consultant
- June 2002    President and COO of Osaka Toyopet Co., Ltd. (currently Osaka Toyota Motor Co., Ltd.)
- June 2005    Advisor to Toyota Motor Corporation (present position)  
Chairman of Osaka Toyopet Co., Ltd.
- June 2008    Advisor to Osaka Toyota Motor Co., Ltd.
- June 2009    Executive Advisor to Hitachi Maxell, Ltd. (currently Maxell Holdings, Ltd.) (present position)
- June 2015    Director of the Company (present position)

## Role as Outside Director

I have served as Outside Director for Kaga Electronics since June 2015. I was appointed with the brief of leveraging my experience as a businessperson of more than 50 years and as a management member over many years to take part in management of the Company to strengthen the function of the Board of Directors.

The Kaga Electronics Group, founded by Chairman Isao Tsukamoto in his younger days, has achieved growth over the years through his charismatic leadership. Now, however, it is time to look ahead to the next 50 years and make the changes that need to be made to evolve, including in corporate management, corporate governance and human resource development. As Outside Director, I am well aware that I am expected to carry out the role of broadly changing direction in line with the goals of the Group from a medium- to long-term standpoint.

To fulfill this role, it is necessary to first discuss who truly owns a business corporation. Some take the view that a company is the property of its shareholders, while others say it is the property of its employees. There are also some who think that it is not the property of any specific stakeholder. I believe that a company is owned by society. Increased awareness of the importance of CSR in recent years is evidence of this. Companies occupy important positions in society at large, and so any approaches that place a company above everything else and aim solely to increase profits do not sit well in today's world. Companies must strive to be of practical use to society as well as to be needed and trusted by society.

Based on this awareness, I believe that in broad terms I have two concrete roles to play as Outside Director.

The first is the function of monitoring and checking corporate management. This means monitoring and checking that the business of the Group contributes to the advancement of society and leads to higher corporate value, from an objective perspective. The second is the function of providing advice on corporate management. All companies differ in the way they develop and the environment in which they operate, and although this can make offering advice more difficult, my job is to give guidance on medium- and long-term direction. I will make effective use of my management experience and the personal connections I have built up over many years at Toyota Motor Corporation and other companies to support the sustainable growth of the Kaga Electronics Group on a range of fronts.

## Monitoring and checking corporate management

In monitoring and checking corporate management, I believe it is important to make decisions from the two perspectives of compliance and CSR. Although compliance is generally perceived to mean legal compliance, I think it also means that a company ought to declare its ideal state and work toward this realization. At the same time, since the "eyes of the public" are on companies now more than ever, CSR refers to the evaluation of a company by shareholders and other outside



Inspecting Kaga (Shenzhen) Electronics Co., Ltd., a key site for EMS business (June 2016)

stakeholders. In the event that a company makes light of this fact, there may be claims of liability from society, which could impair corporate value.

In principle, I have the opportunity to express my views at each Board of Directors meeting held once a month and explain my thoughts from the standpoints of both compliance and CSR. Kaga Electronics has 10 directors, including two outside directors. Looking at the Group as it is now, this is the right number for adequately discussing management issues and making quick decisions. I have determined that the Board of Directors is functioning appropriately at Kaga Electronics by engaging in lively debate.

## Passing down the corporate philosophy and KAGAism

One of the things I emphasize when giving advice on corporate management is to make sure efforts are being made to pass down the corporate philosophy and KAGAism. Over the years, the Kaga Electronics Group has continued to grow based on the corporate philosophy that “Everything we do is for our customers” and by meeting diverse customer requirements. Although these concepts, known as KAGAism, ought to be passed down to each coming generation, it is also inevitable that after 50 years in business the founding spirit tends to wane. It is important to change the way these concepts are communicated to fit with the times instead of steadfastly defending traditions.

At Toyota Motor Corporation, where I have been employed in a management capacity, the philosophy of the founder has been compiled into the “Five Main Principles of Toyoda” and shared as conduct guidelines for all employees. Kaga Electronics has also compiled its management philosophies into a booklet and disseminated it to all employees in Japan. Strenuous efforts are being made to ensure that the philosophies are reflected in daily action. As overseas business grows, however, it is important to spread awareness of KAGAism and the corporate philosophy among employees at our overseas bases. I felt this strongly when I inspected an EMS factory in Shenzhen, China and met with local employees. The booklet is already being translated into multiple languages, and I will support the passing down of KAGAism and the corporate philosophy using my knowledge and experience.



Booklet explaining management philosophies

## Promoting diversity

Amid a dwindling birthrate and aging population, Japan is heading quickly toward an inverted population pyramid, generating an urgent need to establish an environment in which diverse human resources can operate. Promoting diversity is the driving force to boost corporate value and vitality and is recognized as a key component of management worldwide. Despite this, there are cases where traditional Japanese companies lag behind in initiatives aimed at ensuring diversity, including the empowerment of women, and Kaga Electronics is no exception.

I raised this matter after I was appointed Outside Director. As a concrete goal, I indicated a target for the Company of boosting the number of women in managerial positions by 10–15 and really pushed for efforts to strive with a higher degree of awareness toward becoming a “Nadeshiko Brand” (a list of enterprises that encourage women to play active roles in the workplace), an initiative of the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE). I also explained in depth the need to create a framework for promoting diversity to achieve this goal. This resulted in steady advancements that included the appointment of female managers and an increase in the proportion of employees who returned to work after taking childcare leave. I think it is critical to implement measures that reflect the opinions of employees and to ensure the penetration of this kind of awareness among workers as a way to further accelerate this movement. After explaining this concept at the Board of Directors meeting, an internal survey was conducted and the findings were released in an internal newsletter. Although it will take time to create an environment that activates human resources, I am hopeful that Kaga Electronics goes beyond promoting the role of women and looks to more broadly encourage diversity through the employment of elderly people and non-Japanese workers as well as increase understanding of lesbian, gay, bisexual and transgender (LGBT) human resources.



## Challenges to future growth

A wave of major technological innovation is currently sweeping the electronics industry, characterized by the Internet of Things (IoT) and artificial intelligence (AI). Since the Kaga Electronics Group is a dedicated trading company in the electronic components sector and a manufacturer engaged in EMS business, this presents expanding opportunities for significant growth. At the same time, the management environment is changing at a far quicker rate than before, and to survive in the market and realize sustainable growth going forward, it is necessary to undertake bold challenges that are not merely an extension of the past. That means promoting open innovation to maximize the strengths of the Group and thus expand business scale and enable diversification. It is also important for the Company to consider carefully the possibility of business tie-ups and M&A.

In addition, the Company needs to boost the management efficiency of the Group as a whole. Although at present there are 43 subsidiaries in Japan and overseas, there may be a lack of optimum balance in individual companies and overall as well as some duplication in functions. More simplified management and greater speed of decision-making will become increasingly important going forward. These need to be strongly addressed, and it is essential to strengthen the governance system in each area, for example, with the establishment of regional headquarters.

Despite the many challenges that need to be tackled, the Group has a creative business model and the energy of human resources to face the severe competition in the electronics industry. I will do my utmost to play an effective role so that the Company can achieve sustainable growth and meet the expectations of society at large.



Social Report

Together with our customers

The Kaga Electronics Group proposes and provides value-added products and services that swiftly meet changes in the times based on its corporate philosophy of “Everything we do is for our customers.” By doing so, we support the technological innovation and production streamlining of our customers worldwide.

To deliver high-quality products and services

Quality control system

The Kaga Electronics Group established the Production Center in its EMS Business Division, thus enabling a system of quality control that centers on KAGA (SHENZHEN) ELECTRONICS CO., LTD., its flagship base for production activities. At the Center, we manage the entire Group’s resources as cross-functional capabilities in such areas as production technology and quality control, and promote the optimal distribution of resources and the strengthening of technological competencies on a global basis.

The Center also liaises with production sites in China as well as countries in the ASEAN region, Europe and North America to advance the standardization of production facilities and operations, and the sharing of information, for example to prevent the recurrence of issues. In addition, regular exchange meetings are held to reinforce quality on a Groupwide basis.



Global exchange meeting between production bases

Pursuing our philosophy of “Everything we do is for our customers”

Efforts to enhance quality

The Company’s Engineering Department handles the integrated management of technological resources for the entire Group, from planning and development to design, production and quality assurance, and works to optimize resources, strengthen technological capabilities and expand business across the organization. The Quality Assurance Department, one of the bodies of the Engineering Department, drafts and implements measures to boost quality throughout the Group. The Department connects with quality control officers and suppliers to strengthen quality throughout the Group.



A production factory overseas

**Status of ISO 9001 certification**

Kaga Electronics and the following Group companies have attained ISO 9000 series certification, an international standard for quality management. The Company is striving to further enhance customer satisfaction through continuous improvement of its quality management system.

Japan: KAGA ELECTRONICS CO., LTD., KAGA DEVICES CO., LTD., KAGA MICRO SOLUTION CO., LTD., KAGA TECHNOSERVICE CO., LTD.

Overseas: KAGA TAXAN (SUZHOU) ELECTRONICS CO., LTD., KAGA (SHENZHEN) ELECTRONICS CO., LTD., KAGA ELECTRONICS (THAILAND) COMPANY LIMITED

Social Report

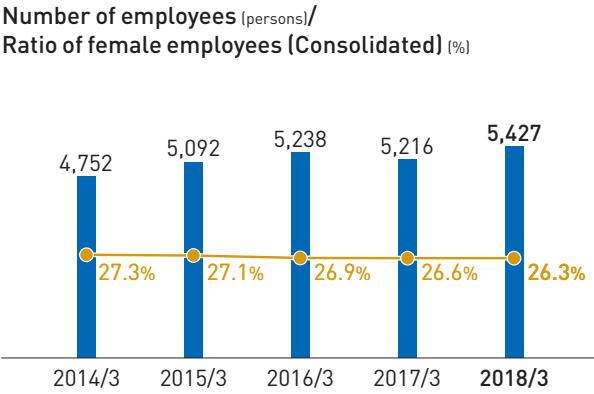
Together with our employees

The most important management resource for a trading company is undoubtedly its human resources. To drive sustainable growth, we promote the development of human resources and the creation of an environment that enables the execution of our action guideline FYT (pronounced “fight”). This guideline expresses our commitment to always be Flexible and to think and act Young when Trying to take on challenges.

Implementing the idea that “everyone is a corporate manager”

Human resource strategy/Diversity management

As our business activities become more global and the market environment undergoes abrupt change, diversity and taking on challenges are keys to driving sustainable growth. This is because diversity enables us to look at risk as an opportunity, and when we take on challenges we can take full advantage of these opportunities. To make this a reality, the Kaga Electronics Group promotes diversity management in terms of making effective use of diversity in human resources and in work style. At the same time, we respect our human resources who continue to take on challenges and see each person as a corporate manager. With this in mind, we will keep protecting our corporate culture of tolerating failure as a consequence of tackling challenges.

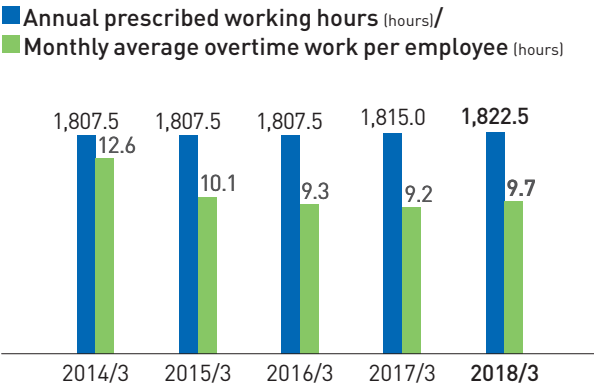
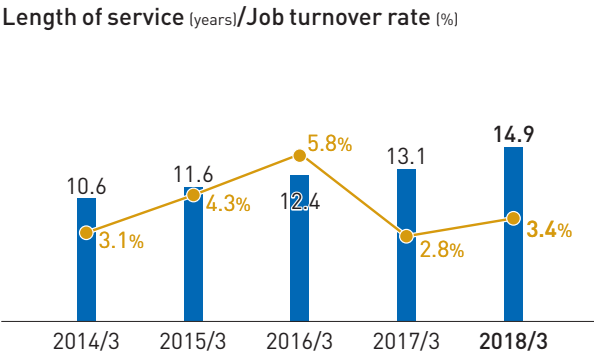


To create a safe work environment

Education and welfare program

At the Kaga Electronics Group, we support the career development of employees through training to new recruits, annual training, rank-based training and other forms of education, as well as by providing assistance with correspondence courses.

In addition, we grant refreshment leaves every year to all employees separate from normal paid leave. We have established welfare facilities that include resorts in Japan and abroad, a contract golf course, a company getaway house and a cruisers boat, with utilization rates at a high level. Through such initiatives as these, we aim to strike a good work-life balance for a safer work environment for employees.





Social Report

Together with the community

Cognizant of the importance of the social responsibility that ought to be addressed as a company, the Kaga Electronics Group contributes to sports promotion and to the local community through our business sites worldwide, and actively undertakes activities that help drive the advancement of education, art and culture.

Sports promotion

Sponsorship of golf tournaments

The Kaga Electronics Group contributes to the promotion of golf, primarily through the sponsorship of golf tournaments. This includes special sponsorship of The Ladies Professional Golfers' Association of Japan (LPGA)'s "LPGA Rookies Championship Kaga Electronics Cup" since 1996. Many of this tournament's winners have gone on to do well on the LPGA tour, proving that it is a great gateway to success for young female professional golfers.



LPGA Rookies Championship Kaga Electronics Cup 2017

Contributing to the development of golf

Four professional golfers, both male and female, are on the books at Kaga Electronics, including Fumika Kawagishi, who signed on as a member of the Company in February 2017. Contracted athletes take part in tournaments around the world wearing clothing and caps adorned with the Kaga Electronics logo, which plays a part in our PR strategy.

The Group company KAGA SPORTS CO., LTD. takes a multifaceted approach to business that includes the direct sale and wholesale of golf supplies at its own stores and the running of golf driving ranges and golf schools, which contributes to the development of the sports industry through golf.



Professional golfers employed at Kaga Electronics



One of the Company's golf schools



One of our golf driving ranges



A Kaga Electronics golf shop

Contributing to the local community

Social contribution activities in Kanazawa, where it all began

Kanazawa City in Ishikawa Prefecture is the place that the Founder and CEO of Kaga Electronics Isao Tsukamoto was born and raised. With this as the background, the Company signed an agreement with Kanazawa City related to the promotion of regional revitalization and has been donating to a project aimed at driving revitalization of the local area through the Tokyo 2020 Olympic and Paralympic Games.

We are also taking steps to contribute to the community through such means as supporting the Kanazawa Marathon, which is open to the public, ever since its first event, and employee participation in volunteer activities at a water station.



Supporting the Kanazawa Marathon

Social contribution activities at overseas sites

The Kaga Electronics Group, which conducts business activities around the world, takes on a variety of social contribution activities at overseas sites as well. As an example, a production subsidiary in Thailand is undertaking initiatives closely rooted to different regions that included having its employees clean up around the company in a show of mourning when King Bhumibol passed away.



A cleanup activity in Thailand

Education, art and culture related activities

Kaga Electronics supports a Nationwide Rhythm and Dance Contest for Elementary and Junior High School Students that is backed by the Cabinet Office and the Ministry of Education, Culture, Sports, Science and Technology as well as the Kyogen-inspired opera "The Marriage of Figaro" co-sponsored by the Ministry of

Foreign Affairs. Isao Tsukamoto, the Company's Founder & CEO, contributes to society in a wide range of fields related to education, the arts and culture, such as giving lectures to students as a specially appointed professor at the Faculty of Service Innovation, the Chiba University of Commerce.



Nationwide Rhythm and Dance Contest for Elementary and Junior High School Students



Kyogen-inspired opera "The Marriage of Figaro"



Founder & CEO Isao Tsukamoto gives a lecture to students at the Chiba University of Commerce



Environmental Report

# Together with the earth

The Kaga Electronics Group views the 21st century as the century for protection of the global environment and with this in mind conducts business activities based on an awareness of energy and resource conservation that include reducing CO2 and other greenhouse gases and verifying the environmental load of the products and services it handles.

Environmental policy

The Kaga Electronics Group looks to the future of electronics at all times, striving to meet customer needs as well as preserve and enhance the natural environment in order to protect our irreplaceable earth.

- 1

The Kaga Electronics Group shall establish an environmental management system that involves all employees and promote ongoing improvement of this system to preserve the global environment and prevent pollution in all of our business activities to provide products and services.
- 2

In executing our business activities, we shall strictly adhere to environmental laws, regulations and related requirements as well as comply with all other requirements agreed upon by the Kaga Electronics Group.
- 3

We shall strive to prevent pollution and enhance the environment through non-wasteful office and business activities based on a philosophy of conserving energy and resources.
- 4

We shall set targets for the following requirements to the extent possible for the products and services that the Kaga Electronics Group handles and regularly review the progress of our activities.
  - Must be comprised of environmentally friendly substances
  - Must be able to cut waste through reuse and recycling
  - Must be designed with energy and resource conservation in mind using the latest electronics technology
- 5

We shall provide education to all employees to increase their awareness of the need for environmental protection and to ensure their understanding of our Environmental Policy.
- 6

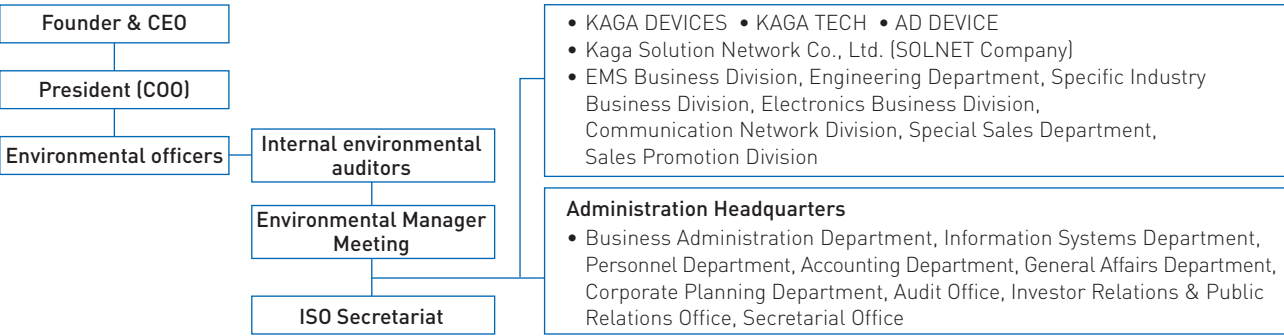
Our Environmental Policy shall be disseminated widely throughout society through such means as the Kaga Electronics Group website and corporate profile.

Environmental management system

The Kaga Electronics Group established an environmental management system based on its Environmental Policy. With the system, environmental officers, ISO Secretariat, Environmental Promotion Committee and internal environmental auditors team up under the guidance of the president to conduct environmental management at Kaga Electronics and its Group companies.

In addition, we have attained ISO 14001 certification, an international standard for environmental management systems, at the Company and 20 sites at four Group companies in Japan. We are strengthening our system through a PDCA cycle.

Environmental management system



Initiatives to reduce environmental burden

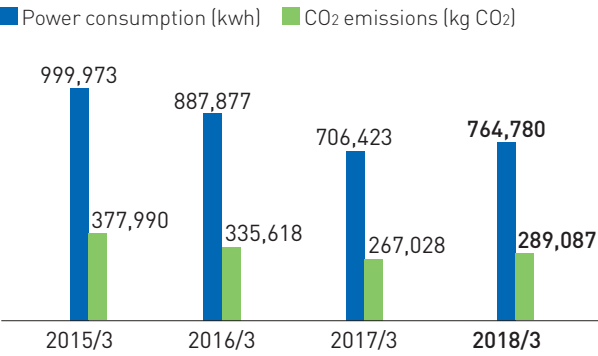
Reduction of CO2 emissions

The Kaga Electronics Head Office building employs an air supply type double-skin\* curtain wall on the exterior, allowing air to flow into the office, thus reducing heat load and providing natural ventilation. The energy efficient design also enhances sound insulation.

In addition, the building features a variety of environmental technologies, with the use of solar panels on the roof enabling eco energy and the installation of LED lighting throughout. These technologies serve to save energy and reduce CO2 emissions.

\* Double-skin technology refers to a method of construction in which part or all of a building exterior is covered in glass.

Power consumption and CO2 emissions at Head Office building



PC product reuse and recycling business

The Kaga Electronics Group company KAGA MICRO SOLUTION CO., LTD. has flexibly changed and expanded business domain to meet a wide range of customer demands, from the development, production and sale of electronic products to their repair, maintenance, reuse and recycling. The company leverages know-how in the production of electronic equipment and an extensive procurement route for electronic parts and materials—both of which were accumulated in EMS business, a strength of the Group—to focus on a reuse and recycling business for PC products in recent years.

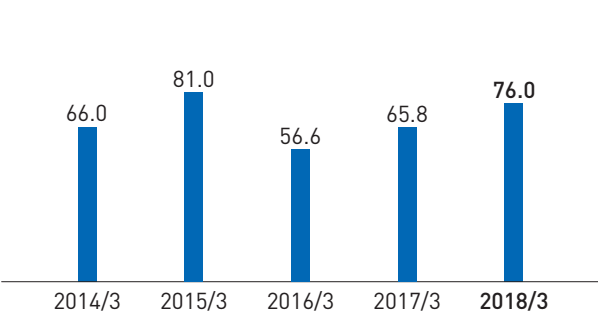
Although the number of reused units decreased in the year to March 2016 following unusually high demand the previous year, the figure rebounded gradually thereafter, and in the year to March 2018, actually increased by 15% year on year.

In addition to “reduce programs” that look especially at cutting CO2 and rubbish, the Group will contribute to a reduction in environmental burden from a reuse and recycling perspective and to the realization of a recycling-oriented society.



Repair work at KAGA MICRO SOLUTION

Number of PC products reused (Thousands)



10-Year Financial Summary

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries  
For the Years Ended March 31

	2009	2010	2011		2012	2013	2014	2015	2016	2017	2018
Fiscal year											
Net sales (millions of yen)	273,610	239,391	237,811		229,856	216,405	257,852	255,143	245,387	227,209	235,921
Gross profit (millions of yen)	30,383	28,237	30,512		28,506	27,462	32,522	32,738	33,648	31,225	32,498
Operating income (millions of yen)	2,249	1,582	3,423		2,067	1,260	5,106	6,362	7,788	6,879	8,119
Ordinary income (millions of yen)	2,208	1,280	3,598		2,569	1,931	5,847	7,664	7,908	7,343	8,740
Profit attributable to owners of parent (millions of yen)	(806)	(318)	1,768		914	444	3,877	4,416	5,437	6,975	6,490
Cash flows from operating activities (millions of yen)	5,435	5,728	6,321		958	7,041	3,334	9,127	9,546	10,746	10,077
Cash flows from investing activities (millions of yen)	(4,212)	(3,040)	(6,369)		(2,645)	(4,910)	(3,339)	(1,465)	(1,263)	(258)	(4,173)
Free cash flow (millions of yen)	(1,222)	2,687	(47)		(1,686)	2,131	(5)	7,661	8,283	10,487	5,904
Cash flows from financing activities (millions of yen)	(3,407)	(2,307)	478		(242)	(403)	1,024	(4,431)	(3,067)	(6,118)	(2,811)
Depreciation (millions of yen)	1,709	2,050	1,578		2,181	2,303	2,418	1,907	1,604	1,452	1,481
Capital expenditures/Investment and loans (millions of yen)	3,392	3,960	6,536		2,999	3,398	4,087	2,649	2,166	1,464	4,520
Fiscal year end											
Total assets (millions of yen)	117,251	113,962	114,599		114,714	111,888	126,028	127,948	124,281	125,751	129,493
Net assets (millions of yen)	49,560	48,553	48,512		47,936	48,806	52,825	59,603	61,808	65,932	70,631
Equity (millions of yen)	47,770	46,841	46,848		46,410	48,656	52,786	59,564	61,764	65,872	70,556
Interest bearing debts (millions of yen)	12,936	11,506	13,450		14,349	15,089	17,244	14,573	12,739	9,805	8,900
Cash and cash equivalents (millions of yen)	11,368	11,797	11,796		9,695	11,878	13,361	17,569	21,879	26,021	28,879
Per share data											
EPS (yen)	(28.91)	(11.55)	64.07		33.13	16.09	137.22	156.28	192.43	249.43	236.58
Annual dividend (yen)	40.00	30.00	30.00		30.00	30.00	35.00	40.00	55.00	60.00	70.00
Payout ratio (%)	—	—	46.8		90.5	186.5	25.5	25.6	28.6	24.1	29.6
BPS (yen)	1,730.98	1,697.27	1,697.55		1,681.73	1,721.86	1,868.07	2,108.04	2,185.94	2,401.00	2,571.79
Major indicators											
Gross profit margin (%) *1	11.1	11.8	12.8		12.4	12.7	12.6	12.8	13.7	13.7	13.8
Operating income margin (%) *2	0.8	0.7	1.4		0.9	0.6	2.0	2.5	3.2	3.0	3.4
Ordinary income margin (%) *3	0.8	0.5	1.5		1.1	0.9	2.3	3.0	3.2	3.2	3.7
Profit attributable to owners of parent margin (%)	(0.3)	(0.1)	0.7		0.4	0.2	1.5	1.7	2.2	3.1	2.8
ROE (%) *4	(1.6)	(0.7)	3.8		2.0	0.9	7.6	7.8	9.0	10.9	9.5
ROA (%) *5	(0.7)	(0.3)	1.5		0.8	0.4	3.3	3.5	4.3	5.6	5.1
Equity ratio (%)	40.7	41.1	40.9		40.5	43.5	41.9	46.6	49.7	52.4	54.5
Debt equity ratio (times) *6	0.27	0.25	0.29		0.31	0.31	0.33	0.24	0.21	0.15	0.13
Inventories (millions of yen)	18,296	18,141	19,519		21,554	18,779	21,219	22,703	19,175	19,325	19,455
Inventory turnover period (days) *7	27.5	31.4	34.4		39.1	36.3	34.4	37.3	33.1	36.0	34.9

\*1 Gross profit margin=Gross profit/Net sales × 100 [%]  
\*2 Operating income margin=Operating income/Net sales × 100 [%]  
\*3 Ordinary income margin=Ordinary income/Net sales × 100 [%]  
\*4 ROE=Profit attributable to owners of parent/Average equity × 100 [%]  
\*5 ROA=Profit attributable to owners of parent/Average total assets × 100 [%]  
\*6 Debt equity ratio=Interest bearing debts/Equity (times)  
\*7 Inventory turnover period=Inventory/Cost of sales × 365 (days)



## Financial and Corporate Information

# Consolidated Balance Sheet

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries  
At March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2017	2018	2018
<b>CURRENT ASSETS:</b>			
Cash and bank deposits	¥ 26,423	¥ 30,803	\$ 289,939
Notes and accounts receivable-trade	46,774	45,809	431,190
Electronically recorded monetary claims	5,234	4,032	37,954
Short-term investment securities	188	295	2,776
Merchandise and finished goods	14,675	15,060	141,763
Work in process	365	575	5,417
Raw materials and supplies	4,284	3,818	35,945
Deferred tax assets	1,340	1,028	9,677
Others	4,562	3,807	35,837
Allowance for doubtful accounts	(166)	(133)	(1,254)
Total CURRENT ASSETS	103,684	105,097	989,249
<b>NONCURRENT ASSETS:</b>			
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Buildings and structures	7,902	8,102	76,268
Accumulated depreciation	(3,043)	(3,232)	(30,424)
Buildings and structures, net	4,859	4,870	45,844
Machinery, equipment and vehicles	5,593	6,315	59,441
Accumulated depreciation	(3,579)	(3,731)	(35,120)
Machinery, equipment and vehicles, net	2,014	2,583	24,320
Tools, furniture and fixtures	3,774	3,556	33,474
Accumulated depreciation	(3,032)	(2,846)	(26,792)
Tools, furniture and fixtures, net	742	709	6,681
Land	4,126	4,036	37,991
Construction in progress	3	10	98
Total PROPERTY, PLANT AND EQUIPMENT	11,745	12,210	114,937
<b>INTANGIBLE ASSETS</b>			
Goodwill	406	317	2,986
Software	363	515	4,849
Others	71	46	435
Total INTANGIBLE ASSETS	841	878	8,270
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities	6,761	8,688	81,778
Deferred tax assets	240	240	2,262
Guarantee deposits	735	657	6,187
Insurance funds	936	943	8,883
Others	1,529	1,363	12,837
Allowance for doubtful accounts	(723)	(587)	(5,531)
Total INVESTMENTS AND OTHER ASSETS	9,479	11,305	106,418
Total NONCURRENT ASSETS	22,067	24,395	229,626
Total ASSETS	¥ 125,751	¥ 129,493	\$ 1,218,875

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES	2017	2018	2018
<b>CURRENT LIABILITIES:</b>			
Notes and accounts payable-trade	¥ 37,553	¥ 36,392	\$ 342,552
Short-term loans payable	4,883	5,385	50,693
Accrued expenses	3,387	3,711	34,930
Income taxes payable	888	901	8,482
Provision for directors' bonuses	204	247	2,332
Others	3,325	3,070	28,897
Total CURRENT LIABILITIES	50,242	49,708	467,889
<b>NONCURRENT LIABILITIES:</b>			
Long-term loans payable	4,603	3,161	29,757
Deferred tax liabilities	1,213	2,013	18,952
Provision for directors' retirement benefits	1,222	1,264	11,903
Net defined benefit liabilities	1,669	1,737	16,353
Asset retirement obligations	144	175	1,654
Others	723	800	7,531
Total NONCURRENT LIABILITIES	9,576	9,152	86,152
Total LIABILITIES	59,819	58,861	554,041
<b>NET ASSETS:</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	12,133	12,133	114,208
Capital surplus	13,912	13,853	130,399
Retained earnings	40,476	45,183	425,295
Treasury stock	(2,040)	(2,042)	(19,228)
Total SHAREHOLDERS' EQUITY	64,481	69,127	650,675
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>			
Changes in the fair value of available-for-sale securities	1,159	1,504	14,162
Deferred gains or losses on hedges	0	(16)	(151)
Foreign currency translation adjustment	421	148	1,395
Remeasurements of defined benefit obligations	(190)	(208)	(1,960)
Total ACCUMULATED OTHER COMPREHENSIVE INCOME	1,391	1,428	13,446
Non-controlling interests	59	75	712
Total NET ASSETS	65,932	70,631	664,833
Total LIABILITIES AND NET ASSETS	¥ 125,751	¥ 129,493	\$ 1,218,875

Note 1: The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to \$1, the rate of exchange at March 31, 2018.

## Financial and Corporate Information

# Consolidated Statement of Income and Comprehensive Income

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries  
For the Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)		Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2018	2018		2017	2018	2018
Net sales	¥ 227,209	¥ 235,921	\$ 2,220,648	Income before income taxes	¥ 7,832	¥ 9,300	\$ 87,538
Cost of sales	195,983	203,423	1,914,749	Income taxes-current	1,610	1,840	17,320
Gross profit	31,225	32,498	305,898	Income taxes-deferred	(768)	952	8,964
				Total income taxes	842	2,792	26,285
Selling, general and administrative expenses	24,346	24,379	229,472	Net income	6,989	6,507	61,253
Operating income	6,879	8,119	76,426				
NON-OPERATING INCOME				Profit attributable to:			
Interest income	59	124	1,175	Owners of the parent	6,975	6,490	61,093
Dividend income	103	119	1,127	Non-controlling interests	14	16	159
Commission fee	222	279	2,630				
Foreign exchange gains	—	44	422	OTHER COMPREHENSIVE INCOME			
House rent income	77	99	940	Changes in the fair value of available-for-sale securities	479	345	3,253
Others	282	228	2,146	Deferred gains or losses on hedges	(4)	(16)	(158)
Total NON-OPERATING INCOME	745	896	8,442	Foreign currency translation adjustment	(292)	(273)	(2,577)
NON-OPERATING EXPENSES				Remeasurements of defined benefit obligations, net of tax	147	(17)	(167)
Interest expenses	128	132	1,243	Total OTHER COMPREHENSIVE INCOME	330	37	349
Share of loss of entities accounted for using equity method	—	111	1,047				
Foreign exchange losses	88	—	—	Comprehensive income	¥ 7,320	¥ 6,544	\$ 61,602
Others	63	32	303				
Total NON-OPERATING EXPENSES	280	275	2,594	Comprehensive income attributable to:			
Ordinary income	7,343	8,740	82,274	Owners of the parent	¥ 7,305	¥ 6,528	\$ 61,445
				Non-controlling interests	15	16	156
EXTRAORDINARY INCOME							
Gain on sales of property, plant and equipment	23	28	268				
Gain on sales of investment securities	110	591	5,571				
Gain on bargain purchase	28	—	—				
Gain on sales of shares of subsidiaries	—	467	4,403				
Gain on transfer of business	89	12	122				
Settlement income received	372	—	—				
Total EXTRAORDINARY INCOME	624	1,101	10,365				
EXTRAORDINARY LOSS							
Loss on disposal of property, plant and equipment	15	7	72				
Impairment loss	16	228	2,152				
Loss on sales of investment securities	31	24	227				
Loss on valuation of investment securities	47	269	2,539				
Loss on valuation of golf club membership	11	6	59				
Others	13	5	50				
Total EXTRAORDINARY LOSS	¥ 136	¥ 541	\$ 5,101				

Note 1: The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to \$1, the rate of exchange at March 31, 2018.



# Consolidated Statement of Cash Flows

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries  
For the Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)		Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2018	2018		2017	2018	2018
NET CASH PROVIDED BY OPERATING ACTIVITIES				NET CASH USED IN INVESTING ACTIVITIES			
Income before income taxes	¥ 7,832	¥ 9,300	\$ 87,538	Payments for time deposits	¥ (630)	¥ (2,773)	\$ (26,105)
Depreciation and amortization	1,452	1,481	13,948	Proceeds from withdrawal of time deposits	854	1,158	10,902
Impairment loss	16	228	2,152	Purchase of property, plant and equipment	(967)	(1,678)	(15,798)
Amortization of goodwill	88	88	837	Proceeds from sales of property, plant and equipment	119	87	821
Increase in net defined benefit liability	124	40	384	Purchase of intangible assets	(109)	(360)	(3,396)
Increase in provision for directors' retirement benefits	14	41	394	Purchase of investment securities	(387)	(2,481)	(23,353)
Increase in provision for directors' bonuses	18	43	410	Proceeds from sales of investment securities	855	1,331	12,532
Decrease in allowance for doubtful accounts	(11)	(85)	(808)	Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	20	—	—
Interest and dividend income	(162)	(244)	(2,302)	Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	504	4,745
Interest expenses	128	132	1,243	Payments of short-term loans receivable	(2)	(1)	(16)
Share of profit of entities accounted for using equity method	—	111	1,047	Collection of short-term loans receivable	5	1	16
Gain on sales of shares of subsidiaries	—	(467)	(4,403)	Purchase of insurance funds	(17)	(15)	(146)
Gain on sales of property, plant and equipment	(18)	(23)	(218)	Proceeds from cancellation of insurance funds	2	14	132
Loss on retirement of property, plant and equipment	15	7	72	Payments for guarantee deposits	(15)	(58)	(550)
Gain on sales of investment securities	(79)	(567)	(5,343)	Proceeds from collection of guarantee deposits	22	136	1,285
Loss on valuation of investment securities	47	269	2,539	Other payments	(90)	(74)	(697)
Decrease in notes and accounts receivable-trade	2,602	2,076	19,542	Other proceeds	81	36	342
Increase in inventories	(240)	(226)	(2,133)	Net cash used in investing activities	(258)	(4,173)	(39,286)
Increase (Decrease) in notes and accounts payable-trade	933	(1,101)	(10,363)				
(Increase) Decrease in accounts receivable-other	(390)	1,087	10,232	NET CASH USED IN FINANCING ACTIVITIES			
Increase in accrued expenses	45	338	3,188	(Decrease) Increase in short-term loans payable	(397)	825	7,773
Decrease (Increase) in advance payments	143	(135)	(1,279)	Proceeds from long-term loans payable	66	—	—
Decrease (Increase) in consumption taxes refund receivable	92	(163)	(1,541)	Repayment of long-term loans payable	(2,428)	(1,641)	(15,454)
Decrease (Increase) in other current assets	89	(88)	(830)	Purchase of treasury stock	(1,501)	(2)	(25)
Decrease in other current liabilities	(94)	(362)	(3,408)	Cash dividends paid	(1,693)	(1,780)	(16,760)
Others, net	(138)	(47)	(451)	Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(58)	(554)
Subtotal	12,509	11,734	110,449	Others, net	(164)	(153)	(1,447)
Interest and dividend income received	164	242	2,278	Net cash used in financing activities	(6,118)	(2,811)	(26,468)
Interest expenses paid	(128)	(130)	(1,224)				
Income taxes paid	(1,792)	(1,770)	(16,666)				
Others, net	(5)	2	24				
Net cash provided by operating activities	¥ 10,746	¥ 10,077	\$ 94,860	Effect of exchange rate change on cash and cash equivalents	(227)	(234)	(2,207)
				Net increase in cash and cash equivalents	4,141	2,857	26,898
				Cash and cash equivalents-beginning balance	21,879	26,021	244,932
				Cash and cash equivalents-ending balance	¥ 26,021	¥ 28,879	\$ 271,831

Note 1: The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to \$1, the rate of exchange at March 31, 2018.

Corporate Information

As of March 31, 2018

Company overview

Name	KAGA ELECTRONICS CO., LTD.
Address	20 Kanda Metsunagacho, Chiyoda-ku, Tokyo 101-8629, Japan
Tel	+81-3-5657-0111
Fax	+81-3-3254-7131
Business description	Sale of electronic parts and semiconductors, EMS*, and sale of finished products such as PCs and PC peripherals, etc. * Electronics manufacturing services: Provision of product development and manufacturing services on a contract basis
Founded	September 12, 1968
Capital	¥12,133 million
Number of Group companies	43 (15 in Japan and 28 overseas)



Board members

[As of June 28, 2018]

Founder & CEO	Isao Tsukamoto
President & COO	Ryoichi Kado
Senior Managing Director	Shinsuke Takahashi
Senior Managing Director	Yukio Takashi
Senior Managing Director	Shintaro Kakei
Managing Director	Eiji Kawamura Head of Administration Headquarters
Director	Motonori Toshinari Division Manager of EMS Business Division
Director	Mitsuhiro Nohara Division Manager of Electronics Business Division
Outside Director	Susumu Miyoshi
Outside Director	Akira Tamura
Auditor (Full-time)	Kazunori Kameda
Auditor (Full-time)	Takahiro Ishii
Outside Auditor	Susumu Kitsunai
Outside Auditor	Yoichi Sato

Executive Officers

[As of June 28, 2018]

Shoji Seki	President of KAGA SPORTS CO., LTD.
Hiroki Suzuki	Division Manager of Specific Industry Business Division
Takeshi Tsukamoto	Head of Corporate Planning Department
Takao Okabe	Responsible for China Headquarters and President & COO of KAGA (H.K.) ELECTRONICS LIMITED
Mitsuhito Ikeda	President of KAGA SOLUTION NETWORK CO., LTD.
Hiroaki Maruyama	Division Manager of Personnel Department, Administration Headquarters
Kazuhira Watanabe	Division Manager of Communication Network Sales Division
Takahiro Urazawa	President of DIGITAL MEDIA LAB., INC.
Hironaga Nagasaka	Responsible for ASEAN Headquarters
Yasuhiro Ishihara	Head of Accounting Division, Administration Headquarters
Katsutoshi Suzuki	Division Manager of Sales Promotion Division and President of KAGA (KOREA) ELECTRONICS CO., LTD.

Major affiliates in Japan

<b>KAGA TECH CO., LTD.</b> Sale of electronic parts and electronic equipment, etc.	<b>AD DEVICE CO., LTD.</b> Sale of electronic parts and electronic equipment, etc.	<b>KAGA SPORTS CO., LTD.</b> Manufacture, wholesale and sale of sporting goods, etc.
<b>KAGA DEVICES CO., LTD.</b> Sale of electronic parts and electronic equipment, etc.	<b>KAGA MICRO SOLUTION CO., LTD.</b> Development, manufacture and sale of PCs and PC peripherals, etc.	<b>KAGA AMUSEMENT CO., LTD.</b> Sale of electronic parts and electronic equipment, etc.
<b>KAGA SOLUTION NETWORK CO., LTD.</b> Development, design, construction and maintenance of computer network systems, etc.	<b>DIGITAL MEDIA LAB., INC.</b> Planning, development and sale of computer graphics	<b>KAGA TECHNOSERVICE CO., LTD.</b> Electrical and communication facilities installation, interior work, etc.

Major affiliates overseas

China



KAGA (SHENZHEN) ELECTRONICS CO., LTD.



KAGA TAXAN (SUZHOU) ELECTRONICS CO., LTD.



KAGA (SHANGHAI) ELECTRONICS CO., LTD.



DONGGUAN POWERTEK ELECTRONICS CO., LTD.



KAGA (H.K.) ELECTRONICS LIMITED

Southeast Asia



KAGA COMPONENTS (MALAYSIA) SDN.BHD.



KAGA ELECTRONICS (THAILAND) COMPANY LIMITED

Europe and North America



KAGA ELECTRONICS (USA) INC.



KD TEC s.r.o.

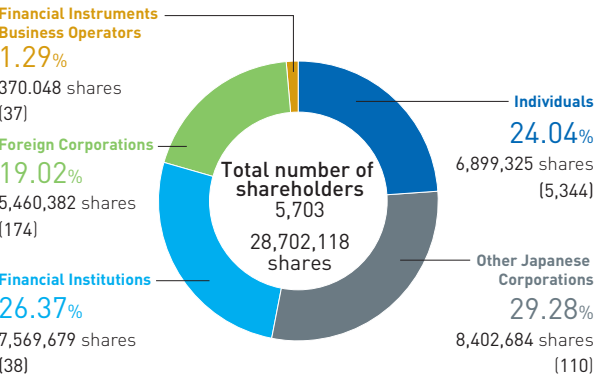


TAXAN MEXICO S.A. de C.V.

Stock information

Total number of shares authorized	80,000,000 shares
Total number of shares outstanding	28,702,118 shares
Number of shares constituting one unit	100 shares
Number of shareholders	5,703

Breakdown by type of shareholder



Principal shareholders

Name	Number of shares held (thousand shares)	Percentage of total shares issued (%)
SANKYO CO., LTD.	3,824	13.94
OKOZE CO., LTD.	1,840	6.71
Japan Trustee Services Bank, Ltd.	1,575	5.74
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,212	4.42
Kaga Electronics Employee Shareowners Association	1,123	4.10
Mizuho Bank, Ltd.	950	3.46
Isao Tsukamoto	735	2.68
The Master Trust Bank of Japan, Ltd.	632	2.30
GOVERNMENT OF NORWAY	545	1.99
Oki Electric Industry Co., Ltd.	526	1.92

Notes: 1. The number of shares held have been rounded down to the nearest thousand shares.  
2. In addition to the above, there are 1,267 thousand shares of treasury stock.  
3. The number of shares held by Japan Trustee Services Bank, Ltd. and The Master Trust Bank of Japan, Ltd. are the sums of the number of shares held by the trust business of each bank.  
4. The Bank of Tokyo-Mitsubishi UFJ, Ltd. was renamed MUFG Bank, Ltd. on April 1, 2018.





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