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# Toward the Next Stage

Kaga Electronics Group

**Integrated Report 2019**



# Toward the Next Stage

Becoming an industry leader in Japan through M&A and embarking on a challenge to realize the next stage of growth

The Kaga Electronics Group has become a top-class electronics trading company in Japan in terms of business scale through the acquisition of Fujitsu Electronics Inc. in the fiscal year ended March 31, 2019, when we celebrated our 50th anniversary. The Group will use this as a springboard into the next 50 years as we start a new challenge to realize the goal of becoming an industry leader in Japan and to become a company capable of trillion-yen sales that can outstrip the global competition.

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#### Period covered

This report covers from April 1, 2018 to March 31, 2019, 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 52 consolidated subsidiaries (16 in Japan and 36 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 52 consolidated subsidiaries

Domestic facilities: Kaga Electronics Co., Ltd. and its 16 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.



# Philosophy and Spirit



## Corporate Philosophy

### Everything we do is for our customers

Kaga Electronics Co., Ltd. had very humble beginnings about 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.

## Kaga Spirit (The Words of Isao Tsukamoto)

- "Personal connections are intangible assets"**  
 The Kaga Electronics Group is capable of responding quickly and accurately to changes in the business environment and customer needs to drive continuous growth. This ability stems from the personal connections, or business network, we have built up over the years based on relationships of trust with customers and suppliers. These relationships form a vital part of our management foundations in conducting business as a trading company. The idea that "personal connections are intangible assets" has been passed down over the years as one of the pillars of what we call KAGAism, the essence of who we are.
- "Never say 'no'"**  
 Based on the motto "Never say 'no,'" the Kaga Electronics Group has been expanding its business domain from parts procurement to kit-parts sales and even contract production, planning and development, and maintenance services, while enhancing the lineup of products to meet customer needs. The origins of our global "one-stop service system," an enduring strength of the Company, lies in this customer-first approach.
- "An organization driven by communication"**  
 It is important to have a corporate culture that makes maximum use of a personal capability in order to be quick to seize an opportunity in a changing business environment full of future uncertainty. Based on this philosophy, the Kaga Electronics Group is working to build an open workplace that encourages different ways of communication to achieve common goals.

- "Inventory is a liability"**  
 In our earliest days, a lack of ample working capital forced us to place orders for products after receiving an order from a customer. This gave birth to the idea that "inventory is a liability," which has currently evolved into the system for receiving and placing orders, a critical feature of the Company. Responding as quickly as possible to order information has enabled us to build win-win relationships with customers and suppliers.
- "People are a finite asset; companies are perpetual entities"**  
 The Kaga Electronics Group continues to tackle new challenges with a view that there is no end goal to corporate activities based on the philosophy that "people are a finite asset; companies are perpetual entities." Acquiring Fujitsu Electronics and developing new products and services that resolve social issues are some of the initiatives we are undertaking to drive sustainable growth. We will remain committed to pushing the envelope as a Group as we head toward a century in business.



## History of Group expansion

### Since 1968

- 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. 1985** Stock registered on the Japan Securities Dealers Association as an over-the-counter company.  
TAXAN (UK) LTD. established in the UK.
- Dec. 1986** Stock listed on the Second Section of the Tokyo Stock Exchange.

### 1990-

- 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.

### 2000-

- 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.
- 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.
- Sep. 2018** KAGA ELECTRONICS (INDIA) PVT. LTD. established in India.
- Jan. 2019** Fujitsu Electronics Inc. made into a Group company.



# Business and Strengths

## Electronic parts and semiconductor business

In this business, the Kaga Electronics Group provides a wide range of electronics-related parts and materials that include semiconductors, general electronic components, LEDs, sensors and liquid crystal displays. We leverage our network of more than 40 companies in the United States, Europe, Asia and other parts of the globe to deliver world-class parts and components to customers. Our exceptional support system enables us to meet the needs of customers globally.

### ● Major Domestic Group Companies

Fujitsu Electronics Inc.  
KAGA TECH CO., LTD.  
KAGA DEVICES CO., LTD.  
AD DEVICE CO., LTD.

### ● Major Overseas Group Companies

KAGA ELECTRONICS (USA) INC.  
KAGA (SINGAPORE) ELECTRONICS PTE. LTD.  
KAGA (KOREA) ELECTRONICS CO., LTD.  
KAGA (TAIWAN) ELECTRONICS CO., LTD.  
KAGA DEVICES (H.K.) LIMITED  
KAGA (DALIAN) ELECTRONICS CO., LTD.

## EMS business

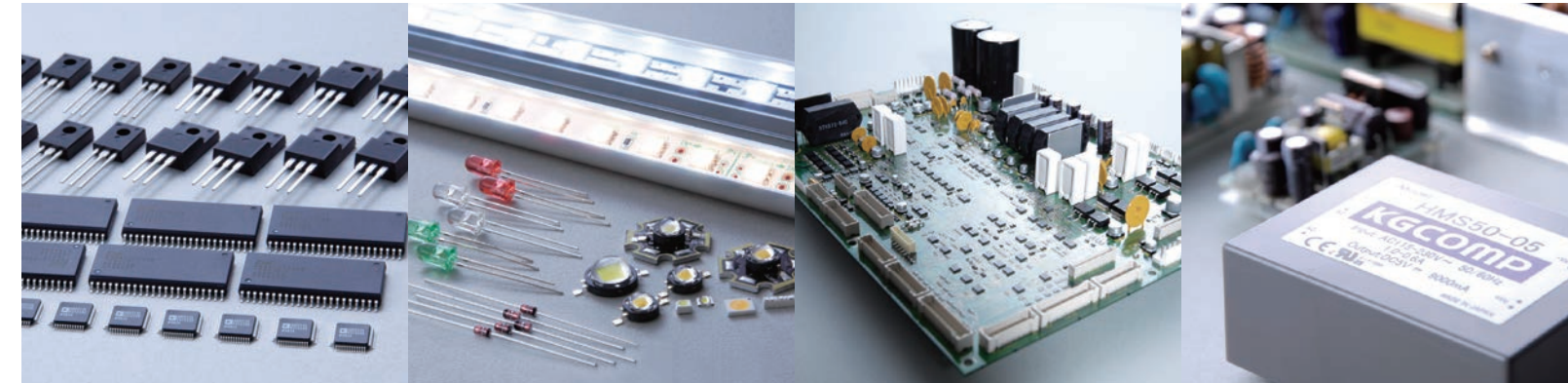
The Kaga Electronics Group utilizes production facilities in China and other parts of Asia as well as in Europe and the Americas in a production system that allows us to manufacture in regions that best suit our customers. In addition to the design and development of products, we have developed a total support system that is geared to flexibly meet different demands from high-mix, low-volume production and semi-finished to finished products. In addition, our global supplier network enables us to propose optimal alternatives to parts and materials that suit each customer best.

### ● Major Domestic Group Companies

KAGA MICRO SOLUTION CO., LTD. / KAGA DEVICES CO., LTD.

### ● Major Overseas Group Companies

KAGA (H.K.) ELECTRONICS LIMITED / KAGA (SHENZHEN) ELECTRONICS CO., LTD. / KAGA (SHANGHAI) ELECTRONICS CO., LTD. / KAGA TAXAN (SUZHOU) ELECTRONICS CO., LTD. / KAGA ELECTRONICS (THAILAND) COMPANY LIMITED / KAGA COMPONENTS (MALAYSIA) SDN.BHD / KD TEC S.R.O. / TAXAN MEXICO, S.A. DE C.V. / KAGA ELECTRONICS (USA) INC. / KAGA (DALIAN) ELECTRONICS CO., LTD. / KAGA ELECTRONICS INDONESIA, PT / KAGA ELECTRONICS (VIETNAM) CO., LTD. / KD TEC TURKEY ELEKTRONIK SANAYI VE TICARET LIMITED SIRKETI / KAGA DEVICES INDIA PVD. LTD.



## Strength 1

## One-stop service capability

The Kaga Electronics Group, as an independent general electronics trading company, has been expanding its business domains in accordance with customer needs. At present, Group companies worldwide are working together to create a "one-stop service system" that transcends the boundaries of a trading company and covers everything from upstream processes, including planning and design in addition to parts procurement, to downstream maintenance services. By doing so, we are providing diverse added value to customers.

## Strength 2

## Global network capability

We provide peace of mind to customers and instill confidence through our sales and production network, which spans 16 countries and regions worldwide, as well as our global procurement and information-gathering competencies that we have built up over many years, which have been reinforced by the addition to the Group of Fujitsu Electronics.

## Strength 3

## Comprehensive capability in the electronics field

Another strength of the Kaga Electronics Group is the broad range of products and services it handles. We meet a wide variety of needs by providing modules and finished products in addition to electronics-related parts and materials as well as hardware, software and systems. Our business covers everything from large-lot consumer goods to small-lot industrial devices. This comprehensive capability, coupled with our one-stop service capability, allows us to meet customer needs with exceptional precision.

### Research, planning, design, development



### Procurement



### Production, quality control



### Sales, logistics



### Support service



## Information equipment business

The Kaga Electronics Group carries out the functions of a sales agency in providing such places as domestic consumer electronics mass retailers, camera stores, general companies and educational institutes with PCs and PC peripherals made by major Japanese and overseas brands. In addition, we offer a one-stop service for network solutions from the proposal to the construction and maintenance of local area network (LAN) systems, security systems and eco-friendly energy systems for corporations and government agencies.

### ● Major Group Companies

KAGA SOLUTION NETWORK CO., LTD.  
KAGA TECHNOSERVICE CO., LTD.

## Other business

In addition to the planning, manufacture and sale of amusement-related equipment such as arcade amusement machines, the Kaga Electronics Group produces commercials, movies and animation as well as original content using advanced computer graphics technology. Our diverse business also includes environmentally friendly PC reuse and recycling, and the retail and wholesale of golf supplies.

### ● Major Group Companies

DIGITAL MEDIA LAB., INC.  
KAGA MICRO SOLUTION CO., LTD.  
KAGA SPORTS CO., LTD.  
KAGA AMUSEMENT CO., LTD.





## Message from the CEO

To our stakeholders

# Aiming to become a competitive “world-class company”

**Isao Tsukamoto**  
Founder & CEO



### Toward the next 50 years of growth

“People are a finite asset; companies are perpetual entities.” Based on the philosophy we have upheld since our earliest days that there is no end goal to corporate activities, I have continued to take on a variety of challenges. Fortunately, we have received great support from customers and other concerned parties, and thanks to this, we successfully reached the milestone of 50 years in business in 2018. I would like to extend my warmest appreciation to our stakeholders for your unending cooperation. With these feelings of gratitude foremost in mind, I have newly resolved to boldly tackle further challenges aimed at the next 50 years of growth. In 2017, we established an internal fund of ¥5 billion for investment in a venture company, reaffirming our DNA as an organization that perceives changes in the times as opportunities for growth.

### Turning the changing times into growth opportunities

Our business environment indeed signals a turning point, a shift in the era that offers a chance for growth. Advances in the Internet of Things (IoT) and artificial intelligence (AI) have accelerated a digital transformation in which every industry utilizes electronics-related products and services. In addition, against the backdrop of trade friction between the United States and China and other such factors, we are heading toward a new stage of globalization in the supply chain of manufacturers both in Japan and abroad.

On the other hand, competition with global corporate groups boasting sales of ¥2–3 trillion is inevitable in the future world market. To outstrip our rivals over the next 50 years and lead the Group along a new path to growth, it is imperative that we have a vision and strategy that is global in nature.

## Positioning of the Medium- to Long-Term Vision and the Medium-Term Management Plan 2021



### Become a ¥1 trillion company with a strong presence in the global market

Based on an awareness of this environment, the Kaga Electronics Group formulated its Medium- to Long-Term Vision covering the next 50 years of becoming a corporate group capable of generating ¥1 trillion in sales, the scale required to compete and rank with rivals overseas at the several trillion yen level in the intensely competitive global market. We have also formulated a new Medium-Term Management Plan with the aim of becoming Japan’s No. 1 company in the industry with sales of ¥500 billion in the next three years. The plan sets out three key challenges: Enhancement of the revenue base, stabilization of the management base and creation of new business.

The addition of Fujitsu Electronics to the Group in January 2019 forms part of this growth strategy. Going forward, we will strive to quantitatively expand our revenue base through mergers and acquisitions in the trading company business domain, develop our customer base for EMS business and utilize our global production base to significantly enhance Group management.

### Create universal value as a company that benefits society

In addition to this growth strategy, over the long term we will seek to develop new products and services that contribute to the resolution of social issues in the realms of safety and security and environmental preservation on top of meeting customer needs. While I do not expect to see results from this endeavor overnight, I am sure that our efforts will start to bear fruit if we just persevere in a way that typifies who we are. I would like Kaga Electronics to be a leader in how to effectively raise universal corporate value by showing that the key to sustainable growth is being a company that benefits society.

I humbly ask all of our stakeholders for your continued support of the Kaga Electronics Group and our initiatives.

Aiming to become an industry leader in Japan

# We will tackle three priority issues to maximize synergies.

Review of the fiscal year ended March 31, 2019

Creating foundations for the next stage of growth

The fiscal year ended March 31, 2019 was the final year of our previous Medium-Term Management Plan. Overall, the three years of the plan were very productive as we were able to build foundations for a new stage of growth, which included creating infrastructure to drive growth in EMS business and securing a new trading company business network and resources through M&A. In terms of quantitative results, we achieved our targets for net sales and return on equity (ROE). This was mainly because net sales benefited from the consolidation of Fujitsu Electronics in the fourth quarter of the final year of the plan, 2019, while in ROE we enhanced our financial leverage by borrowing acquisition funds. Conversely, ordinary income stood at ¥7,859 million, which was unfortunately below our medium-term target. Primarily this result reflected delays in the contribution to earnings



Targets and results (2019/3)

	Previous Medium-Term Management Plan targets	FY2019/3 (results)
Net sales	¥290.0 billion	¥292.8 billion
Ordinary income	¥10.0 billion	¥7.8 billion
ROE	8.0% or higher	10.9%

from a new factory overseas and a limited contribution to income from the acquired company.

As a key initiative in the fiscal year ended March 31, 2019, we enhanced our production system overseas in response to requests from customers. In addition, we focused on expanding EMS business by means such as relocating sites and strengthening functions in Japan. In January 2019, we solidified our foothold to drive further growth by making Fujitsu Electronics a Group company.

As a result of these activities, net sales for the fiscal year ended March 31, 2019 totaled ¥292,779 million, up 24.1% from the previous fiscal year. This was primarily the result of a solid showing overall in EMS business and the consolidation of Fujitsu Electronics in the fourth quarter. In terms of profit, operating income was ¥7,570 million, down 6.8% year on year, due to large upfront expenses for the startup period of new factories in Vietnam, Mexico and Turkey. Nonetheless, profit attributable to owners of the parent grew 23.5% year on year to ¥8,014 million, owing mainly to the recording of a gain on negative goodwill as extraordinary income in line with the consolidation. In light of these results, we paid an extraordinary dividend to our shareholders.

Ryoichi Kado  
President & COO

Forecast for the fiscal year ending March 31, 2020

A cautious outlook given the uncertain business environment

Net sales are forecast to increase by a significant 46.9% year on year to ¥430 billion in the fiscal year ending March 31, 2020, since Fujitsu Electronics will contribute to consolidated results for the entire year. On the other hand, operating income is projected to decrease by 7.5% to ¥7.0 billion, due to such factors as an increase in expenses associated with the startup of new EMS factories in Japan and overseas, namely Fukushima and India, and investment in IT in line with the addition to the Group of Fujitsu Electronics.

Profit attributable to owners of the parent is forecast to be ¥5.0 billion, down 37.6%, due to the absence of a gain on negative goodwill as was recorded in the previous fiscal year. The Group overall is conservative in its projections due to uncertain domestic and overseas conditions and the risk of cancellation of large-lot commercial rights held by Fujitsu Electronics. Accordingly, we have set targets that we believe we can achieve without any shortfall in the first fiscal year of our new Medium-Term Management Plan. Going forward, we will seek to improve performance gradually each year and realize the management targets stated under the plan.

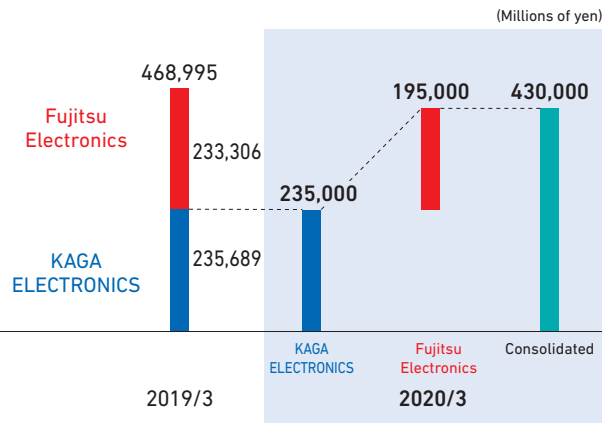
Impact of making Fujitsu Electronics a Group company

Looking at a breakdown of the net sales forecast for the fiscal year ending March 31, 2020, Kaga Electronics on a parent alone basis is projected to post ¥235.0 billion, which is roughly unchanged from the previous fiscal year, and Fujitsu Electronics is projected to post ¥195.0 billion, marking a year-on-year decline of ¥38.3 billion. This decline includes approximately ¥20.0 billion related to the risk of cancellation of large-lot commercial rights, which will be reflected in the second half of the fiscal year ending March 31, 2020 (sales will continue in the first half). Discussions are still ongoing and details cannot be disclosed yet, but we will report on this policy as soon as it has been decided.

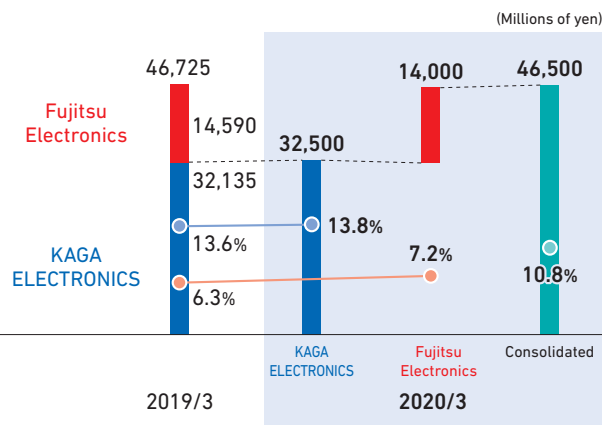
With regard to gross profit, Kaga Electronics is projected to secure a gross profit margin and profit on par with the previous fiscal year, while Fujitsu Electronics is projected to register an increase of about one percentage point in the gross profit margin compared to a year ago. We plan to minimize any decline in gross profit due to a loss of sales.

Although profitability (in terms of the gross profit margin) differs widely at both companies, we will work to make steady improvements each year to contribute to the profit growth of the Kaga Electronics Group on the whole. A one percentage point improvement in the gross profit margin would result in an increase in profit of ¥2.0 billion, and a two percentage point increase would result in a twofold rise in profit, to ¥4.0 billion.

Net sales outlook (2020/3)



Gross profit and gross profit margin outlook (2020/3)



Industry positioning  
Reorganization aimed at becoming an industry leader in Japan

The addition of Fujitsu Electronics to the Kaga Electronics Group provides an instant boost to sales, placing us third in the industry for electronics trading companies based on results for the fiscal year ended March 31, 2019. We expect to jump to second in the industry according to our projections for the fiscal year ending March 31, 2020, getting us within range of challenging for the No. 1 spot. Now that we have a strong foothold, we will strive to realize our goal of becoming an industry leader in Japan.

There are currently more than 30 electronics trading companies listed on stock exchanges in Japan, with net sales ranging from ¥6.0 billion to ¥500.0 billion. If non-listed companies are included, this figure jumps to more than 300, and it is said that the number of industry players exceeds the scale of the market. Global reorganization is taking place in nearly every industry and business category, and electronics trading companies will not be able to avoid it.



Message from the COO

Top 5 electronics trading companies in terms of sales (Kaga Electronics research)

	2018/3 (results)	(billions of yen)	2019/3 (results)	(billions of yen)	2020/3 (forecast)	(billions of yen)
1	Macnica Fuji Electronics Holdings, Inc.	504.1	Macnica Fuji Electronics Holdings, Inc.	524.2	Macnica Fuji Electronics Holdings, Inc.	540.0
2	Marubun Corporation	347.5	Marubun Corporation	326.7	KAGA ELECTRONICS CO., LTD.	430.0
3	UKC Holdings Corporation	301.4	KAGA ELECTRONICS CO., LTD.	292.8	Restar Holdings Corporation	410.0
4	Ryosan Company, Limited	254.1	Ryosan Company, Limited	249.7	Marubun Corporation	291.5
5	Ryoden Corporation	236.5	SII X Corporation	242.8	SII X Corporation	244.0
	KAGA ELECTRONICS CO., LTD. (No. 6)		235.9			

Note: Listed companies only

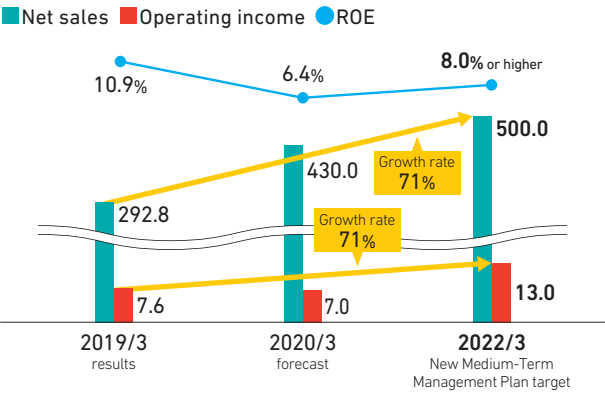
Against this backdrop, Kaga Electronics aims to be the corporate group to spearhead reorganization in the industry. The acquisition of Fujitsu Electronics is one of the moves characterizing our approach.

Medium-Term Management Plan 2021 and growth strategy

Aiming to become an industry leader in Japan and outstrip the global competition

In November 2018, Kaga Electronics formulated its three-year Medium-Term Management Plan 2021. The plan includes ambitious targets of 71% growth for both net sales and operating income after three years in the fiscal year ending March 31, 2022, compared with the fiscal year ended March 2019.

Medium-Term Management Plan 2021 management targets (billions of yen)



The three basic policies of the new Medium-Term Management Plan are to enhance the revenue base, stabilize the management base and create new business. Through these policies, the Kaga Electronics Group will strive as one to become an industry leader in Japan and

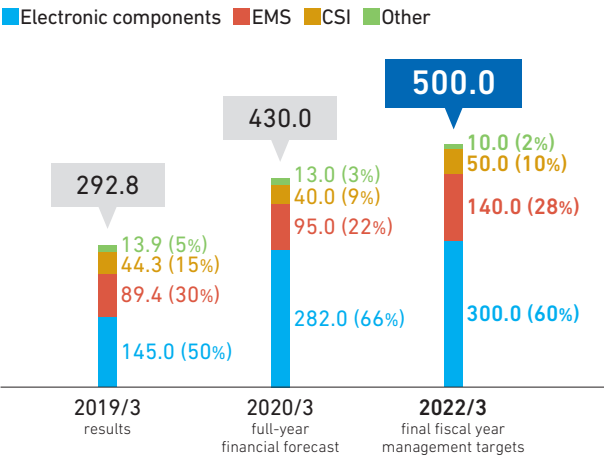
outstrip the global competition, which is our Medium- to Long-Term Vision.

In terms of concrete initiatives, we will pursue growth in both trading company business for electronic components, which we have expanded by bringing Fujitsu Electronics into the fold, and EMS business, where we will focus on such growing fields as automotive and communications. Through these efforts, we aim to boost the level of business within the Kaga Electronics Group.

In EMS business, we have vigorously looked to expand production system overseas in response to increasing customer requirements in recent years. We added production bases in Mexico and Vietnam in 2017 and in Turkey and India in 2018 to our production network, which was previously concentrated in China and the ASEAN region. We now have EMS production factories in 16 locations through 10 countries, including Japan.

In addition, Towada Pioneer Corporation will be added to the Group in October 2019. Since it is a manufacturing subsidiary of Pioneer Corporation, a dedicated electronics maker, we will be able to incorporate the production know-how it has amassed over many years, outstanding production site human resources and production equipment into the Group with the aim of strengthening

Projected sales composition (billions of yen)



Medium-Term Management Plan basic policies

	Priority issues	Concrete initiatives
1. Enhance the revenue base	Utilizing the Group's DNA to see things ahead of time, we will focus on markets forecast to have high growth potential and profitability, and aim to strengthen the revenue base.	<ul style="list-style-type: none"><li>Strengthen initiatives for growth fields: Automotive, communications, environmental, industrial devices, medical and healthcare</li><li>Enhance and expand EMS business and overseas business</li></ul>
2. Stabilize the management base	Aiming to stabilize the management base to achieve early improvement in efficiency and financial soundness after making Fujitsu Electronics a subsidiary.	<ul style="list-style-type: none"><li>Continue Groupwide cost reduction measures</li><li>Promote improvement of Group management efficiency by establishing an organizational structure</li><li>Enhance corporate governance and cultivate human resources to lead the next generation</li></ul>
3. Create new business	Seeking to create new business through the active use of our own resources and M&A to enhance our ability to respond to changes in the external environment.	<ul style="list-style-type: none"><li>Launch businesses related to social issues (childcare, welfare, nursing care, etc.) and materials business</li><li>Promote open innovation through venture investment</li><li>Actively implement M&amp;A</li></ul>

our growing automotive business. Another goal is to bolster capacity to meet rising production demand in Japan. We are also constructing a new factory planned for operation in autumn 2019 in Fukushima Prefecture to cater to this growing demand.

Overseas, there is a remarkable trend among customers to shift production of products earmarked for the United States out of China and elsewhere to avoid the impact of trade issues between the two countries. In line with this, we have started building a second factory in Thailand and we aim to start operations there before the end of 2019. We plan to actively take advantage of the demand brought about by this trend at each of our factories in Vietnam, Malaysia and Mexico. In seeking to grow EMS business, we are executing a variety of such initiatives concurrently.

Shareholder return

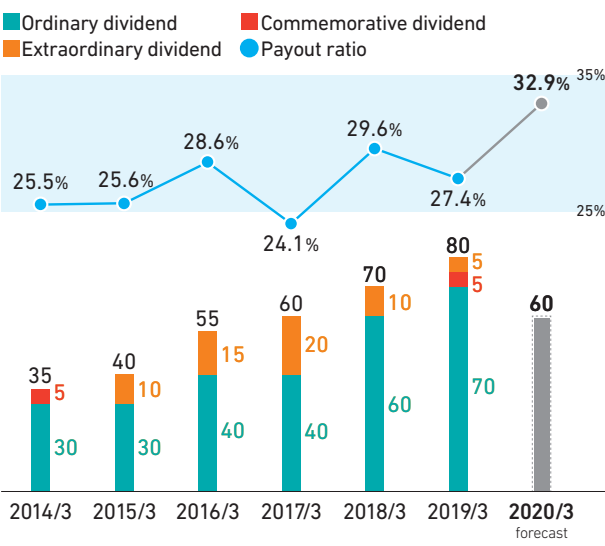
Maintain a payout ratio between 25% and 35%

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 of our founder 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. In quantitative terms, our basic policy is

to provide stable payment of dividends while maintaining a consolidated payout ratio of 25% to 35%.

In the fiscal year ended March 31, 2019, the payout ratio was 27.4% based on a dividend of ¥80 per share as a result of twice revising the dividend forecast upward during the period. In the fiscal year ending March 31, 2020, we are forecasting a year-on-year decline in profit and therefore the dividend will drop to ¥60 per share and the payout ratio will be 32.9%. Although we succeeded in increasing dividends for six consecutive years from the fiscal year ended March 31, 2014, unfortunately we expect a break in this pattern. Going forward, with regard to the distribution of profit, we aim 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 ensuring a sound financial position from a long-term perspective.

Dividends (yen)



## Message from the CFO

### Toward realization of our Medium- to Long-Term Vision

## We will support expansion of the Group's scale while carrying out sound profit- oriented management.

### Eiji Kawamura

Managing Director,  
Chief of Administration Headquarters

#### Aiming to achieve both investment for growth and financial discipline

In the fiscal year ended March 31, 2019, the Kaga Electronics Group took its first step toward growing into a corporate group boasting sales of more than ¥1 trillion by consolidating Fujitsu Electronics. A bridge loan in the amount of ¥23.0 billion was taken out to finance the acquisition, and as a result, interest-bearing debt exceeded ¥30.0 billion. Despite this, the debt equity ratio (DER) was 0.43 times, which we view as a healthy level. The net DER was negative as we maintained a debt-free state in real terms.

The Kaga Electronics Group has worked to ensure solid debt-free management since our earliest days. Our sales representatives are responsible for all processes ranging

from securing customers to order receipt and placement, delivery of goods and payment collection. The transactions we enter take into careful consideration the balance between collection and payment as well as the payment terms at all times. We have built up cash and deposits for investment to drive future growth through these efforts and gradual accumulation of profit over many years. President Kado's long-established policy of profit-oriented management has also permeated our Group companies. Going forward, we will accelerate investment for growth as we look to achieve the goals of our Medium-Term Management Plan while maintaining financial discipline based on cash.

#### Unique inventory strategy that generates cash flows

The Kaga Electronics Group has stably generated operating cash flows of around ¥10.0 billion in recent years. Underpinning this achievement lies our efforts to accumulate profit, as stated earlier, coupled with thorough management of working capital. This fiscal year, however, we registered ¥1.5 billion as net cash used in operating activities. This was mainly due to an increase of ¥1.0 billion in trade notes and accounts receivable and a decrease of ¥5.8 billion in notes and accounts payable—trade in line with the addition of Fujitsu Electronics as a Group company. In EMS business, inventories rose as we increased production and stock in response to customers' inventory adjustments and growing sales, and this affected performance. In the fiscal year ending March 31, 2020, we expect a change for the better in these negative factors on the back of efforts to shorten the inventory turnover period in particular.

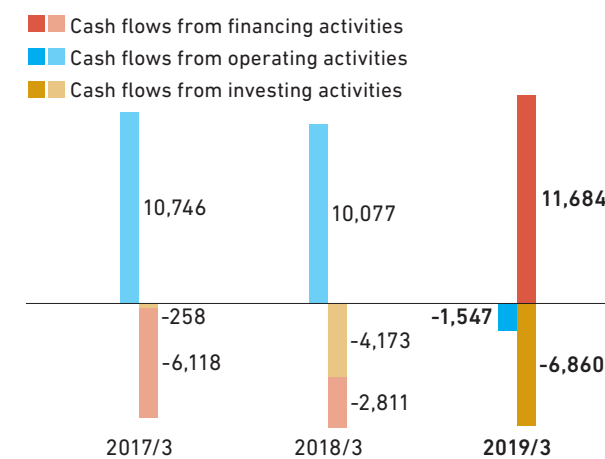
We have believed since our foundation that "inventory is a liability," a concept that forms part of what we call

KAGAism, or the essence of who we are. Based on this conviction, we have positioned the reduction in days held in inventory as a critical challenge in our sales organizations and Group companies. At the same time, we have formulated a principle for how Kaga Electronics receives and places orders; in particular, sales activities in our components business apply the rule that we must not place an order to a manufacturer unless we have first received an order from a customer. This forms part of our strict management approach to inventory.

Nonetheless, EMS business is in the same category as the manufacturing industry, and compared with components business, the inventory turnover period tends to be long. For this reason, the Kaga Electronics Group has set a target for the inventory turnover period of 15 days for components business and 45 days for EMS business for the sake of streamlining. If we can achieve a Groupwide average inventory turnover period of 30 days or less, we can generate cash of at least ¥10.0 billion, which we can use as capital for investment to drive growth.

We expect cash flows from investing activities to be negative for a while as we continue investment to bolster EMS-related production sites and in venture companies. To build up free cash flow, we will strengthen systematic initiatives aimed at generating operating cash flows based on thorough inventory management.

#### Cash flows (millions of yen)



#### Toward steady improvement in equity ratio and ROE

The equity ratio for the fiscal year under review decreased to 35.8% temporarily due to bank borrowings associated with the acquisition of Fujitsu Electronics, but it is expected to rebound over the next few years on the back of measures based on the Medium-Term Management Plan. We will aim for around 40% to begin with.

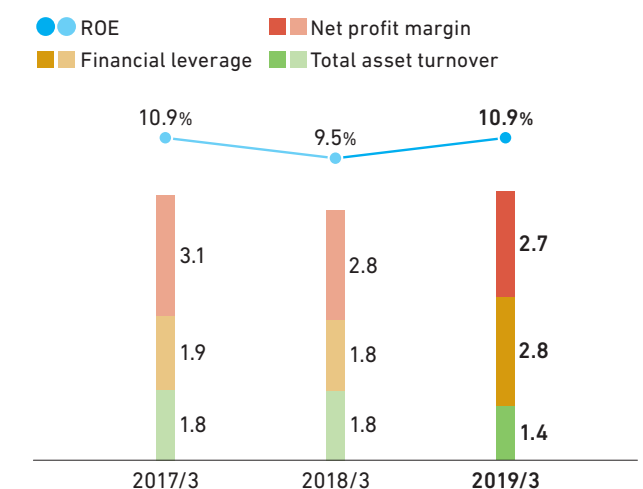
It is not realistic to cover all of the investment we make to drive growth with indirect financing in our medium- to long-term quest for ¥500.0 billion and ¥1 trillion in net

sales. On the other hand, when dealing with direct financing, it is essential to consider bonds and the need for advanced preparation, stock and the possibility of dilution of earnings per share, and the market common to both. We will undertake fund procurement to continue driving sound growth. This will require a flexible approach that takes the external environment closely into account and a policy that is based on ensuring an appropriate equity ratio.

Return on equity (ROE) for the fiscal year was 10.9%, while we are forecasting 6.4% for the fiscal year ending March 31, 2020. The temporary decline in the Group's profit ratio can be attributed to the full-year contribution to consolidated results of Fujitsu Electronics. This would be the minimum level when compared with the Company's capital cost, and one that we would never be satisfied with. It is imperative that we enhance the management efficiency and improve the profit ratio of Fujitsu Electronics following the acquisition. Currently CEO Tsukamoto is visiting the company every week to spread the concept of KAGAism in a top-down manner and striving to reform the thinking of individual employees.

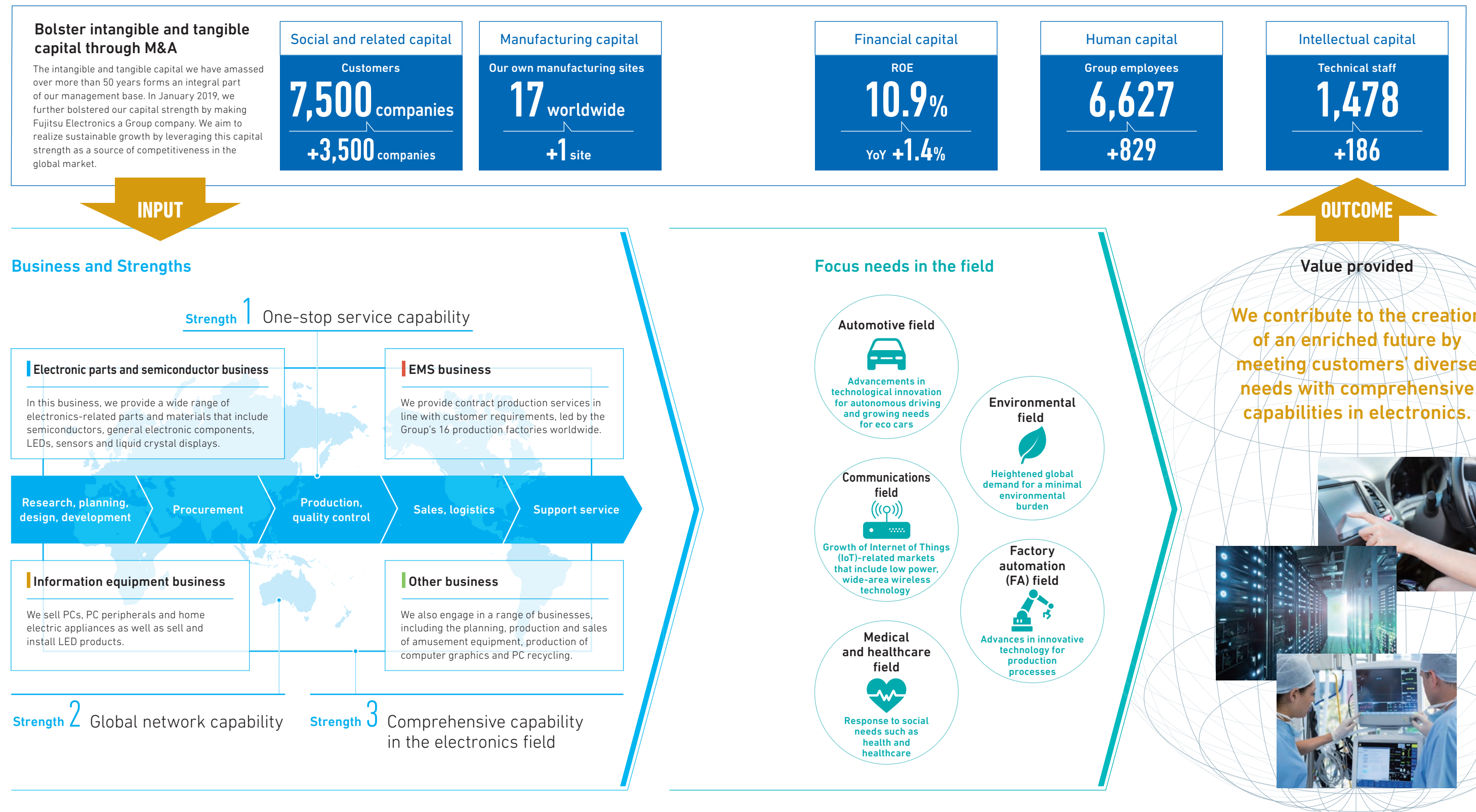
Under the new Medium-Term Management Plan, which runs until the fiscal year ending March 31, 2022, we are aiming for net sales of ¥500.0 billion, operating income of ¥13.0 billion and ROE of 8% or higher. Our target for ROE constitutes the minimum amount we want to achieve, and I actually have my sights set beyond that figure. Assuming that we do not undertake any more major M&A, our financial leverage would be around 2.5 times based on an equity ratio of 40% and total asset turnover would be around two times, which would enable us to achieve double-digit ROE, depending on the net profit margin for the fiscal year. I intend to implement measures at the workplace level that will help us achieve this goal.

#### Return on equity (ROE)





Kaga Electronics will leverage its strengths based on a solid capital foundation to create value for customers worldwide.





Special  
Feature

1

On the Front Line  
of Business



## Expanding trading company business to drive further growth in EMS business

Change is coming faster than ever in the business environment for electronics trading companies, characterized by structural reorganization and consolidation as well as the shift of end-product manufacturers' production processes overseas to combat intensifying competition among semiconductor manufacturers, and a shortening of the product lifecycle. Against this backdrop, Kaga Electronics brought Japan's fourth largest industry player regarding net sales, Fujitsu Electronics, into the Group and will leverage the ensuing expansion in trading company business to drive further growth in EMS business.

### Strengthen competitiveness in trading company business with Fujitsu Electronics

The Kaga Electronics Group stated its goal of becoming an industry leader in Japan with net sales of ¥500 billion under its new Medium-Term Management Plan. As the first step to achieve this goal, the Company acquired 70% of the shares of Fujitsu Electronics Inc. (FEI), a semiconductor trading company in the Fujitsu Group, in January 2019.

One of the main objectives of the acquisition is to strengthen our business base as an electronics trading company and expand the market share of our electronic parts and semiconductor businesses.

As a member of the Fujitsu Group, FEI boasts an extensive range of unique products that take advantage of technological expertise in such areas as microcomputers and application-specific integrated circuits (ASICs), and the company has a proven track record of transactions with many global firms. In particular, FEI has actively built up close relationships of trust with the design and development departments of customers in the automotive and communications fields, which we view as growth domains. It is currently developing and selling base components in these fields thought to be required in several years according to development roadmaps.

The strength of FEI lies in its ability to source a diverse array of electronic components and semiconductors from

Japan and overseas, and it enjoys a solid complementary relationship with the trading company business of our Group, in which we sell to customers' purchasing departments. As an example, on a product front FEI focuses on custom large-scale integration (LSI) and microcomputers that leverage its technological prowess, whereas we focus on general-purpose items. Both sectors can be applied to the same vehicle: FEI's products in the heart of the car such as the engine control unit (ECU) and our products in control boards for the peripheral parts of the car such as headlights and power windows. In terms of the customer base, FEI mainly deals with industry-leading global companies such as tier-one companies in the automobile industry, while



Key products of Fujitsu Electronics

### Synergistic effects between Kaga Electronics and Fujitsu Electronics

	Kaga Electronics		Fujitsu Electronics
Major suppliers	Electrical, electronic and semiconductor manufacturers in Japan and overseas	×	Mainly Fujitsu Group companies
Key products	General-purpose products such as semiconductors, LEDs and storage devices for Japan and overseas	×	Semiconductors utilizing design and development capabilities such as microcomputers and ASICs
Key customers/ trading divisions	Japanese manufacturing industry-leading companies / Materials purchasing departments	×	Industry-leading global companies in Japan and overseas / Design and development departments
Main markets/ applications	Consumer electronics, industrial devices, amusement equipment	×	Automotive, communications
Earnings model (high-value-added strategy)	Coordinator-type Provide products with added EMS services such as processing, assembly and kitting to meet high-mix, low-volume needs	×	Customer-based Develop base components based on customers' development strategies and supply over a long period

Increase in  
the customer base

More opportunities to  
sell in growing markets

Greater responsiveness  
to diverse needs

more than 80% of our customers are Japanese and we broadly serve the manufacturing industry from large- to small and medium-sized companies. With regard to the point of contact at a customer company, FEI has been in and out of its customers' design and development departments and business talks have sprung from the technical meetings. The Kaga Electronics Group, on the other hand, starts by approaching customers' materials purchasing departments. Turning to the earnings model, FEI employs a "customer-based model" in which it assigns sales and technical staff to locations around the world, develops unique products to meet customer needs and sells them in large quantities. The Kaga Electronics Group, on the other hand, features a "coordinator-type model" in which we accept orders for circuit boards and units and add EMS services such as assembly and processing for high-mix, low-volume production that meets diverse customer needs.

In this way, we can integrate the differences of the two companies to virtually eliminate the problem of duplication in products handled, the customer base and sales channels in Japan and overseas, which means that we can realize a business model capable of extremely effective cross-selling.

We aim to make use of these advantages to help us respond to varied customer needs and reduce costs, thereby enhancing business competitiveness and

profitability. The sales departments of Kaga Electronics and FEI are meeting weekly in an effort to make this a reality. We are determined to create synergies that will serve us in these regards going forward.

### Aiming for high growth in the convenience store type of EMS by leveraging FEI's excellent customer base

In addition to expanding trading company business, the Kaga Electronics Group has started making preparations to expand the scale of EMS business through the collaboration with FEI.

In recent years, many global companies have shifted from a vertically integrated business model ranging from development to production within its group to a horizontally integrated business model in which component procurement and production are outsourced while enhancing product value through core technology. At the same time, EMS operators continue to grow in size, taking advantage of these demands for outsourcing.

Under such circumstances, Kaga Electronics started services such as the assembly and production processes on a contract basis as well as kitting in which we propose alternative parts and materials as part of measures to increase added value to trading company business that we have been implementing for the past 40 years. EMS business is currently being provided via a network of



16 factories in 10 countries that has grown in response to the overseas production needs of an increasing number of Japanese companies on the back of global procurement capabilities. We recently embarked on the construction of a second factory in Thailand and further bolstered production capacity in the ASEAN region.

As background to this business development, the Kaga Electronics Group's EMS business promotes a convenience store type strategy in which the factory nearest the customer is used. This model leverages a system enabling the contracted high-mix, low-volume production of 3,000 different circuit board models a month, sometimes in batches of 100 units, all around the world as well as our ability to provide high added value in the form of software and system support in addition to the circuit board. The growth strategy we are executing demarcates us from large EMS companies in China and other parts of Asia and rival Japanese companies.

We aim to drive significant growth in high-value-added EMS business by sharing in FEI's excellent customer base and global business foundations, which complement our EMS site network. To give an example, we will seek to generate a positive cycle of systematic capital investment and continuing orders from a longer-term perspective to drive sustainable growth. This will include utilizing the business know-how of FEI, which has insight into customers' development roadmaps, and concluding multi-year agreements with a view that spans the prototype stage to the mass production stage several years down the track.

Kaga Electronics will have the opportunity to enhance

its profitability, which has been an issue, with the new EMS services and proposals taken from the perspective of FEI's growth strategy as well. Our EMS managers are already accompanying FEI staff to design and development departments that are FEI's customers, and multiple projects and business talks are gathering pace.

#### Smart factory project to create a global mother factory

Kaga Electronics acquired Towada Pioneer Corporation, a manufacturing subsidiary of Pioneer Corporation, and will make it a Group company in October 2019 to further advance EMS business.

Through this acquisition, we will incorporate the manufacturing know-how, exceptional production-based human resources and production equipment that Towada Pioneer has developed over many years as a specialized electronics maker. This will help us to secure the capacity needed to meet growing production demand in Japan. We will also share in Towada Pioneer's tangible and intangible resources, including its extensive track record, production facility designs, tool manufacturing and quality assurance



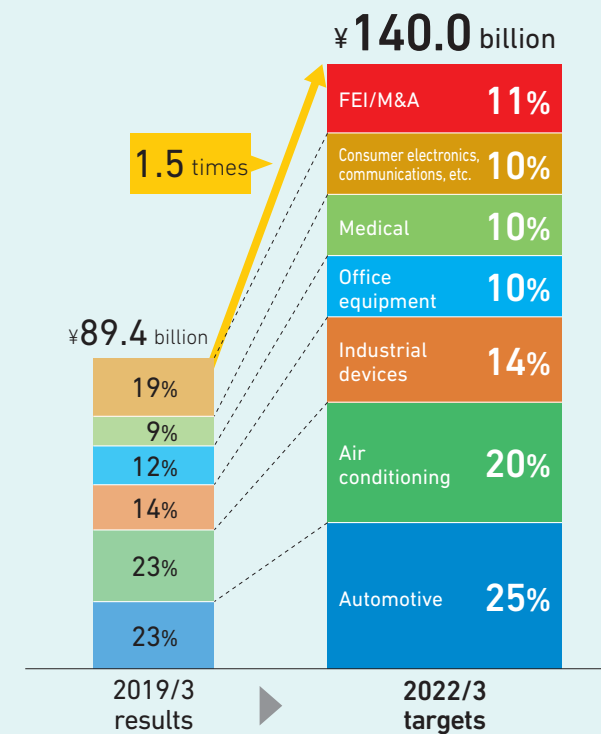
Towada Pioneer Corporation  
(The company name will be changed to KAGA EMS TOWADA CO., LTD. from October 1, 2019.)



HATTEN brand local soldering bath



#### EMS business growth scenario



#### Key points for growth



- Expand business in the growing fields of automotive, industrial devices, air conditioning and medical through full-fledged contributions from each new site in Vietnam, Mexico, Turkey and India, in addition to existing production capacity in China, the ASEAN region and Europe
- Take a "key device + EMS" approach for leading customers of Fujitsu Electronics
- Take on new M&A opportunities in Japan and overseas with the aim of further expanding EMS business

systems, thus providing us with an overwhelming competitive advantage over our EMS competitors.

To further differentiate our business from that of our rivals, we will team up with SUZHOU HATTEN INTELLIGENT EQUIPMENT CO., LTD., a facility design company established in Suzhou, China in October 2018. This company develops production facilities with specifications and functions that are optimal for the Group's EMS model of high-mix, low-volume production. The start of external sales of these products under the HATTEN brand will lead to further reduction in costs for Kaga Electronics and limit the need

to make capital investment.

In the near future, we will look to optimize Towada Pioneer for our high-mix, low-volume EMS model and position it as our mother factory complete with internally made production facilities and the automated processes of Towada Pioneer. We will then deploy this know-how to our other factories around the world to further heighten the competitiveness of our EMS business. By combining this with our trading company business, we aim to be a company that can outstrip the global competition, which is our Medium- to Long-Term Vision.

#### Establishment of integrated system including after-sales service

##### KAGA MICRO SOLUTION initiatives

The Kaga Electronics Group undertakes EMS business in a variety of departments aside from the EMS Business Division, including the Electronics Business Division, Communication Network Sales Division and Specific Industry Business Division to flexibly meet customer needs. In addition, Group company KAGA MICRO SOLUTION CO., LTD. provides one-stop service that covers planning and production to after-sales service, reuse and

recycling of electronics equipment, communications equipment and amusement equipment. As such, we are contributing to the creation of a recycling-oriented society based on production and recycling. In October 2019 we will complete a new factory in Fukushima Prefecture, and in combination with existing facilities in Yamagata and Niigata, this will serve to bolster production capacity in Japan.

## Key points on post-merger integration with Fujitsu Electronics

Kaga Electronics Co., Ltd. added Fujitsu Electronics Inc. (FEI) to the Group in January 2019. Here, Kaga Electronics' Founder & CEO Isao Tsukamoto discusses the post-merger integration, one of the keys to M&A success, with Fujitsu Electronics President Junji Ogihara.



**Isao Tsukamoto**

Founder & CEO  
KAGA ELECTRONICS CO., LTD.  
Chairman and  
Representative Director  
Fujitsu Electronics Inc.



**Junji Ogihara**

President and  
Representative Director  
Fujitsu Electronics Inc.

### Theme 1: A focus on profit and gross profit

**Ogihara:** CEO Tsukamoto has frequently visited the Headquarters of FEI in Shin-Yokohama ever since we joined the Kaga Electronics Group in January 2019 offering extremely valuable advice from a broad perspective.

**Tsukamoto:** Yes, I actually got to work at FEI on the very first workday of 2019. That's because I know the importance of reforming the way of thinking from the top down. I'm sure there were a few stunned employees that day.

**Ogihara:** Over the following six months or so, you've reiterated the need to change business mindset.

**Tsukamoto:** It's critical that all employees are committed to focusing on profit and the source of this, gross profit. Gross profit is gained through the added value we provide to customers through sales activities. As such, it's essential for everybody to think thoroughly about how to raise added value.

**Ogihara:** That's perhaps a weakness of FEI as a trading company of manufacturer. I feel that this is the biggest difference in culture with the independent-type Kaga Electronics.

**Tsukamoto:** Gross profit, or in other words added value,

can be increased with a bit of creativity, and that's a concept that needs to be reaffirmed. I'm sure that there are countless businesses where we can boost earnings, and in fact Kaga Electronics has done so for the past 50 years. FEI boasts sales of around ¥200 billion. If we improve the gross profit margin by 1.0 percentage point, operating income will increase by ¥2.0 billion. By having each person focus on this indicator, even if only a little, we can significantly increase FEI's profit.

**Ogihara:** At the same time, we're reducing costs through enhanced management efficiency. In concrete terms, we're benefiting from the reorganization of business sites and the mutual use of human resources and sales channels. Our Nagoya Office was integrated into a Kaga Electronics site in September 2019. We're examining the viability of integrating sites overseas as well.

### Theme 2: Building business connections and creating high added value

**Tsukamoto:** Building business connections and creating high added value are also paramount. An example of this is cross-selling, in which we provide products from our

suppliers and the venture companies we have invested in that boast next-generation technology to customers of FEI.

**Ogihara:** Our Business Development Division, established within the Global Business Promotion Unit in June 2019, is undertaking activities as the point of contact in charge of this. FEI customers have also expressed interest in a number of Kaga Electronics' products and agency agreements have already been signed. In addition, we've displayed Kaga Electronics Group products at private exhibitions we hold at specific customer sites and these types of our PR activities as a Group have gained a popular response.

**Tsukamoto:** How is progress in the EMS business? I've said in the past that the key is for FEI to develop high-value-added business that incorporates the development services it excels at rather than follow Kaga Electronics.

**Ogihara:** We're currently in talks with the EMS Business Division of Kaga Electronics, taking into account this point of view. Instead of mere contract manufacturing, we intend to develop EMS business that's unique to FEI, leveraging the accumulated design, evaluation and analytical technologies of the Fujitsu Group to help resolve our customers' manufacturing issues. We possess embedded technology based on know-how gained from the system-on-a-chip (SoC) and microcomputer sectors and short-range wireless technology required for the Internet of Things (IoT)-related devices as well as a group of engineers working hard on these technologies. This is a strength of FEI and one that can't be found in other EMS companies. It's also possible to incorporate technology from Fujitsu Group companies in areas that we can't cover.

**Tsukamoto:** I fully expect FEI to enhance its gross profit margin going forward by adding Kaga Electronics' products and EMS business to the mix.

**Ogihara:** Following on from Japan in January 2019, we held kickoff events for EMS business in China in March, Europe in April and North America and the ASEAN region in May. We've started discussions to boost understanding of EMS business and determine how best to proceed with key staff from FEI's overseas sales sites.

**Tsukamoto:** That's because we aim to actively expand business to local customers overseas in addition to Japanese customers. In terms of global business, we're very enthusiastic about the potential benefits we can gain from FEI's track record and experience as well as its network of sales sites in Europe, the Americas and the Asia-Pacific region.

**Ogihara:** At FEI's Corporate Headquarters, in April 2019, we established the EMS/ODM Business Department with a dedicated team to promote EMS business, and personnel there are working to secure business in conjunction with



the sales team. By June 30, we'd started business talks for more than 20 prospective projects worldwide. We're leveraging our SoC products to expand into business for the circuit boards they're embedded into and cultivate business among overseas sites.

### Theme 3: Maximizing synergies

**Ogihara:** I'm truly surprised at the extent of Kaga Electronics' business domains. If there's a business opportunity in a field you have minimal knowledge in, you simply employ people that have the required expertise and go full steam ahead. It gives the impression that your company is full of active personnel with good managerial sense. By mixing with an organization that has a character different from ours, I hope we can produce an even higher level of vitality in our own people.

**Tsukamoto:** I'm definitely on the same page with your policy of taking a sincere approach to your customers and striving to be a company that they can rely on. I also admire the way you go about achieving this. I can see the similarities with our corporate philosophy, "Everything we do is for our customers."

**Ogihara:** FEI has a history of more than 50 years selling semiconductors, and we enjoy exceptional connections that we've built up in dealings with market leading companies in the fields such as imaging, automotive and communications. The same applies to our overseas business, which accounts for 40% of our sales.

**Tsukamoto:** One of the biggest reasons we wanted to bring FEI into the Group was the scale of your operations, with a customer base of 3,500 companies worldwide, a 33-site global network, around 220 overseas support staff and around 150 engineers. By tapping into this competitive advantage, the Kaga Electronics Group now commands one of the biggest business networks in the industry in Japan.

**Ogihara:** Moving ahead, we aim to generate synergies in all types of businesses without staying bound to our traditional fields by making the most of this strong network.

**Tsukamoto:** On top of that, it's vital that we help each employee grow and develop further. As a company, we view investment in people as a management priority, and we intend to create an environment in which everyone can maximize their potential. If employee thinking changes, the Company will change too. And profit will increase. I can see the possibilities in FEI. I'm planning to keep up my frequent visits to FEI as well.



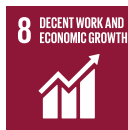
## A series of businesses that resolve social issues

The Kaga Electronics Group is promoting the creation of new businesses based on a desire to resolve social issues in a range of fields, including daycare, welfare and nursing care, to drive sustainable growth. Through our businesses, we also aim to contribute to the achievement of the Sustainable Development Goals (SDGs).



### Healthcare Combined with the IoT

In daycare centers, nursery teachers check on the condition of each child every few minutes during naptime as part of safety measures. The IoT sensors that Kaga Electronics markets for children's futons are placed directly under the mattress, and they detect and display in real time the state of a child's breathing and heart rate during naps to assist nursery teachers with their checking duties. If a change is detected, notification is given via visual and audio alerts on the smartphone or tablet app, so that the child can be checked on immediately. This product helps to boost the safety of children during sleep as well as alleviate the psychological burden on the part of the teacher.



### Work-Style Reform and Collaborative Investment



Securing labor has become a real social challenge in Japan. Despite this, there are many women who want to work yet are unable to because they cannot put their children in daycare. This has prompted the need to create a more accommodating work environment for women during their child-rearing years.

Kaga Electronics has invested in mama square Co., Ltd., which develops and operates working spaces equipped with childcare facilities throughout Japan. We are reinforcing ties with mama square in fields such as facility layout and infrastructure creation. The working spaces run by mama square include an adjacent kids' area where children can spend time safely, providing a reassuring work environment for mothers.



### Cashless Settlement via Advanced Devices

Kaga Electronics teamed up with Netstars Co., Ltd. and the Japan Amusement Industry Association to develop a multi-payment settlement system using a smartphone for arcade amusement machines, a first in Japan. In the past, it was standard for coins to be used in amusement arcades, but the introduction of this system allows people to play games without cash using payment apps that employ a QR code or barcode.

Shifting to a cashless system leads to a reduction in expenses laid out to collect and manage money, which is a real benefit for amusement facilities that face a shortage of labor. A cashless system also provides an environment in which tourists visiting Japan can easily enjoy playing games.



### "Watch-Over" System in an Aging Society

The number of people requiring nursing care continues to rise in Japan. Despite this, there is a shortage of care workers, exacerbating the burden on personnel in nursing homes.

The care support solutions provided by Kaga Electronics involve a 24-hour "watch-over" system for residents that utilizes sensors in the ceiling. The sensors detect when someone wakes or gets out of bed as well as when an incident occurs, such as a tumble over or abnormal breathing, and a notification is sent to the worker's smartphone along with live images. Being able to check the state of the resident through the images allows an appropriate action and judgment on the spot, significantly enhancing operational efficiency. Facilities that have introduced the system have achieved an increase in work efficiency of around 30%.



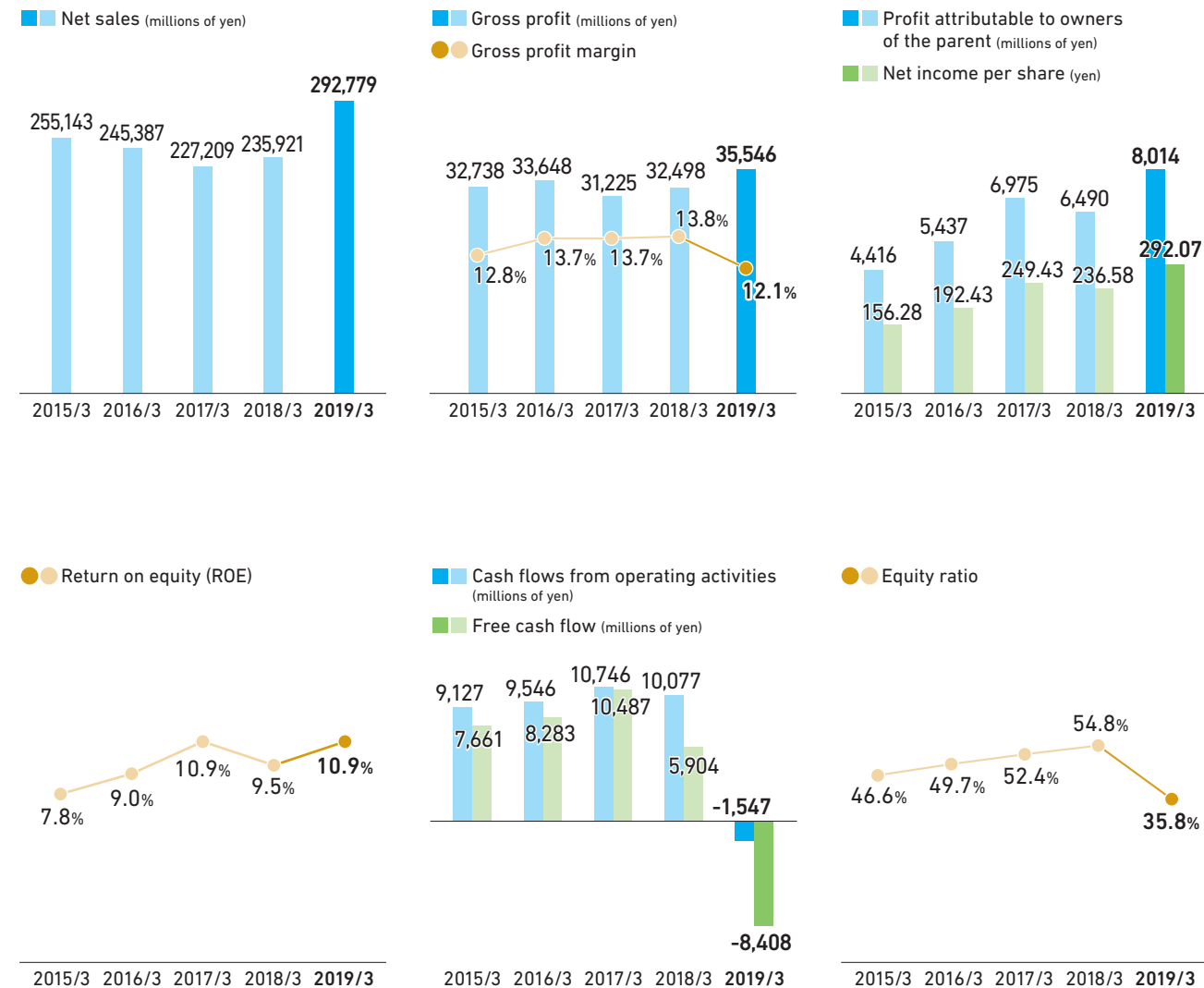
### Wearable Device and Support of People with Disabilities

The Kaga Electronics Group company Fujitsu Electronics manufactures and sells Ontenna, a user interface device that lets users sense sound with their bodies. The Ontenna device can be worn by users in their hair or on their shirt collar, for example, and it can convert sound vibration patterns from an audio source between approximately 60 and 90 dB to 256 levels of vibration and light strength. This means that people with hearing impairment can feel the rhythm, pattern and loudness of sounds. Application of the device is expected in such areas as sports and cultural events as well as schools for the hearing impaired. By providing this product, we aim to realize a future that both people with hearing impairments and those with ordinary hearing can enjoy together.

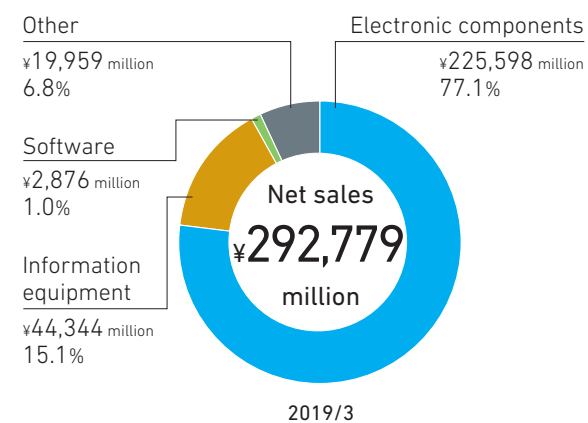


## Overview of FY2019/3 Results

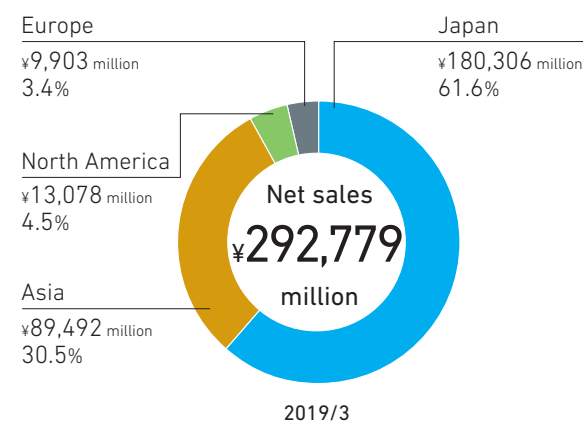
# Financial Highlights



Net sales by segment and composition



Net sales by region and composition



# Business Topics

## Initiatives to Strengthen the EMS Business

Our Group company KAGA MICRO SOLUTION CO., LTD. is engaged in a wide array of work from the development, production and sale of electronic components to their repair, reuse and recycling. A new factory was completed for this company in Sukagawa City, Fukushima Prefecture, with operations getting underway in October 2019. The manufacturing functions of the Iida Factory (Nagano Prefecture) that closed down in 2018 and some of the functions of the Yamagata Factory (Yamagata Prefecture) will be transferred to the new factory to strengthen domestic manufacturing functions.

In addition, Kaga Electronics will acquire shares of Towada Pioneer Corporation, a manufacturing subsidiary of Pioneer Corporation, on October 1, 2019, and make it a Group company. In the growing automotive and medical fields, where the Company's business is expanding, we will share Towada Pioneer's tangible and intangible resources, including its extensive production track record, production facility designs, tool manufacturing and quality assurance systems. This is expected to contribute greatly to the growth of our EMS business.

These two sites described above will be positioned as mother factories in the EMS business, and by deepening their ties with other Group bases overseas such as in China and Thailand, we aim to promote overall

optimization, strengthening management structure and enhancing business efficiency.

Overseas, we have begun constructing a second factory in Thailand to bolster EMS production capacity in the ASEAN region in response to demand for increased production from existing customers and orders from new customers. This initiative was undertaken with a view to shifting production bases to countries near China to avoid the impact of trade friction between the United States and China, especially since there are concerns that this friction may be prolonged. We are making preparations that will enable us to deal with these needs at other sites as well.

In this way, we are taking a range of steps to strengthen the EMS business both in Japan and overseas.



Conceptual drawing at completion of the Fukushima Factory

## Investment in Venture Companies to Commemorate our 50th Anniversary

Kaga Electronics established the "50-oku-en fund" (¥5.0 billion fund) in commemoration of its 50th anniversary in 2018. Through investment in venture companies that conceive and develop unique technologies, products and business models, we are working to generate new business to support the future growth of the Group.

As an example, we invested in Spacelink Co., Ltd. in February 2019. This company engages in the development of next-generation electricity storage devices and high-precision positioning systems based on know-how in the development of space technology. Through the investment, we aim to accelerate the mass-production and development of "Green Capacitor™," an energy device advanced by Spacelink that enables high-capacity, rapid charging. If this product can be commercialized, its broad application will range from consumer electronics such as

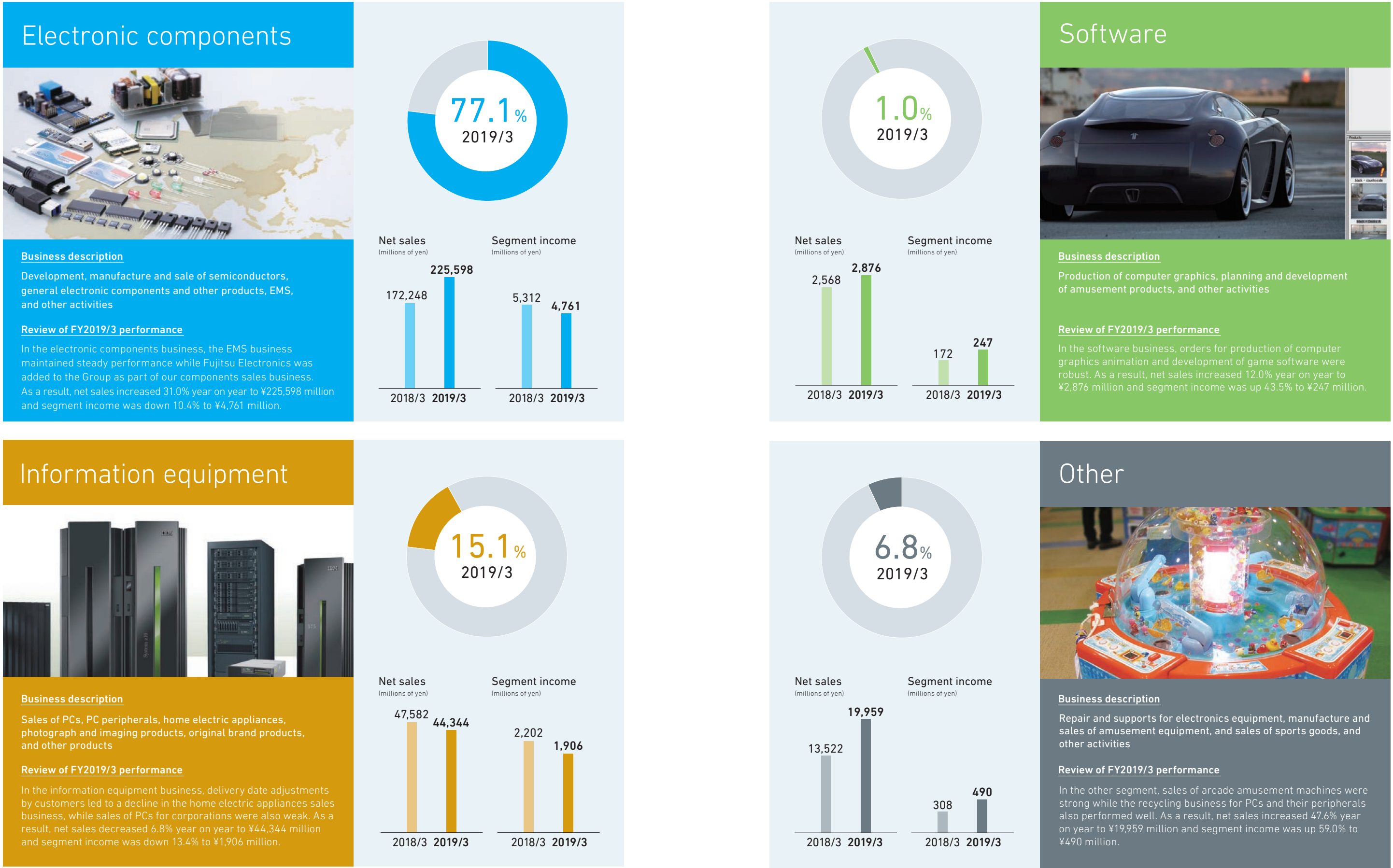
mobile phones and wearable devices to industrial equipment such as robots and drones, and electric vehicles. Kaga Electronics plans to market these products by making effective use of its sales network.



Green Capacitor™ by Spacelink



# Outline of Business Segments



# Directors and Auditors

As of July 1, 2019

## Directors



Founder & CEO  
**Isao Tsukamoto**

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



President & COO  
**Ryoichi Kado**

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



Director  
**Mitsuhiro Nohara**

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



Outside Director  
**Susumu Miyoshi**

1963 Joined Toyota Motor Co., Ltd. (currently Toyota Motor Corporation)  
2001 Executive Vice President and Representative Director  
2002 President 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



Senior Managing Director  
**Shinsuke Takahashi**

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



Senior Managing Director  
**Shintaro Kakei**

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



Outside Director  
**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 (present position)  
2012 Advisor to Niigata Sohgo Security Services Co., Ltd. (ALSOK) (present position)  
2015 Director of the Company



Outside Director  
**Noritomo Hashimoto**

1977 Joined Mitsubishi Electric Corporation  
2009 Director, Chairman of the Nomination Committee, Chairman of the Compensation Committee, Executive Officer, and in charge of General Affairs, Human Resources and Public Relations  
2012 Director, Chairman of the Nomination Committee, Chairman of the Compensation Committee, Senior Vice President, and in charge of Corporate Strategic Planning and Operations of Associated Companies  
2012 Director, Member of the Nomination Committee, Senior Vice President, and in charge of Corporate Strategic Planning and Operations of Associated Companies  
2016 Director  
2016 Advisor  
2019 Director of the Company



Managing Director  
**Eiji Kawamura**

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



Director  
**Motonori Toshinari**

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

## Auditors



Auditor (Full-time)  
**Kazunori Kameda**



Auditor (Full-time)  
**Takahiro Ishii**



Outside Auditor  
**Susumu Kitsunai**



Outside Auditor  
**Yoichi Sato**



Corporate Governance

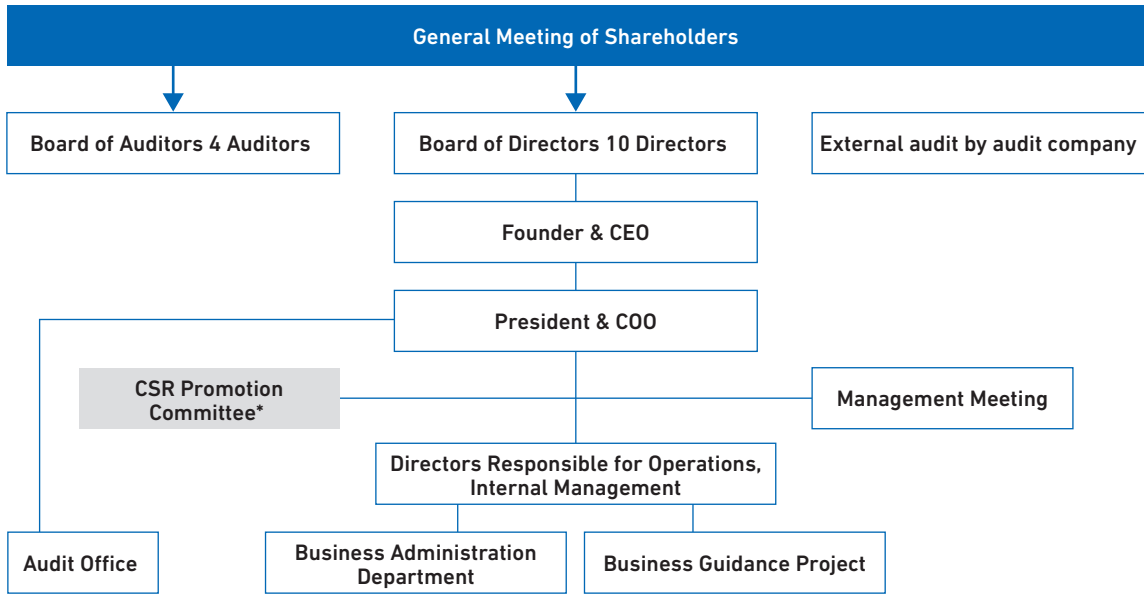
# Corporate Governance

## 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 three outside directors and four auditors (including two outside auditors) to ensure the effectiveness of the corporate governance system.



\*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 & 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 Management 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 three 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 16 times)		Board of Auditors meetings (held 18 times)	
	Attendance (times)	Attendance rate (%)	Attendance (times)	Attendance rate (%)
Outside Director Susumu Miyoshi	16	100.0	—	—
Outside Director Akira Tamura	16	100.0	—	—
Outside Auditor Susumu Kitsunai	12	100.0	13	100.0
Outside Auditor Yoichi Sato	12	100.0	13	100.0

Note: The attendance rate of Outside Auditors Susumu Kitsunai and Yoichi Sato is calculated based on the Board of Directors meetings and Board of Auditors meetings following their appointment as auditors.

### Reasons for appointing new outside directors

**Noritomo Hashimoto**  
Noritomo Hashimoto was elected as Outside Director because it was deemed he could reflect his extensive experience and broad views as corporate manager in the management of the Company from an independent standpoint, thereby strengthening the function of the Board of Directors.

## Remuneration system for officers

The Company's basic policy is to structure its remuneration system so as to promote its sustainable growth and enhance medium- to long-term corporate value. In terms of structure, directors' remuneration comprises fixed remuneration, which is paid at a fixed amount, and performance-linked remuneration (bonus and long-term incentive in the form of restricted stock compensation), which is paid based on the business results of the relevant fiscal year. Performance-linked remuneration reflects annual performance evaluations based on evaluations according to the directors' respective roles. Remuneration

of non-executive directors, including outside directors, and auditors consists solely of fixed remuneration, which is paid at a fixed amount.

### Remuneration of officers for the year ended March 31, 2019

	Allowance (millions of yen)	Number of recipients
Directors (of which, outside directors)	723 (20)	10 (2)
Auditors (of which, outside auditors)	46 (10)	6 (2)

Note: The figures above include those for two outside auditors who retired at the closing of the 50th General Meeting of Shareholders held on June 28, 2018.

## Dialog with shareholders and investors

Kaga Electronics has established an Investor Relations & Public Relations Office under the direct control of the President. 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.

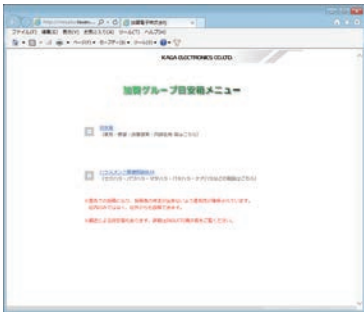
Divisions have been set up and risk control officers and managers appointed to each to deal with each risk in the Group as part of efforts to create the necessary,

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 Harassment 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.

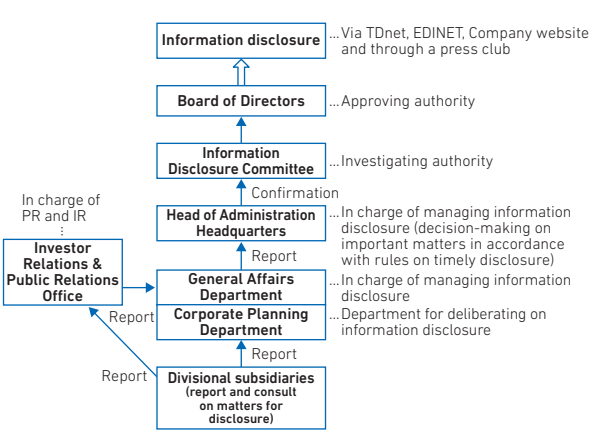
Further, Group companies submit the minutes from all Board of Directors meetings to the Company and make monthly reports on business activities, status of budget implementation, and important matters relating to ensuring the appropriateness of business activities.

## Information management

Kaga Electronics has established the Information Disclosure Committee 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.

Information disclosure system



## 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.





Message from Outside Director

Leveraging my many years of experience in corporate management to contribute to the growth of Kaga Electronics as a global enterprise.

**Akira Tamura**  
Outside Director

- Apr. 1970 Joined the Bank of Japan
- June 1978 Deputy Director of the International Finance Bureau, Ministry of Finance
- Jan. 1998 Director of Information Systems Department, the Bank of Japan
- Apr. 1998 Director of Information System Services Department
- June 2001 Managing Director, Sohgo Security Services Co., Ltd. (ALSOK)
- Apr. 2008 Representative Director and Senior Executive Officer
- July 2011 Advisor to Okigin Economic Research Institute (present position)
- Apr. 2012 Advisor to Niigata Sohgo Security Services Co., Ltd. (ALSOK) (present position)
- June 2015 Director of the Company (present position)

Leveraging experience in corporate management

Since leaving the Bank of Japan, where I worked for many years, I have engaged in the management and business operations of private companies in a variety of fields. When I made the shift to the private sector, I contacted Kaga Electronics and conversed on several occasions with CEO Tsukamoto, who was the president at the time. During our talks, he asked if I was willing to use my years of management experience to assist with the management of Kaga Electronics, which led to my appointment as Outside Director in June 2015. I have built up experience in numerous fields, beginning with finance and including human resource policy, general business and crisis management, and as such, I make best use of my knowledge and expertise in supervising and offering advice to the Company.

To enhance the effectiveness of the Board of Directors

I recognize that the roles of directors are to manage and to monitor, and in doing so, ensuring that management is on the right track and appropriately managing risk. At Board of Directors meetings for Kaga Electronics, the CEO and COO as well as other members conduct open-minded discussions and freely express their

opinions. Agenda items are debated from proactive and defensive points of view at all times, or in other words, from the perspectives of opportunities and risks. This means that items are not necessarily granted approval without further scrutiny. Accordingly, the Board of Directors is by no means a “sleeping board.” In general, companies that do not respond quickly must inevitably deal with small issues each day that may lead to problems in management later on. Kaga Electronics has established a system that helps prevent these problems in advance, and in the event that an issue does arise, the Board of Directors and Management Meeting take decisive action to ascertain the cause, whether it be system-related or technology-related, and ensure that appropriate measures are taken to avoid reoccurrence. In addition, outside directors and outside auditors voice their opinions on financial and nonfinancial risk based on their own experience as part of efforts to minimize risk through multifaceted discussion, including standpoints that tend to get overlooked when the conversation involves only internal executives. In this way, the Board of Directors at Kaga Electronics actively takes into consideration external opinions, demonstrating that it is operating in an appropriate

manner. However, in consideration of future growth, I believe that it is necessary to enhance the diversity of the board, especially in terms of gender and by giving it a more international flavor, while maintaining a suitable balance in the number of members. The composition of the board ought to reflect business strategy more closely as well.

Information provision as the basis for improving effectiveness

I give my opinion on business management in light of the vision expressed by top management so that the Kaga Electronics Group heads in the direction it is aiming for, and the provision of information is an essential precondition for this to occur. This applies both to supervising and giving advice. In the case of Kaga Electronics, an explanation of agenda items is provided by the day prior to Board of Directors meetings, and the required information is shared to ensure understanding of the Company and its business, products and services. The opinions I offer and the questions I raise are then conveyed to the internal divisions in charge without fail, and time is set aside to answer any queries at the Board meeting. In addition, I attend the Management Meetings and Investment Committee meetings held before and after Board meetings to deepen my understanding of the current state of the Group. I also regularly visit business sites and converse with general employees. These opportunities not only aid in my understanding of the measures and initiatives being undertaken in each division but also provide an insight into the motivations of young employees as they carry out their work. The opportunities allow me to talk about my experiences and my philosophies as well. In this way, I can expand my sphere of activity, which helps me to see things that are otherwise hidden when focusing solely on explanations, reports and materials provided by managers. I also get a



good feeling of the extent to which the philosophies of top management are permeating the Group.

Fostering leaders of the next generation

One figure looms large as a feature of the Kaga Electronics Group’s history. CEO Tsukamoto founded Kaga Electronics about 50 years ago literally from nothing and grew the business from its domestic roots into an international enterprise through a strong will and unrelenting hard work, which have resulted in the position the Company enjoys today. The CEO is a very charismatic person with great breadth of vision, foresightedness, and a sense of direction, but he is also a very attentive person and listens carefully to the opinions of others. He is by no means a dictatorial executive. He entrusts his COO and executives with what he ought to in his bid for sustainable growth. Nonetheless, it is still important to continue laying a solid platform that fosters candidates to take over positions and serve as business executives with a view 10 and 20 years into the future of the Group. The next generation must carry on the spirit of dedication to the Company and the motivation for this business and take charge of management with a real sense of responsibility to achieve continued growth. I believe it is my mission to provide support from a range of aspects in making this a reality, and I fully intend to fulfill my role of providing suitable advice as Outside Director.

Permeating KAGAism and contributing to corporate growth

A booklet on KAGAism, which epitomizes the Company’s management philosophy, includes the statement, “Make TAXAN effort to gain TAXAN profit, and become TAXAN happy (a play on words in the original Japanese, since *takusan* means ‘much,’ ‘large’ or ‘very’).” I am confident that the implementation of Kaga Electronics’ corporate philosophy, “Everything we do is for our customers,” will lead to greater utilization of and advancement in electronics. I believe this will be of benefit to customers, the Company, myself and society in general. To accomplish this, it is essential for each employee to have feelings of gratitude toward customers and to continue providing new value that meets their needs. Speaking from experience, I know that there are many obstacles to face in work, both big and small, but I also know that the feeling of joy and achievement when these hindrances are overcome is huge and leads to the growth not only of oneself but also one’s colleagues, team and the Company as a whole. I intend to actively communicate this idea to employees of the Group and support its ongoing growth into the future.

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 in the Group’s factories.



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

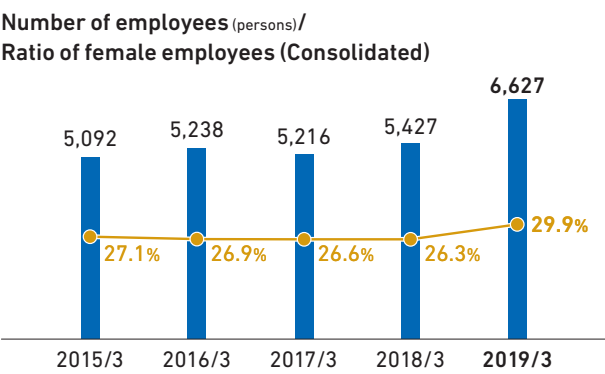
Together with our employees

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.

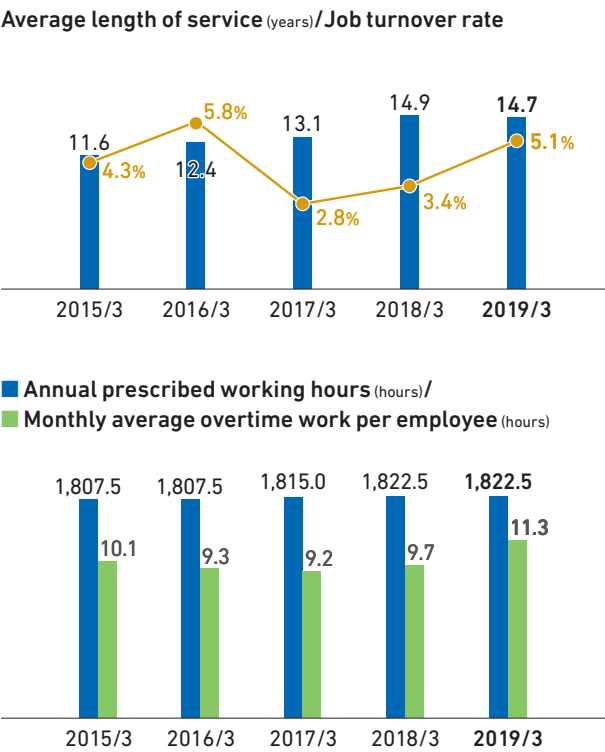


To create a safe work environment

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 leave every year to all employees, which is separate from normal paid leave. We have also established an accumulated leave system for the three major diseases (cancer, cerebral stroke and acute myocardial infarction) as compensation for hospitalization after contracting a serious disease and for missing work when recuperating, as well as hourly paid leave system. Further, 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 2018

Contributing to the development of golf

Five professional golfers, both male and female, are on the books at Kaga Electronics, including Eimi Koga, who signed on as a member of the Company in 2019. 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 sponsored by Kaga Electronics



One of the Company's golf schools



One of our golf driving ranges



One of our golf shops

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 Mexico teams up with a local elementary school to undertake community-based activities that include a volunteer program to plant trees aimed at increasing greenery and making the air cleaner.



Planting trees in Mexico

Education, art and culture related activities

Kaga Electronics supports the Kyogen-inspired opera "The Marriage of Figaro," which is co-sponsored by the Ministry of Foreign Affairs, and Hamamatsu Jazz Week held in Hamamatsu City, Shizuoka Prefecture. 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.



Kyogen-inspired opera "The Marriage of Figaro"



Hamamatsu Jazz Week



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 CO<sub>2</sub> 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.

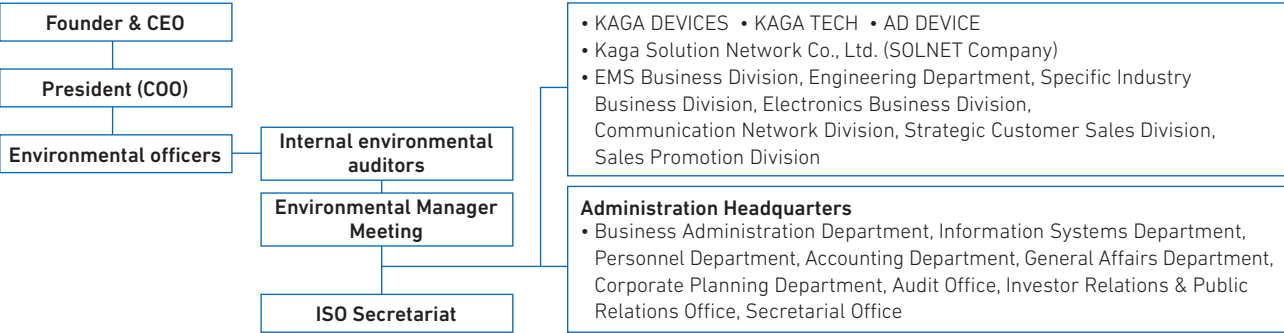
- 4
- We shall set targets for the following requirements to the extent possible for the products and services that the Kaga Electronics Group handles and regularly review the progress of our activities.
  - Must be comprised of environmentally friendly substances
  - Must be able to cut waste through 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

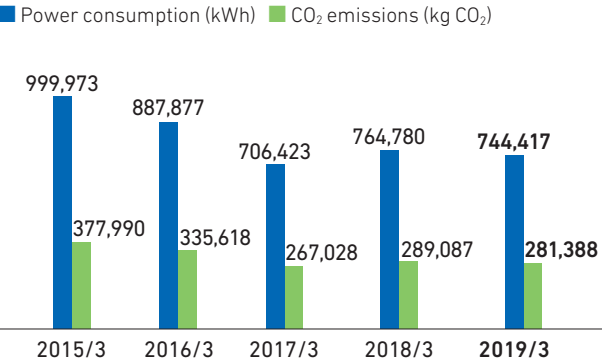
Reduction of CO<sub>2</sub> emissions

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 CO<sub>2</sub> 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 CO<sub>2</sub> 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.

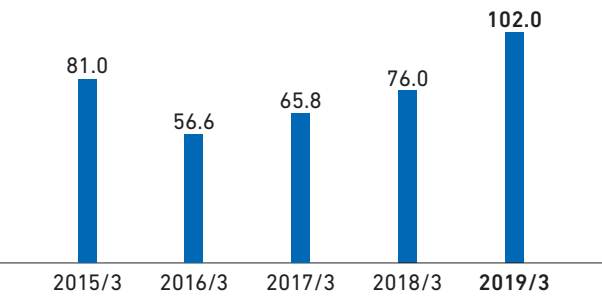
Although the number of reused units decreased in the year to March 2016 following unusually high demand the previous year, the figure rebounded gradually thereafter, and in the year to March 2019, actually increased by 34% year on year.

In addition to “reduce programs” that look especially at cutting CO<sub>2</sub> 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

	2010/3	2011/3	2012/3		2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3
Fiscal year											
Net sales (millions of yen)	239,391	237,811	229,856		216,405	257,852	255,143	245,387	227,209	235,921	292,779
Gross profit (millions of yen)	28,237	30,512	28,506		27,462	32,522	32,738	33,648	31,225	32,498	35,546
Operating income (millions of yen)	1,582	3,423	2,067		1,260	5,106	6,362	7,788	6,879	8,119	7,570
Ordinary income (millions of yen)	1,280	3,598	2,569		1,931	5,847	7,664	7,908	7,343	8,740	7,859
Profit attributable to owners of the parent (millions of yen)	-318	1,768	914		444	3,877	4,416	5,437	6,975	6,490	8,014
Cash flows from operating activities (millions of yen)	5,728	6,321	958		7,041	3,334	9,127	9,546	10,746	10,077	-1,547
Cash flows from investing activities (millions of yen)	-3,040	-6,369	-2,645		-4,910	-3,339	-1,465	-1,263	-258	-4,173	-6,860
Free cash flow (millions of yen)	2,687	-47	-1,686		2,131	-5	7,661	8,283	10,487	5,904	-8,408
Cash flows from financing activities (millions of yen)	-2,307	478	-242		-403	1,024	-4,431	-3,067	-6,118	-2,811	11,684
Depreciation (millions of yen)	2,050	1,578	2,181		2,303	2,418	1,907	1,604	1,452	1,481	1,740
Capital expenditures/Investment and loans (millions of yen)	3,960	6,536	2,999		3,398	4,087	2,649	2,166	1,464	4,520	6,426
Fiscal year end											
Total assets (millions of yen)	113,962	114,599	114,714		111,888	126,028	127,948	124,281	125,751	128,755	213,761
Net assets (millions of yen)	48,553	48,512	47,936		48,806	52,825	59,603	61,808	65,932	70,631	84,259
Equity (millions of yen)	46,841	46,848	46,410		48,656	52,786	59,564	61,764	65,872	70,556	76,604
Interest bearing debts (millions of yen)	11,506	13,450	14,349		15,089	17,244	14,573	12,739	9,805	8,900	32,851
Cash and cash equivalents (millions of yen)	11,797	11,796	9,695		11,878	13,361	17,569	21,879	26,021	28,879	32,231
Per share data											
EPS (yen)	-11.55	64.07	33.13		16.09	137.22	156.28	192.43	249.43	236.58	292.07
Annual dividend (yen)	30.00	30.00	30.00		30.00	35.00	40.00	55.00	60.00	70.00	80.00
Payout ratio (%)	-	46.8	90.5		186.5	25.5	25.6	28.6	24.1	29.6	27.4
BPS (yen)	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	2,790.97
Major indicators											
Gross profit margin (%) *1	11.8	12.8	12.4		12.7	12.6	12.8	13.7	13.7	13.8	12.1
Operating income margin (%) *2	0.7	1.4	0.9		0.6	2.0	2.5	3.2	3.0	3.4	2.6
Ordinary income margin (%) *3	0.5	1.5	1.1		0.9	2.3	3.0	3.2	3.2	3.7	2.7
Profit attributable to owners of the parent margin (%)	-0.1	0.7	0.4		0.2	1.5	1.7	2.2	3.1	2.8	2.7
ROE (%) *4	-0.7	3.8	2.0		0.9	7.6	7.8	9.0	10.9	9.5	10.9
ROA (%) *5	-0.3	1.5	0.8		0.4	3.3	3.5	4.3	5.6	5.1	4.7
Equity ratio (%)	41.1	40.9	40.5		43.5	41.9	46.6	49.7	52.4	54.8	35.8
Debt equity ratio (times) *6	0.25	0.29	0.31		0.31	0.33	0.24	0.21	0.15	0.13	0.43
Inventories (millions of yen)	18,141	19,519	21,554		18,779	21,219	22,703	19,175	19,325	19,455	40,026
Inventory turnover period (days) *7	31.4	34.4	39.1		36.3	34.4	37.3	33.1	36.0	34.9	40.7

\*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 the parent/Average equity × 100 (%)  
\*5 ROA=Profit attributable to owners of the parent/Average total assets × 100 (%)  
\*6 Debt equity ratio=Interest bearing debts/Equity (times)  
\*7 Inventory turnover period=Inventory/(Cost of sales/365) (days)

# Analysis of Financial Condition and Results of Operations

Fiscal year ended March 31, 2019

## Analysis of financial condition

Total assets as of March 31, 2019 increased by ¥85,005 million from the previous fiscal year-end to ¥213,761 million. Main items are as follows.

### Current assets

Current assets increased by ¥78,326 million from the previous fiscal year-end to ¥182,396 million. This is largely due to an increase of ¥50,335 million in notes and accounts receivables — trade and an increase of ¥18,673 million in merchandise and finished goods, reflecting the significant impact of the conversion of Fujitsu Electronics to a subsidiary.

### Non-current assets

Non-current assets increased by ¥6,678 million from the previous fiscal year-end to ¥31,364 million. This is mainly a result of an increase of ¥1,304 million in software.

### Total liabilities

Liabilities increased by ¥71,378 million from the previous fiscal year-end to ¥129,501 million. This is primarily attributed to an increase of ¥25,270 million in short-term loans payable due to procurement of funds notably for the purchase of Fujitsu Electronics shares, and an increase of ¥41,491 million in notes and accounts payable — trade.

### Total net assets

Net assets increased by ¥13,627 million from the previous fiscal year-end to ¥84,259 million. This is primarily attributed to an increase of ¥6,113 million in retained earnings and an increase of ¥7,579 million in non-controlling interests resulting largely from the conversion of Fujitsu Electronics to a subsidiary.

### Profit attributable to owners of the parent

As a result, profit before income taxes increased by ¥349 million from the previous fiscal year to ¥9,649 million. After deducting income taxes — current, income taxes — deferred and profit attributable to non-controlling interests, profit attributable to owners of the parent increased by ¥1,523 million from the previous fiscal year to ¥8,014 million, a record high for the first time in 13 years, exceeding the ¥7,272 million recorded in the fiscal year ended March 2006.

Earnings per share increased by ¥55.49 from the previous fiscal year to ¥292.07.

## Analysis of capital resources and cash liquidity

### Cash flows

The balance of cash and cash equivalents on a consolidated basis as of March 31, 2019 increased by ¥3,352 million from March 31, 2018 to ¥32,231 million. The status and factors thereof for each cash flow category in the fiscal year ended March 31, 2019 are as follows.

#### Cash flow from operating activities

Net cash and cash equivalents used in operating activities totaled ¥1,547 million. This was mainly due to a decrease of ¥6,746 million in notes and accounts payable — trade.

#### Cash flow from investing activities

Net cash and cash equivalents used in investing activities totaled ¥6,860 million. The decrease was mainly due to cash outflow of ¥3,027 million for purchases of property, plant and equipment.

#### Cash flow from financing activities

Net cash and cash equivalents provided by financing activities totaled ¥11,684 million. This was mainly due to an increase of ¥15,137 million in short-term loans payable.

### Funding requirements

The main elements of working capital requirements are operating expenses such as purchases of raw materials and components, manufacturing costs, and selling, general and administrative expenses. Funding requirements for investment purposes are largely in connection with capital expenditures and costs of M&As for acquisitions of new businesses and commercial rights.

### Financial policy

With respect to procurement of short-term working capital, the basic stance is to work on achieving optimal capital efficiency within the Group before resorting to borrowings from financial institutions. With respect to procurement of funds for M&As, capital expenditures and long-term working capital, the basic stance is to conduct optimal procurement from among the various methods available extending from direct to indirect financing, with due consideration given to financial condition at the time of procurement as well as to term and purpose of funding requirement.

## Analysis of business performance

Guided by its corporate philosophy of “Everything we do is for our customers,” the Group in the fiscal year ended March 31, 2019 further expanded its overseas production bases in response to calls from customers, while in Japan, the Group focused its efforts on expansion of the EMS business including measures to enhance domestic production facilities and functions. In January 2019, the Group solidified its foothold for further growth by converting Fujitsu Electronics to a subsidiary. As a result, net sales came to ¥292,779 million, an increase of 24.1% from the previous fiscal year, while ordinary income decreased by 10.1% from the previous fiscal year to ¥7,859 million. Net sales in Japan increased by 21.0% from the previous fiscal year to ¥180,306 million, and overseas net sales increased by 29.4% to ¥112,473 million.

### Cost of sales, selling, general and administrative expenses

Cost of sales increased by ¥53,810 million from the previous fiscal year to ¥257,233 million. Ratio of cost

of sales to net sales was 87.9%. Selling, general and administrative expenses increased by ¥3,596 million from the previous fiscal year to ¥27,976 million. Increase in selling, general and administrative expenses is attributable primarily to an increase of upfront expenses for the start-up of new overseas factories.

### Non-operating income and expenses

Non-operating income of ¥289 million (net) was recorded, a decrease of ¥331 million from the previous fiscal year. The decrease was mainly due to increase in foreign exchange losses.

### Extraordinary income and loss

Extraordinary income of ¥2,403 million was recorded reflecting notably ¥2,164 million in gain on negative goodwill associated with the conversion of Fujitsu Electronics to a subsidiary. Extraordinary loss of ¥614 million was recorded, including ¥550 million in loss on valuation of investment securities.



## Financial and Corporate Information

# Consolidated Balance Sheet

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries  
At March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note)
<u>ASSETS</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>
CURRENT ASSETS:			
Cash and bank deposits	¥ 30,803	¥ 35,003	\$ 315,376
Notes and accounts receivable-trade	45,809	96,145	866,252
Electronically recorded monetary claims	4,032	5,361	48,308
Short-term investment securities	295	261	2,357
Merchandise and finished goods	15,060	33,734	303,938
Work in process	575	489	4,410
Raw materials and supplies	3,818	5,802	52,278
Others	3,807	5,894	53,104
Allowance for doubtful accounts	(133)	(296)	(2,667)
Total CURRENT ASSETS	<u>104,069</u>	<u>182,396</u>	<u>1,643,361</u>
NONCURRENT ASSETS:			
PROPERTY, PLANT AND EQUIPMENT			
Buildings and structures	8,102	9,436	85,024
Accumulated depreciation	<u>(3,232)</u>	<u>(4,526)</u>	<u>(40,780)</u>
Buildings and structures, net	4,870	4,910	44,243
Machinery, equipment and vehicles	6,315	8,266	74,481
Accumulated depreciation	<u>(3,731)</u>	<u>(4,760)</u>	<u>(42,892)</u>
Machinery, equipment and vehicles, net	2,583	3,506	31,589
Tools, furniture and fixtures	3,556	5,119	46,129
Accumulated depreciation	<u>(2,846)</u>	<u>(4,015)</u>	<u>(36,175)</u>
Tools, furniture and fixtures, net	709	1,104	9,954
Land	4,036	4,861	43,799
Construction in progress	10	628	5,660
Total PROPERTY, PLANT AND EQUIPMENT	<u>12,210</u>	<u>15,011</u>	<u>135,248</u>
INTANGIBLE ASSETS			
Goodwill	317	259	2,340
Software	515	1,819	16,397
Others	46	126	1,139
Total INTANGIBLE ASSETS	<u>878</u>	<u>2,206</u>	<u>19,878</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities	8,688	10,085	90,867
Deferred tax assets	530	1,292	11,648
Guarantee deposits	657	870	7,845
Insurance funds	943	951	8,574
Others	1,363	1,462	13,172
Allowance for doubtful accounts	(587)	(515)	(4,647)
Total INVESTMENTS AND OTHER ASSETS	<u>11,595</u>	<u>14,147</u>	<u>127,462</u>
Total NONCURRENT ASSETS	<u>24,685</u>	<u>31,364</u>	<u>282,588</u>
Total ASSETS	<u>¥ 128,755</u>	<u>¥ 213,761</u>	<u>\$ 1,925,949</u>

	Millions of Yen		Thousands of U.S. Dollars (Note)
<u>LIABILITIES</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>
CURRENT LIABILITIES:			
Notes and accounts payable-trade	¥ 36,392	¥ 77,884	\$ 701,726
Short-term loans payable	5,385	30,656	276,209
Accrued expenses	3,711	5,307	47,816
Income taxes payable	901	1,147	10,340
Provision for directors' bonuses	247	105	953
Others	3,068	6,239	56,212
Total CURRENT LIABILITIES	<u>49,707</u>	<u>121,340</u>	<u>1,093,257</u>
NONCURRENT LIABILITIES:			
Long-term loans payable	3,161	1,882	16,960
Deferred tax liabilities	1,276	1,300	11,715
Provision for directors' retirement benefits	1,264	94	852
Net defined benefit liabilities	1,737	1,997	17,995
Asset retirement obligations	175	280	2,525
Others	800	2,606	23,481
Total NONCURRENT LIABILITIES	<u>8,416</u>	<u>8,161</u>	<u>73,530</u>
Total LIABILITIES	<u>58,123</u>	<u>129,501</u>	<u>1,166,788</u>
NET ASSETS:			
SHAREHOLDERS' EQUITY			
Capital stock	12,133	12,133	109,321
Capital surplus	13,853	13,865	124,927
Retained earnings	45,183	51,297	462,177
Treasury stock	<u>(2,042)</u>	<u>(2,024)</u>	<u>(18,236)</u>
Total SHAREHOLDERS' EQUITY	<u>69,127</u>	<u>75,272</u>	<u>678,189</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Changes in the fair value of available-for-sale securities	1,504	1,018	9,173
Deferred gains or losses on hedges	(16)	2	19
Foreign currency translation adjustment	148	527	4,748
Remeasurements of defined benefit obligations	<u>(208)</u>	<u>(215)</u>	<u>(1,939)</u>
Total ACCUMULATED OTHER COMPREHENSIVE INCOME	<u>1,428</u>	<u>1,332</u>	<u>12,001</u>
Non-controlling interests	75	7,654	68,969
Total NET ASSETS	<u>70,631</u>	<u>84,259</u>	<u>759,160</u>
Total LIABILITIES AND NET ASSETS	<u>¥ 128,755</u>	<u>¥ 213,761</u>	<u>\$ 1,925,949</u>

Note : 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 ¥110.99 to \$1, the rate of exchange at March 31, 2019.

## Financial and Corporate Information

# Consolidated Statement of Income and Comprehensive Income

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries  
For the Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note)
	2018	2019	2019
Net sales	¥ 235,921	¥ 292,779	\$ 2,637,894
Cost of sales	203,423	257,233	2,317,627
Gross profit	32,498	35,546	320,267
Selling, general and administrative expenses	24,379	27,976	252,059
Operating income	8,119	7,570	68,207
NON-OPERATING INCOME			
Interest income	124	174	1,568
Dividend income	119	175	1,580
Commission fee	279	209	1,890
Foreign exchange gains	44	-	-
House rent income	99	106	962
Others	228	349	3,150
Total NON-OPERATING INCOME	896	1,015	9,151
NON-OPERATING EXPENSES			
Interest expenses	132	200	1,806
Share of loss of entities accounted for using equity method	111	194	1,748
Foreign exchange losses	-	177	1,601
Others	32	153	1,385
Total NON-OPERATING EXPENSES	275	726	6,542
Ordinary income	8,740	7,859	70,817
EXTRAORDINARY INCOME			
Gain on sales of property, plant and equipment	28	17	154
Gain on sales of investment securities	591	215	1,941
Gain on negative goodwill	-	2,164	19,500
Gain on sales of shares of subsidiaries	467	-	-
Gain on transfer of business	12	7	63
Total EXTRAORDINARY INCOME	1,101	2,403	21,658
EXTRAORDINARY LOSS			
Loss on disposal of property, plant and equipment	7	16	144
Impairment loss	228	31	281
Loss on sales of investment securities	24	2	25
Loss on valuation of investment securities	269	550	4,960
Loss on valuation of golf club membership	6	6	54
Others	5	8	73
Total EXTRAORDINARY LOSS	¥ 541	¥ 614	\$ 5,539

	Millions of Yen		Thousands of U.S. Dollars (Note)
	2018	2019	2019
Income before income taxes	¥ 9,300	¥ 9,649	\$ 86,936
Income taxes-current	1,840	1,477	13,307
Income taxes-deferred	952	120	1,085
Total income taxes	2,792	1,597	14,393
Net income	6,507	8,051	72,543
Profit attributable to owners of the parent	6,490	8,014	72,208
Profit attributable to non-controlling interests	16	37	335
OTHER COMPREHENSIVE INCOME			
Changes in the fair value of available-for-sale securities	345	(489)	(4,411)
Deferred gains or losses on hedges	(16)	18	165
Foreign currency translation adjustment	(273)	307	2,774
Remeasurements of defined benefit obligations, net of tax	(17)	9	86
Share of other comprehensive income of entities accounted for using equity method	-	(49)	(444)
Total OTHER COMPREHENSIVE INCOME	37	(203)	(1,829)
Comprehensive income	¥ 6,544	7,848	\$ 70,713
Comprehensive income attributable to:			
Owners of the parent	¥ 6,528	¥ 7,801	\$ 70,287
Non-controlling interests	16	47	426

Note : 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 ¥110.99 to \$1, the rate of exchange at March 31, 2019.



## Consolidated Statement of Cash Flows

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries  
For the Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	(Note) 2019
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income before income taxes	¥ 9,300	¥ 9,649	\$ 86,936
Depreciation and amortization	1,481	1,740	15,678
Impairment loss	228	31	281
Amortization of goodwill	88	85	767
Increase (Decrease) in net defined benefit liability	40	(58)	(524)
Increase (Decrease) in provision for directors' retirement benefits	41	(4)	(41)
Increase (Decrease) in provision for directors' bonuses	43	(160)	(1,443)
(Decrease) Increase in allowance for doubtful accounts	(85)	53	486
Interest and dividend income	(244)	(351)	(3,162)
Interest expenses	132	200	1,806
Share of profit of entities accounted for using equity method	111	194	1,748
Gain on sales of shares of subsidiaries	(467)	-	-
Gain on sales of property, plant and equipment	(23)	(10)	(91)
Loss on retirement of property, plant and equipment	7	16	144
Gain on sales of investment securities	(567)	(212)	(1,915)
Loss on valuation of investment securities	269	550	4,960
Gain on negative goodwill	-	(2,164)	(19,500)
Decrease (Increase) in notes and accounts receivable-trade	2,076	(1,152)	(10,380)
Increase in inventories	(226)	(2,145)	(19,331)
Decrease in notes and accounts payable-trade	(1,101)	(6,746)	(60,782)
Decrease (Increase) in accounts receivable-other	1,087	(207)	(1,868)
Increase in accrued expenses	338	552	4,977
(Increase) Decrease in advance payments	(135)	292	2,635
Increase in consumption taxes refund receivable	(163)	(2)	(21)
Increase in other current assets	(88)	(191)	(1,728)
(Decrease) Increase in other current liabilities	(362)	276	2,489
Others, net	(47)	135	1,222
Subtotal	11,734	371	3,343
Interest and dividend income received	242	349	3,151
Interest expenses paid	(130)	(189)	(1,709)
Income taxes paid	(1,770)	(2,078)	(18,728)
Others, net	2	0	3
Net cash provided by (used in) operating activities	¥ 10,077	¥ (1,547)	\$ (13,940)

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	(Note) 2019
NET CASH USED IN INVESTING ACTIVITIES			
Payments for time deposits	¥ (2,773)	¥ (2,661)	\$ (23,979)
Proceeds from withdrawal of time deposits	1,158	1,944	17,522
Purchase of property, plant and equipment	(1,678)	(3,027)	(27,281)
Proceeds from sales of property, plant and equipment	87	111	1,005
Purchase of intangible assets	(360)	(420)	(3,788)
Purchase of investment securities	(2,481)	(2,977)	(26,829)
Proceeds from sales of investment securities	1,331	575	5,182
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(286)	(2,578)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	504	-	-
Payments of short-term loans receivable	(1)	(2)	(22)
Collection of short-term loans receivable	1	3	27
Purchase of insurance funds	(15)	(13)	(119)
Proceeds from cancellation of insurance funds	14	10	97
Payments for guarantee deposits	(58)	(29)	(261)
Proceeds from collection of guarantee deposits	136	25	229
Other payments	(74)	(125)	(1,129)
Other proceeds	36	12	111
Net cash used in investing activities	(4,173)	(6,860)	(61,814)
NET CASH USED IN FINANCING ACTIVITIES			
Increase in short-term loans payable	825	15,137	136,385
Repayment of long-term loans payable	(1,641)	(1,269)	(11,435)
Purchase of treasury stock	(2)	(1)	(10)
Cash dividends paid	(1,780)	(2,054)	(18,511)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(58)	-	-
Others, net	(153)	(127)	(1,151)
Net cash (used in) provided by financing activities	(2,811)	11,684	105,277
Effect of exchange rate change on cash and cash equivalents	(234)	75	681
Net increase in cash and cash equivalents	2,857	3,352	30,203
Cash and cash equivalents-beginning balance	26,021	28,879	260,197
Cash and cash equivalents-ending balance	¥ 28,879	¥ 32,231	\$ 290,401

Note : 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 ¥110.99 to \$1, the rate of exchange at March 31, 2019.

Financial and Corporate Information

# Corporate Information

As of March 31, 2019

## 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	55 (16 in Japan, 36 overseas and three accounted for by the equity method)



## Board members

As of June 27, 2019

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

## Executive Officers




As of June 27, 2019

Shoji Seki	President of KAGA SPORTS CO., LTD.
Hiroki Suzuki	Division Director of Specific Industry Business Division
Takeshi Tsukamoto	Director and Senior Executive Officer of Fujitsu Electronics Inc.
Takao Okabe	Supervisor of China Headquarters
Mitsuhito Ikeda	President of KAGA SOLUTION NETWORK CO., LTD.
Hiroaki Maruyama	Deputy Division Director of Administration Headquarters
Kazuhira Watanabe	Division Director of Communication Network Sales Division
Takahiro Urazawa	President of DIGITAL MEDIA LAB., INC.
Hironaga Nagasaka	Supervisor of ASEAN Headquarters
Yasuhiro Ishihara	Director and Managing Executive Officer of Fujitsu Electronics Inc.
Katsutoshi Suzuki	Division Director of Sales Promotion Division and President of KAGA (KOREA) ELECTRONICS CO., LTD.
Satoshi Eguchi	President of KAGA MICRO SOLUTION CO., LTD.

## Major affiliates in Japan

<b>Fujitsu Electronics Inc.</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 TECH 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 DEVICES CO., LTD.</b> Sale of electronic parts and electronic equipment, 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.
<b>KAGA SOLUTION NETWORK CO., LTD.</b> Development, design, construction and maintenance of computer network systems, etc.		

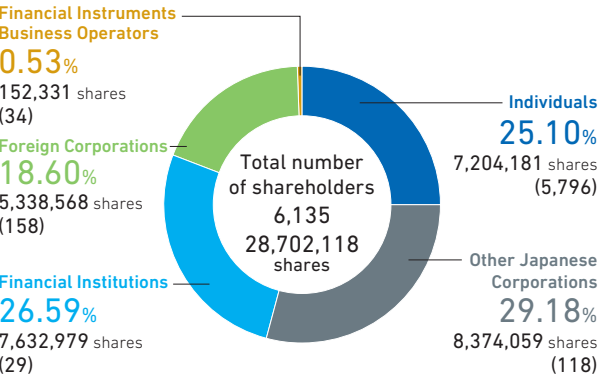
## Major affiliates overseas

<b>China</b>	<b>Asia</b>
 KAGA (SHENZHEN) ELECTRONICS CO., LTD.	 KAGA (H.K.) ELECTRONICS LIMITED
 KAGA TAXAN (SUZHOU) ELECTRONICS CO., LTD.	 KAGA COMPONENTS (MALAYSIA) SDN.BHD.
 KAGA (SHANGHAI) ELECTRONICS CO., LTD.	
<b>Asia</b>	<b>North America</b>
 KAGA ELECTRONICS (THAILAND) COMPANY LIMITED	 KAGA ELECTRONICS (USA) INC.
	 TAXAN MEXICO, S.A. DE C.V.
	<b>Europe</b>
	 KD TEC s.r.o.
	 Fujitsu Electronics Europe GmbH

## 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	6,135

## Breakdown by type of shareholder



## Principal shareholders

Name	Number of shares held (thousand shares)	Percentage of total shares issued (%)
SANKYO CO., LTD.	3,824	13.93
OKOZE CO., LTD.	1,840	6.70
Japan Trustee Services Bank, Ltd. (Trust Account)	1,346	4.90
MUFG Bank, Ltd.	1,212	4.42
Kaga Electronics Employee Shareowners Association	1,117	4.07
The Master Trust Bank of Japan, Ltd. (Trust Account)	986	3.59
Mizuho Bank, Ltd.	950	3.46
Isao Tsukamoto	733	2.67
Oki Electric Industry Co., Ltd.	526	1.92
NORTHERN TRUST CO.(AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	505	1.84

Notes: 1. The number of shares held have been rounded down to the nearest thousand shares.  
2. In addition to the above, there are 1,252 thousand shares of treasury stock.  
3. Percentage of total shares issued is calculated after excluding treasury stock.  
4. The number of shares held by Japan Trustee Services Bank, Ltd. (Trust Account) and The Master Trust Bank of Japan, Ltd. (Trust Account) are the sums of the number of shares held by the trust business of each bank.