

Kaga Electronics Group  
Integrated Report

2023



TAXAN V, a retreat facility owned by the Kaga Electronics Group



Contact: Investor Relations & Public Relations Department

20 Kandamatsunagacho, Chiyoda-ku, Tokyo 101-8629, Japan

Tel: +81-3-5657-0106

Fax: +81-3-3254-7133

Email: [webmaster@taxan.co.jp](mailto:webmaster@taxan.co.jp)

Web: <https://www.taxan.co.jp/en/>





# INDEX

Corporate Philosophy	2	<b>[Human Capital-related Initiatives]</b> Putting “People Are Our Greatest Asset” into Practice	37
<b>The Origins of the Kaga Electronics Group</b>			
The Timeline of Our Growth Driven by the Kaga Spirit	3	Together with Our Employees	39
Value Creation Process	5	Together with Our Customers	41
Value Creation Model	7	Together with the Community	42
<b>Message from the CEO</b>	<b>9</b>	Together with the Earth	43
<b>Message from the COO</b>	<b>11</b>	<b>Financial Highlights</b>	<b>45</b>
Progress of the Medium- to Long-Term Sustainability Management Plan	17	<b>Business Segment Overview</b>	
<b>Message from the CFO</b>	<b>19</b>	Electronic Components	46
<b>Special Feature</b>		Information Equipment	47
The Kaga Electronics Group’s Growth Drivers	21	Software Business / Other Business	48
<b>[Initiatives Related to the EMS Business]</b> Reaching New Stages of Growth through the Maximization of Our Unique Strength	24	<b>Financial and Corporate Information</b>	
<b>Roundtable Discussion of Outside Directors</b>	<b>27</b>	11-Year Financial Summary	49
<b>ESG Information</b>		Analysis of Financial Condition and Results of Operations	51
Corporate Governance	31	Consolidated Balance Sheet	53
Internal Control / Compliance	34	Consolidated Statement of Income and Comprehensive Income	55
Directors and Auditors	35	Consolidated Statement of Cash Flows	56
		Corporate Information	57

## Period covered

This report covers the fiscal period from April 1, 2022 to March 31, 2023, with the exception of certain areas in which there is information prior and subsequent to these dates, as is 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 63 consolidated subsidiaries (22 in Japan and 41 overseas). All such companies are included in the scope of the Company’s consolidated accounting, except where stated.

Notation and coverage of the Company: Kaga Electronics Co., Ltd.  
The Group: Kaga Electronics Co., Ltd. and its 63 consolidated subsidiaries  
Domestic facilities: Kaga Electronics Co., Ltd. and its 22 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.

## Corporate Philosophy

# Everything we do is for our customers

Founded about 50 years ago, Kaga Electronics Co., Ltd. had very humble beginnings, 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.



# The Timeline of Our Growth Driven by the Kaga Spirit

## The 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 KAGA-ism, 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

In order to ensure our ability to quickly seize opportunities amid a changing business environment full of future uncertainty, it is important to have a corporate culture that makes maximum use of the individual capabilities of our personnel. 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 each order for products after receiving an order from a customer. This gave birth to the idea that "inventory is a liability," which has evolved into a currently held principle for how we receive and place 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." Pursuing aggressive M&A activities 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.

## Achieving Business Expansion by Swiftly Adapting to Changes

Having started out as a handyman business based in Akihabara, Tokyo, with an office space of less than 7 m<sup>2</sup>, we achieved business expansion thanks to surging electronics parts demand in the wake of rapidly growing popularity of CB transceivers and the arcade game "Space Invaders" in the 1970s. In 1980, our net sales exceeded ¥10 billion. Moreover, in 1983, we became a supplier of mask ROMs for use in the Famicom, a mega-hit gaming console, thus making an entry into the field of game software for household gaming devices.

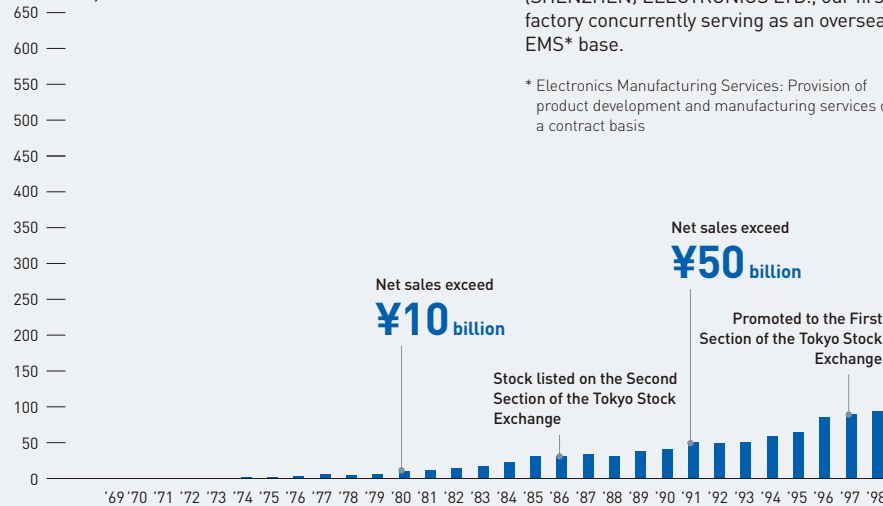
## Pursuing Proactive Global Expansion since the 1980s

In 1981, our TAXAN brand monitors, developed in-house for use with Apple computers, achieved considerable sales at home and abroad. Building on this success, we launched our first overseas base in the United States and, in 1985, established another in the United Kingdom, significantly accelerating the pace of our overseas expansion. In 1986, KAGA ELECTRONICS stock was listed on the Second Section of the Tokyo Stock Exchange. In the 1990s, we began proactively penetrating Asian markets outside Japan, securing our first regional foothold in Hong Kong in 1992. In 1995, we entered the Taiwanese market, which, in turn, contributed to a major sales increase. In 1997, our listing on the Tokyo Stock Exchange was promoted to the First Section. In 1999, we launched KAGA (SHENZHEN) ELECTRONICS LTD., our first factory concurrently serving as an overseas EMS\* base.

\* Electronics Manufacturing Services: Provision of product development and manufacturing services on a contract basis

### Net sales

(Billions of yen)



### Since 1968

Sep. 1968	KAGA ELECTRONICS CO., LTD. founded at 3-8-3 Soto-Kanda, Chiyoda-ku, Tokyo, with paid-in capital of ¥1 million
Mar. 1980	Net sales exceed ¥10 billion
Jul. 1981	TSK ELECTRONICS CORPORATION established in the United States (liquidated in Oct. 2004)
Dec. 1985	Stock registered on the Japan Securities Dealers Association as an over-the-counter company TAXAN (UK) LTD. established in the UK (liquidated in Aug. 2007)
Dec. 1986	Stock listed on the Second Section of the Tokyo Stock Exchange

### 1990–

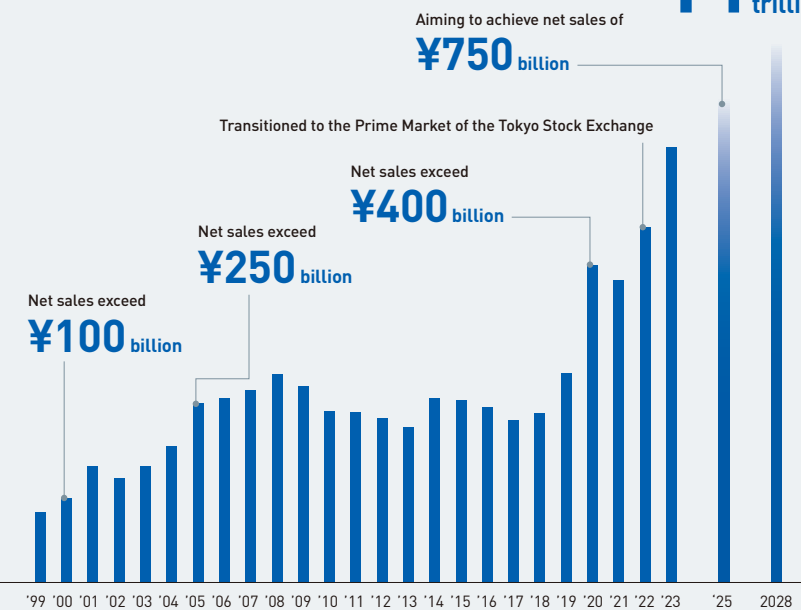
Mar. 1991	Net sales exceed ¥50 billion
Jun. 1992	KAGA (H.K.) ELECTRONICS LIMITED established in Hong Kong
Jul. 1994	KAGA (SINGAPORE) ELECTRONICS PTE. LTD. established in Singapore
Feb. 1995	KAGA (KOREA) ELECTRONICS CO., LTD. established in the Republic of Korea (Merged with KAGA FEI KOREA Ltd. in Sept. 2021)
Dec. 1995	KAGA (TAIWAN) ELECTRONICS CO., LTD. established in Taiwan
Sep. 1997	Promoted to the First Section of the Tokyo Stock Exchange
Jul. 1999	KAGA (SHENZHEN) ELECTRONICS LTD. established in China

## Proactively Securing Overseas EMS Production Bases and Executing M&A from the 2000s onward

Entering the 2000s, we expanded our overseas network of EMS production bases, which had previously been centered in China, by establishing facilities in Malaysia, Thailand, the Czech Republic, Indonesia, Mexico, Vietnam, Turkey, and India. In Thailand, we eventually built two bases. At the same time, the number of our bases in China grew to four. During the course of these endeavors, our net sales exceeded ¥100 billion in 2001 and ¥250 billion in 2006. From 2019 onward, we executed a rapid series of M&As, with KAGA FEI CO., Ltd., KAGA EMS TOWADA CO., LTD., EXCEL CO., LTD. and Kyokuto Electric CO., Ltd. made into Group companies. In our pursuit of M&As over the past several years, we have now entered a second growth phase and are aiming for net sales of ¥750 billion in 2025 on the road to net sales of ¥1 trillion in 2028, the 60th anniversary of our founding.

Aiming to achieve target net sales of

**¥1 trillion**

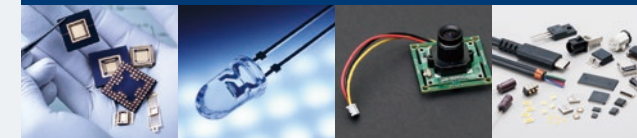


### From 2000 onward

Jun. 2000	KAGA COMPONENTS (MALAYSIA) SDN. BHD. established in Malaysia
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 (Merged with KAGA FEI AMERICA, Inc. in Apr. 2022)
Aug. 2006	KAGA (DALIAN) ELECTRONICS CO., LTD. established in China
Apr. 2009	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
Jul. 2017	KAGA ELECTRONICS (VIETNAM) CO., LTD. established in Vietnam
Apr. 2018	KD TEC TURKEY ELEKTRONIK SANAYI VE TICARET LIMITED SIRKETI established in Turkey
Sep. 2018	KAGA ELECTRONICS (INDIA) PRIVATE LIMITED established in India
Jan. 2019	Fujitsu Electronics Inc. (currently KAGA FEI Co., Ltd.) made into a Group company
Oct. 2019	Towada Pioneer Corporation (currently KAGA EMS TOWADA CO., LTD.) made into a Group company
Apr. 2020	EXCEL CO., LTD. made into a Group company
Nov. 2020	Kyokuto Electric Co., Ltd. made into a Group company
Apr. 2022	Transitioned to the Prime Market of the Tokyo Stock Exchange

## The Kaga Electronics Group's Business Fields

### Electronic components business



Acts as a sales agency handling general electronic parts, semiconductors and other offerings for customers at home and abroad

### EMS business



Provides comprehensive solutions supporting the design, development and manufacture of products ranging from semi-finished to finished products

### Information equipment business



Supplies PCs and PC peripherals to domestic and overseas distribution channels while providing LED lighting installation services and accommodating product needs in the network solutions field

### Other business

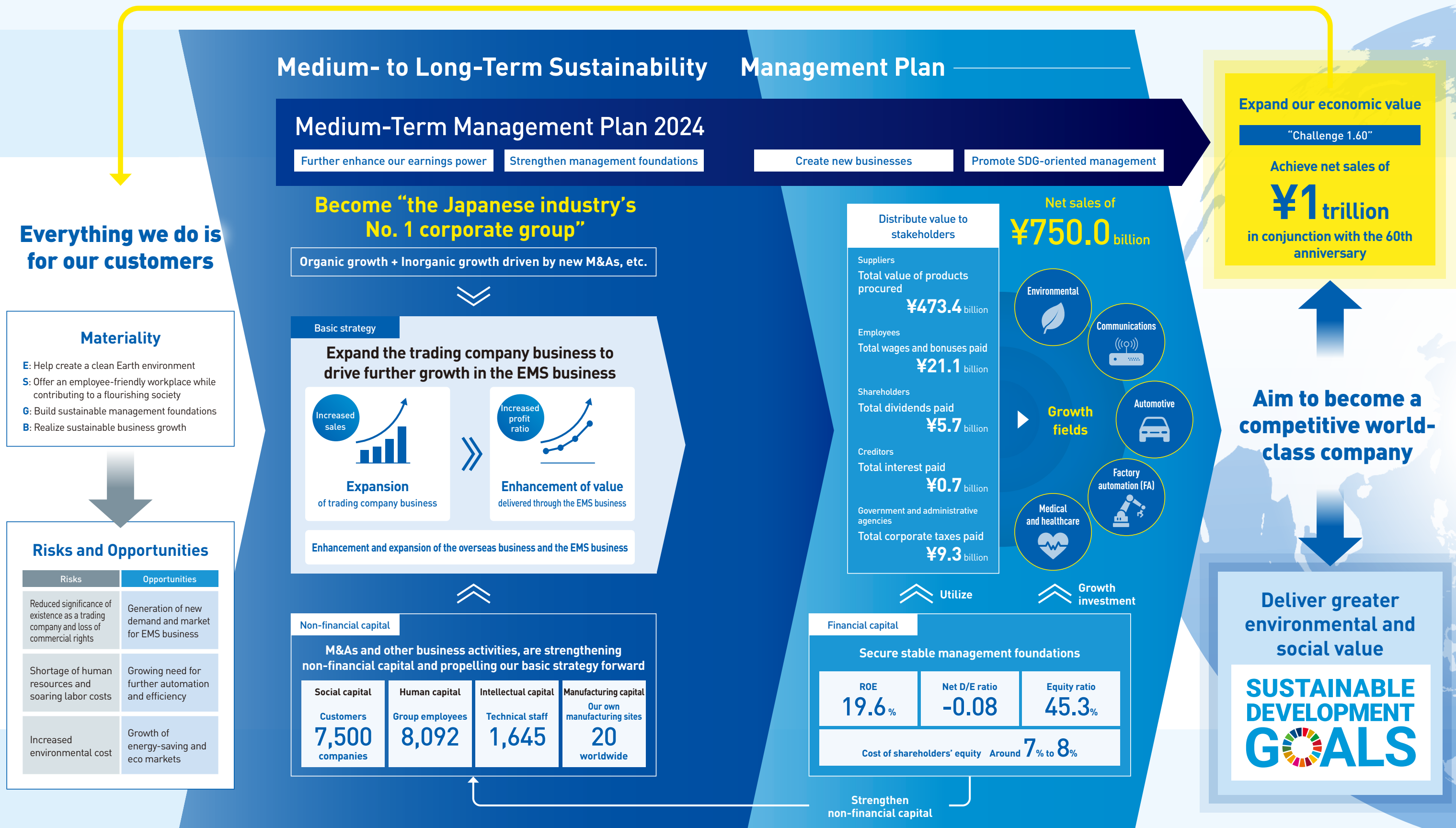


Operates a PC recycling business in addition to handling the development, manufacture and marketing of amusement-related hardware and software as well as the sale of golf supplies and other operations



# Value Creation Process

Guided by its corporate philosophy of “Everything we do is for our customers,” the Kaga Electronics Group has achieved growth by exercising a venturesome spirit that leads it to seek opportunities emerging from changes in society. Under the Medium-Term Management Plan 2024, the Group is currently pursuing quantitative growth via the electronics trading company business while expanding its EMS business, which aims to contribute to qualitative growth in profit. Through these two endeavors, the Group strives to raise its net sales to ¥1 trillion and become a competitive world-class company. This is how we deliver greater environmental and social value via our business operations.





## Value Creation Model

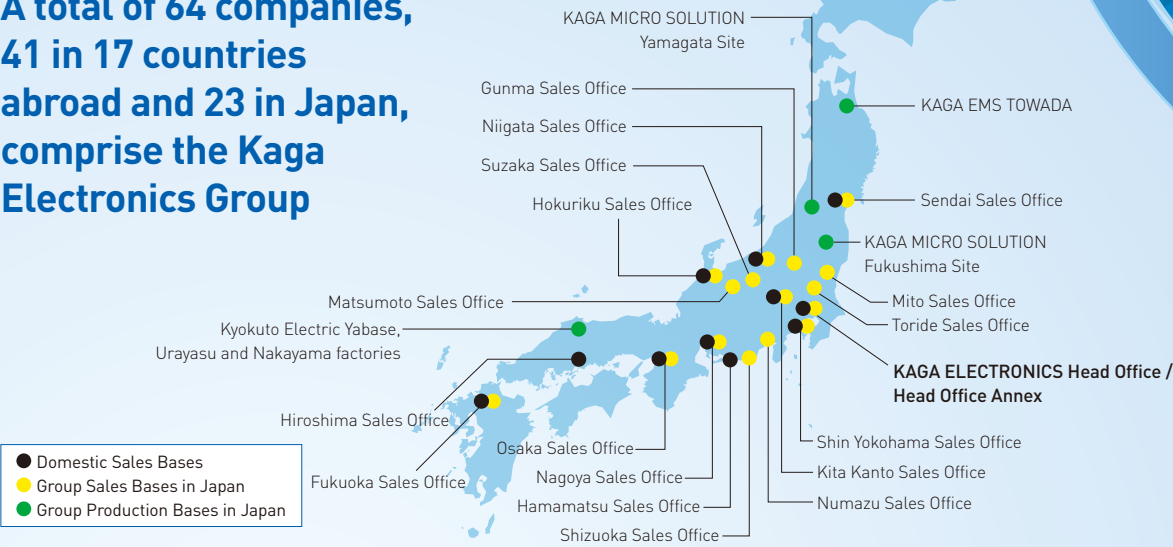
The Kaga Electronics Group’s trading company business and EMS business both employ a unique business model backed by a combination of its threefold strengths nurtured in the course of its operating as an independent general electronics trading company. This model is also guided by our corporate philosophy, “Everything we do is for our customers.”

Strength 2

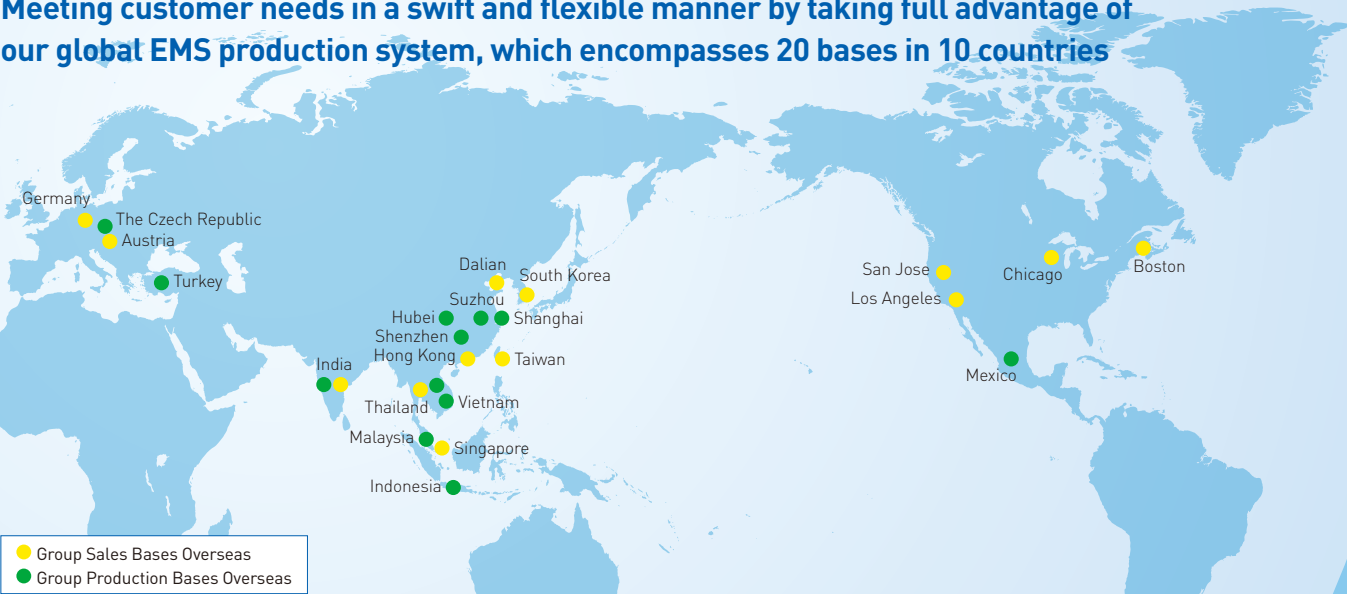
Global network capability

We provide peace of mind to customers and instill confidence through our sales and production network, which spans 17 countries and regions world-wide, as well as our global procurement and information-gathering competencies that we have built up over 50 years, which have been reinforced by the addition to the Group of KAGA FEI Co., Ltd. and EXCEL CO., LTD.

A total of 64 companies, 41 in 17 countries abroad and 23 in Japan, comprise the Kaga Electronics Group



Meeting customer needs in a swift and flexible manner by taking full advantage of our global EMS production system, which encompasses 20 bases in 10 countries



Strength 1

Comprehensive capability in the electronics field

## Comprehensive capability in the electronics field

Connect vendors around the world with customers by fully leveraging our strengths as an independent trading company

The Kaga Electronics Group sells not only electronics-related components and materials but also accommodates for a range of needs in the manufacture of modules and finished products, covering everything from large-lot consumer goods to small-lot industrial devices. As for hardware, software and systems, our comprehensive capability similarly enables us to accurately meet customer needs from upstream to downstream.

Strength 3

One-stop solution capability

## One-stop solution capability

In addition to contract production, the Kaga Electronics Group boasts the capability to provide one-stop services covering sales through after-sales support

The Kaga Electronics Group has a structure for delivering products to its customers in the regions where they are needed through its network of suppliers and production plants spanning North America, Europe and Asia. In order to respond to customer requests more quickly and flexibly, KAGA ELECTRONICS supports its customers’ business development through a one-stop support structure offering everything from planning consultation to engineering development, the contracting of high-mix, low-volume production for both semi-finished and finished products, and from sales to after-sales services, leveraging the specializations of each Group company while collaborating together.

Planning, development and design	Parts procurement and kitting	EMS and contract production	Sales and distribution	Support and after-sales services
		KAGA ELECTRONICS Co., Ltd.		KAGA TECHNO SERVICE CO., LTD.
	KAGA DEVICES CO., LTD.		KAGA MICRO SOLUTION CO., LTD.	
		KAGA SOLUTION NETWORK CO., LTD.		SANKOH ENGINEERING CO., LTD.
KAGA AMUSEMENT CO., LTD.	AD DEVICE CO., LTD.	KAGA AMUSEMENT CO., LTD.		
DIGITAL MEDIA LAB., INC.	KAGA TECH CO., LTD.		KAGA SPORTS CO., LTD.	
	EXCEL CO., LTD.		EXCEL CO., LTD.	
	KAGA EMS TOWADA CO., LTD. / Kyokuto Electric Co., Ltd.		KAGA AEROSYSTEMS CO., LTD.	
		KAGA FEI Co., Ltd.		
	KAGA ELECTRONICS (USA) INC.			
	KAGA (DALIAN) ELECTRONICS CO., LTD.	TAXAN MEXICO, S.A. DE C.V.		
	KAGA (TAIWAN) ELECTRONICS CO., LTD.	KAGA COMPONENTS (MALAYSIA) SDN.BHD		
	KAGA (SHANGHAI) ELECTRONICS CO., LTD. / KAGA (H.K.) ELECTRONICS LIMITED			
	KAGA ELECTRONICS (THAILAND) COMPANY LIMITED / KAGA ELECTRONICS (VIETNAM) CO., LTD.			
	KAGA (SINGAPORE) ELECTRONICS PTE. LTD.	KAGA ELECTRONICS INDIA PRIVATE LIMITED		
	KD TEC (Czech Republic) s.r.o. / KD TEC TURKEY ELEKTRONIK			



# Corporate growth hinges on employee growth



**Isao Tsukamoto**  
Representative Director,  
Founder & CEO

In the fiscal year ended March 31, 2023, we were able to achieve increases in both sales and profit thanks to substantial growth in operating results of the electronic parts business and the EMS business. These achievements can be attributable to the success of our efforts to stably meet customer requests, despite the global shortage of semiconductor and electronic parts. On the other hand,

operating results for the fiscal year ending March 31, 2024 are expected to harshen, reflecting the absence of spot sales. However, we are confident that we will return to a growth track in the fiscal year ending March 2025. Accordingly, we will continue to push ahead with efforts to achieve targets under the Medium-Term Management Plan 2024.

## Driving forces enabling the Kaga Electronics Group to grow

The Kaga Electronics Group has upheld a corporate philosophy, "Everything we do is for our customers." Moreover, to embody this philosophy, we put into practice action guidelines called "F. Y. T.," which consist of FLEXIBILITY (flexibility to align with changes in the market), YOUNG (a young mindset and an ability to act) and TRY (try courageously). The diligent implementation of these guidelines has enabled us to build an extensive track record and successfully led us toward the celebration of the 55th anniversary of our founding in September 2022.

In addition, our founding spirit, along with insights accumulated by successive employees, gave shape to KAGA-ism, which has been passed down to the present generation and taken root throughout our workforce.

Furthermore, the mindset of "Never say 'no' to customer requests" has been a unique stance cherished by KAGA ELECTRONICS since its founding, which is why we have long been appreciated by a large number of customers. Having started out with the delivery of electronic parts, we subsequently received requests to handle the "kitting" of multiple parts. This, in turn, led to orders requesting parts development and manufacturing. Our EMS business has emerged from the success of these endeavors and grown into an earnings staple.

On the back of global semiconductor shortages, a particular customer was struggling with its production line operations due to a slight shortfall of its semiconductor inventories. When we were asked to assist, we quickly moved to procure the necessary parts, but found their unit prices to be much higher than expected. We therefore proposed selling

them only the essential number of parts. However, this particular customer requested we deliver all of the parts we managed to secure. We were able to make a customer happy through this successful transaction while also garnering even more favorable reviews. We take great pride in our track record of such endeavors, as we have successfully fulfilled 90% of our customers' requests.

Another unique stance taken by KAGA ELECTRONICS is "Never say 'no'" to employee suggestions. For example, we allow ambitious employees to handle the entire process of launching new businesses on their own. This is, of course, no easy task as it entails the inauguration of a new company, staffing, and even fundraising. It brings us great joy, however, to witness the personal growth they attain through overcoming such challenges.

Of course, regulations regarding the withdrawal from business ventures have also been put into place. The "3-5 rule," as it's known, lays out our expectations for a new business venture to achieve profitability in terms of single-year operating results in three years and to eliminate all cumulative losses in five years. This is an objective that must be met. While it stands to reason that no employee is immune to failure, support for the underdog is part of the KAGA ELECTRONICS spirit. Using failure as a learning tool and achieving personal growth would be a wonderful thing, indeed. The Company would not have grown and thrived into what it has today if it took a zero-tolerance stance against failure. That being said, our employees thus far mark a high ratio of success in new business endeavors, with 60% to 70% of these pursuits having proven to be profitable.

## Happiness of all employees enables the Company to prosper

For KAGA-ism to be resolutely put into practice, the health of all employees is paramount.

Since 2021, the Social Issue Working Group of the SDGs Committee has promoted initiatives focused on developing an employee-friendly environment and improving a work-life balance.

Based on the conviction of "a company never thriving unless its employees are healthy," we place great priority on employee health and have therefore implemented a variety of initiatives. In recognition of these efforts, we were selected as an outstanding organization under the 2023 Certified Health & Productivity Management Organization Recognition Program.

As part of specific measures to create the employee-friendly office environment of the future, we set up a training room

equipped with cutting-edge, AI-powered training machines in the Head Office. Produced by EGYM, these machines are capable of proposing optimal training routines to users based on individual physical characteristics via the use of electronic tags. Head Office employees who choose to commute now ranges from 40% to 60%, as we have maintained our remote working system, even in the aftermath of the COVID-19 pandemic. This freed up enough of a vacancy in office space with which the training room could be established.

The Kaga Electronics Group aims to become "the Japanese industry's No.1 corporate group" and "a competitive world-class company." The realization of these goals, in my opinion, ultimately hinges on our efforts to nurture human resources and help individual employees stay healthy, both physically and emotionally.





# Achieving profit targets under the “Medium-Term Management Plan 2024” two years ahead of schedule and promoting initiatives to achieve further growth

**Ryoichi Kado**

Representative Director,  
President & C00

## Review of the fiscal year ended March 31, 2023

The economic environment surrounding the Kaga Electronics Group at home and abroad has been positively affected by modest recovery reflecting the progression of normalizing socio-economic activities in step with the relaxation of movement restrictions aimed at curbing the COVID-19 pandemic, along with the alleviation of semiconductor shortages and supply chain disruptions. On the other hand, the continuing Russia-Ukraine situation resulted in surges in food and energy prices. Furthermore, policy rate hikes aimed at countering inflation led to radical foreign exchange fluctuations and growing instability of the financial system. Taking these and other factors into account, future outlook remains unclear.

In the electronics industry, to which the Kaga Electronics Group belongs, the lingering supply shortage of some semiconductors and electronic parts and their prolonged delivery

timeframes have largely been resolved. Moreover, demand remained robust in a broad range of industrial fields.

In the electronic components business—the core business of the Kaga Electronics Group, sales expanded considerably in both the electronic parts and EMS businesses, especially sales of products related to automotive and medical equipment. In the information equipment business, sales of high-end PC products and security software expanded, as did sales from the LED installation business. Meanwhile, the software business has benefitted from recovery in the volume of orders received for smartphone game production and computer graphics production. In the other business, business results for the recycling of PCs and other products were robust.

As a result, sales increased year-on-year for all business segments, with all indicators, ranging from net sales to profit

attributable to owners of the parent, hitting an all-time best.

Specifically, consolidated net sales amounted to ¥608,064 million, up 22.6% from the previous fiscal year. Operating income rose 54.2% year-on-year to ¥32,249 million, thanks to higher gross profit backed by increased sales and the improved gross profit margin, which was up 0.7 of a percentage point year-on-year. Ordinary income grew 52.6% year-on-year to

¥32,739 million, while profit attributable to owners of the parent rose 49.8% year-on-year to ¥23,070 million. Thus, the Group achieved record-high net sales for the second consecutive year. Furthermore, operating income and ordinary income both hit an all-time high for the fourth consecutive year, while profit attributable to owners of the parent similarly hit a record high for the third consecutive year.

## Financial highlights for fiscal year ended March 31, 2023

(Millions of yen)

	2022/3 Results	2023/3 Results	Change	Previous forecasts for 2023/3 (announced February 7, 2023)	Change from forecasts
Net sales	495,827	<b>608,064</b>	22.6%	585,000	3.9%
Gross profit	60,547 <i>12.2%</i>	<b>78,514</b> <i>12.9%</i>	29.7%	—	—
SG&A expenses	39,632 <i>8.0%</i>	<b>46,265</b> <i>7.6%</i>	16.7%	—	—
Operating income	20,915 <i>4.2%</i>	<b>32,249</b> <i>5.3%</i>	54.2%	29,500 <i>5.0%</i>	9.3%
Ordinary income	21,456 <i>4.3%</i>	<b>32,739</b> <i>5.4%</i>	52.6%	30,000 <i>5.1%</i>	9.1%
Profit attributable to owners of the parent	15,401 <i>3.1%</i>	<b>23,070</b> <i>3.8%</i>	49.8%	21,000 <i>3.6%</i>	9.9%
Earnings per share (yen)	576.46	<b>878.65</b>	—	799.78	—
ROE	15.7%	<b>19.6%</b>	3.9pt	18.0%	1.6%

Notes: 1. The impact of foreign exchange fluctuations on consolidated net sales and operating income amounted to ¥38,483 million and ¥1,782 million, respectively.  
2. “X.X%” represents profit margin.

## Forecasts for the fiscal year ending March 31, 2024

In the electronics industry, demand for semiconductors and electronic parts is expected to temporarily decline due mainly to a recoil from major growth seen during the COVID-19 pandemic and inventory adjustments undertaken by customers in preparation for the risk of economic recessions. Taking these projections into account, our operating results forecasts for the

fiscal year ending March 31, 2024 include decreases in both sales and profit, with consolidated net sales of ¥550.0 billion, operating income of ¥25.0 billion, ordinary income of ¥25.0 billion and profit attributable to owners of the parent of ¥18.0 billion. Based on these forecasts, we expect EPS and ROE to amount to ¥685.42 and 13.3%, respectively.

## Full-year operating results forecasts for the fiscal year ending March 31, 2024

(Millions of yen)

	2022/3 Results	2024/3 Forecasts	Change
Net sales	608,064	<b>550,000</b>	-9.5%
Operating income	32,249 <i>5.3%</i>	<b>25,000</b> <i>4.5%</i>	-22.5%
Ordinary income	32,739 <i>5.4%</i>	<b>25,000</b> <i>4.5%</i>	-23.6%
Profit attributable to owners of the parent	23,070 <i>3.8%</i>	<b>18,000</b> <i>3.3%</i>	-22.0%
EPS (yen)	878.65	<b>685.42</b>	—
ROE	19.6%	<b>13.3%</b>	-6.3pt

Note: “X.X%” represents profit margin.

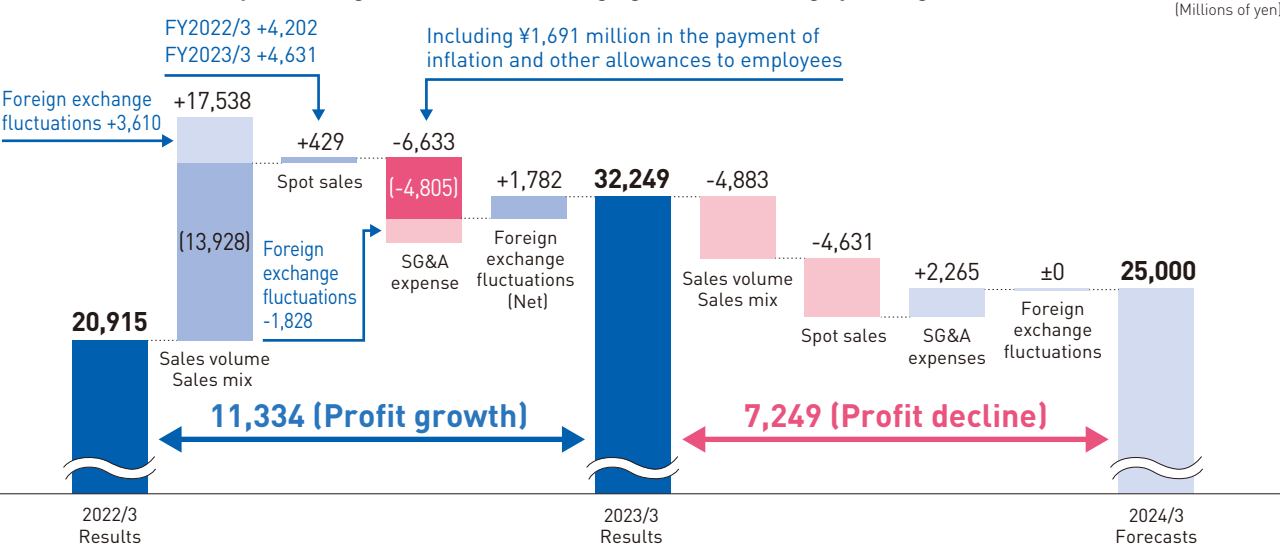
I will further elaborate on these operating results forecasts based on an analysis of changing factors affecting operating income.

Looking at the breakdown of the year-on-year increase of ¥11,334 million in operating income recorded in the fiscal year ended March 31, 2023, sales volume and sales mix, spot sales, and foreign exchange translation contributed to increases of ¥17,538 million, ¥429 million and ¥1,782 million, respectively. After the subtraction of a ¥6,633 million increase in SG&A expenses, operating income thus amounted to ¥33,249 million.

With regard to forecasts for the fiscal year ending March 31, 2024, we expect a ¥4,883 million decrease in operating income due to sales volume and sales mix, while anticipating that the absence of spot sales will result in a decrease of ¥4,631 million. However, we will aim to achieve the reduction of SG&A expenses totaling ¥2,265 million, which will, in turn, serve as a profit contributor. We will thus secure operating income of ¥25.0 billion. The factors behind the expected decrease of ¥7,249 million in profit are as listed below.



Comparisons between results for the fiscal year ended March 31, 2023 and forecasts for the fiscal year ending March 31, 2024 (changing factors affecting operating income)



Initiatives undertaken by the Kaga Electronics Group to address changes in electronic parts market conditions

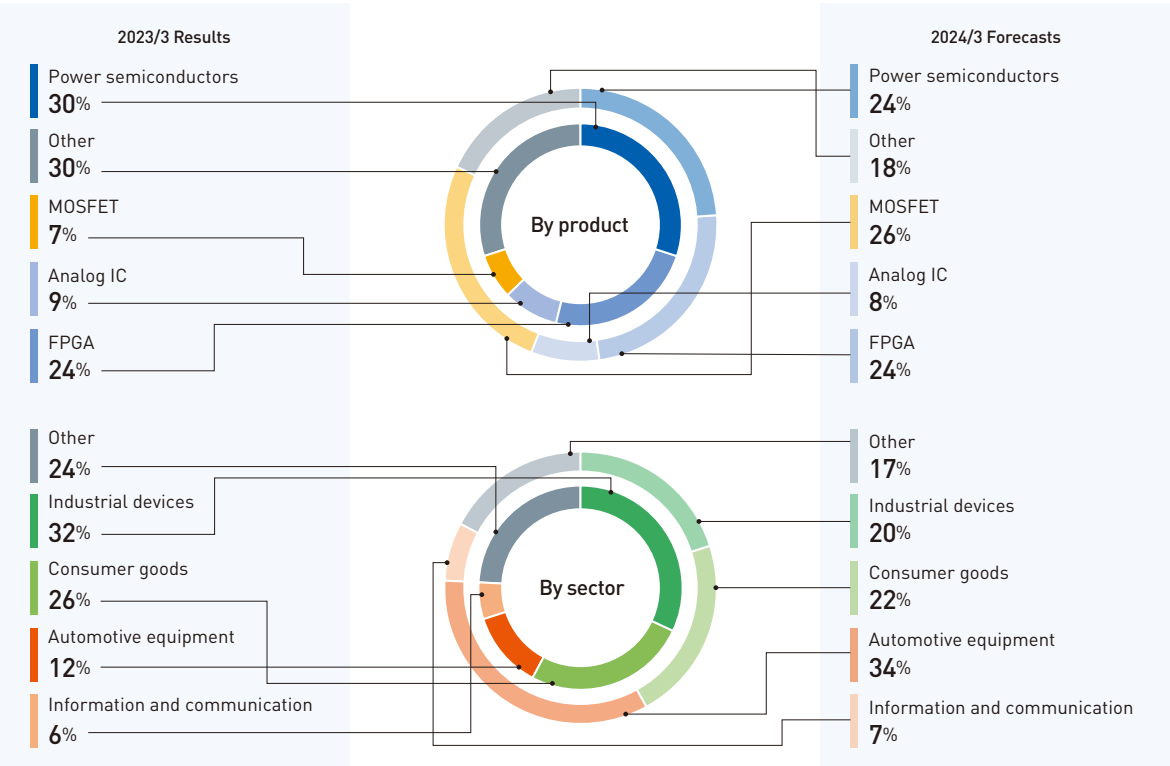
Spot sales of semiconductors and electronic parts are inherent of the short-term nature and will disappear over time upon improvement in the supply-demand situation. With this in mind, our focus has strongly been on delivering proposals on alternative products and selling them to customers in order to consistently secure profit.

In the fiscal year ended March 31, 2023, we conducted the proposal and sale of such alternative products to a total of 88 clients (comprising 71 existing clients and 17 new clients), achieving net sales of approximately ¥7.0 billion. Now that we are into the fiscal year ending March 31, 2024, we expect

these endeavors to yield approximately ¥7.5 billion in net sales, with the number of target customers remaining virtually unchanged.

Looking at breakdown by product, the majority of these sales is accounted for by power semiconductors, FPGA and analog IC. In terms of sector-based breakdown, industrial devices account for the largest proportion, with consumer goods and automotive equipment ranking second and third, respectively. In the current fiscal year, we expect demand for automotive equipment to grow substantially.

Breakdown by product and sector (Inner: Results for 2023/3; Outer: Forecasts for 2024/3)



Progress under the Medium-Term Management Plan 2024

In the fiscal year ended March 31, 2023, we accomplished our operating income and ROE targets under the Medium-Term Management Plan 2024 two years ahead of schedule. Taking this accomplishment into account, as well as upsides and downsides in operating results forecasts for the fiscal year ending March 31, 2024, we have revised management targets under said plan.

The period of this management plan remains unchanged from the three years from April 2022 to March 2025. Similarly, we have not revised consolidated net sales targets for the plan's final year from ¥750.0 billion, which will mainly consist of ¥600.0 billion to be earned through organic growth and be supplemented by additional sales achieved via new M&A.

On the other hand, we have revised our operating income target to ¥30.0 billion or more while redefining our ROE target to a "stable 10% or more" in line with our latest operating income forecast.

Management targets under the Medium-Term Management Plan 2024		
	Initial plan (announced November 25, 2021)	Latest forecast (announced May 11, 2023)
April 2022 to March 2025	Plan period	Unchanged
¥750.0 billion ¥600.0 billion: organic growth ¥150.0 billion: new M&A	Net sales	Unchanged
¥20.0 billion	Operating income	¥30.0 billion or more
Stable 8.5% or more	ROE	Stable 10% or more

Revision of the operating income target and the deeper analysis of changing factors

Although operating income is expected to decline in the current fiscal year, this indicator will return to a growth phase in the fiscal year ending March 31, 2025. With this in mind, we have reset our operating income target under the plan at ¥30.0 billion or more.

Factors behind the setting of this target include sales volume, spot sales, EMS business expansion, the effect of post-merger integration (PMI) and human resource-related investment. Here, we present a diagram showing the analysis of how each factor will affect profit on an annual basis, with those contributing to profit depicted in blue arrows, and those negatively affecting profit depicted in red arrows.

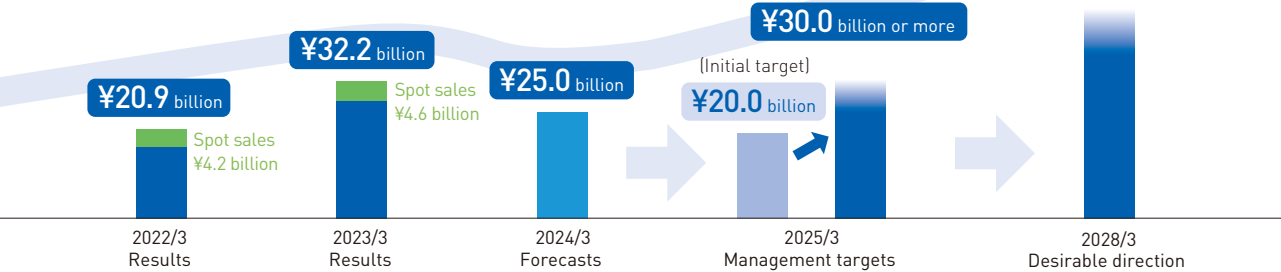
The electronic parts business and the EMS business have been main contributors toward the accomplishment of record-high operating income for the fourth consecutive year by the

close of the fiscal year ended March 31, 2023. However, we expect that, in the current fiscal year, these businesses will see a decrease in profit due primarily to the looming risk of economic recessions, the temporary impact of inventory adjustments, and the absence of spot sales.

From the fiscal year ending March 2025 onward, however, we anticipate a medium-term increase in demand on the back of the popularization of EVs, the adoption of 5G/6G communication infrastructure, the widespread use of IoT and AI, and other factors. This projection is unchanged. Moreover, we forecast that progress in PMI will yield ongoing improvement in the profitability of acquired companies. In addition, we intend to continuously take a proactive approach to investment in human resources in the form of wages, bonuses and other allowances.

Operating income target and forecasts for changing factors

	2022/3	2023/3	2024/3	2025/3	2026/3 to 2028/3
Factors positively affecting profit					
Factors negatively affecting profit					
Sales volume / inventory adjustment	➡	➡	➡	➡	➡
Spot sales	➡	➡	—	—	—
EMS business expansion	➡	➡	➡	➡	➡
Improvement in the profitability of acquired companies	➡	➡	➡	➡	➡
Human resource-related investment (wages, bonuses, etc.)	➡	➡	➡	➡	➡



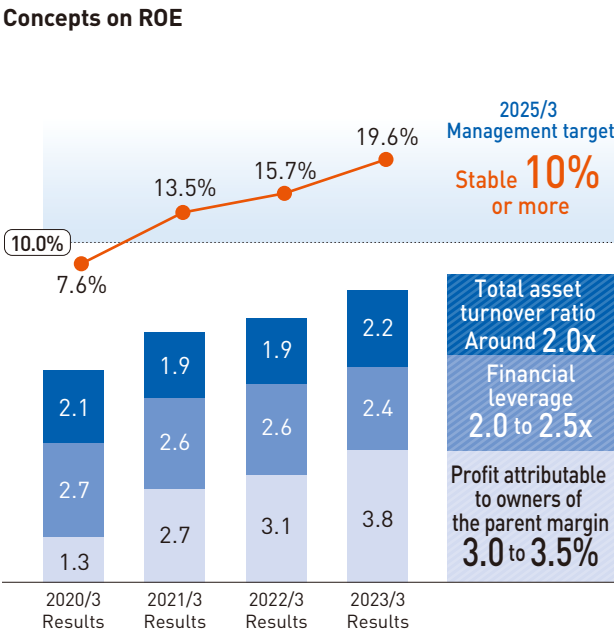


### Our thoughts behind the revised ROE

Next, I will explain our thought process behind the revision of our ROE target, using a graph showing the breakdown of three components to address the changes in ROE.

The profit attributable to owners of the parent margin is shown at the bottom of the bar graph. Our forecast for this indicator is set at 3.0% to 3.5%, given the estimated operating income margin of around 5.0%. For us to improve ROE, maintaining high profitability is of the utmost importance. With this in mind, we have set our forecast for financial leverage (immediately above the bottom) at 2.0 to 2.5 times, based on our projection that the equity ratio will trend around 40% to 50%. Above the financial leverage, the total asset turnover ratio is set at about 2.0, on par with the current level. Thus, we believe that we will be able to stably achieve an ROE of around 12% to 15%.

Based on the previously discussed calculations, our ROE target is set at “stable 10% or more.” In addition, the Company’s cost of shareholders’ equity is around 7.0% to 8.0%. Our ROE target also involves the pursuit of a major improvement in this indicator.



### Maintaining the volume of dividends for the fiscal year ended March 31, 2023

The full-year dividend for the fiscal year ended March 31, 2023 amounted to a record-high ¥220 per share. Furthermore, we have decided to maintain our full-year dividend forecast for the current fiscal year at ¥220 per share, despite our operating results forecasts including a decrease in profit. This decision is based on the judgment that maintaining the volume of dividends is desirable in terms of serving the interest of shareholders who intend to own our shares over the long term, despite changes in single-year operating results on the back of the radically evolving business environment. Having resumed the overseas IR roadshow in February 2023 for the first time in three years, we were able to engage with investors face to face, with some investors stating that “reducing dividends will have a devastating effect on those willing to own KAGA ELECTRONICS shares over the long term.” These activities thus provided us with a valuable opportunity to directly hear their concerns which will, in turn, inform our business management.

Based on its corporate philosophy, “Everything we do is for our customers,” the Kaga Electronics Group will contribute to the realization of a sustainable society by striking a balance between solving social issues and sustaining growth as a corporation through its business activities.



### The downsizing of the Board of Directors and the resulting enhancement of the governance structure

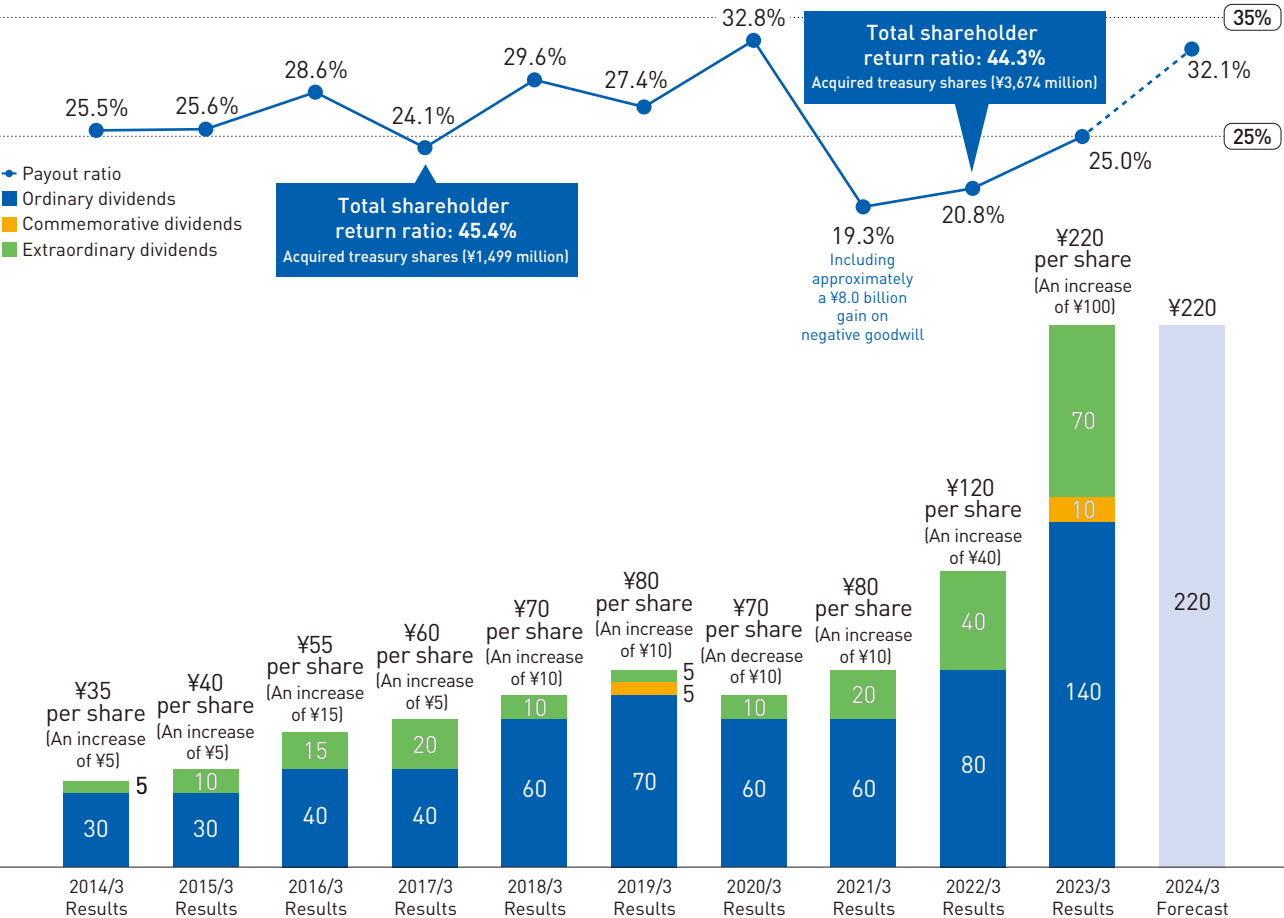
We have downsized and reconfigured the membership of the Board of Directors with the aim of securing clearer separation between the Board’s supervisory and executive functions to enhance the transparency of business management as well as further invigorating its discussions and ensuring speedier business execution.

Based on a resolution passed at the Ordinary General Meeting of Shareholders held on June 27, 2023, the composition of the Board of Directors was subsequently changed from a total of 11 members consisting of seven internal and four

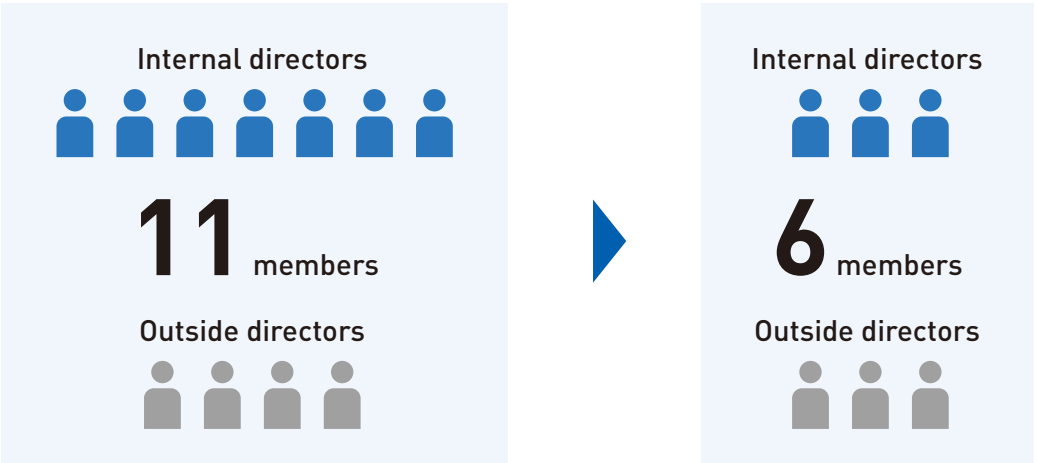
outside directors, to a total of six members consisting of three internal and three outside directors.

On the other hand, with regard to the promotion of diversity among the Board’s membership, we were unable to propose the appointment of a female director candidate to the aforementioned General Meeting of Shareholders. However, we have proposed the appointment of Ms. Kyoko Oyanagi as an outside auditor, which was approved by said meeting, with an eye to transitioning to a company with an audit committee system.

### Trend in shareholder returns



### The downsizing of the Board of Directors and the resulting enhancement of management transparency





# Progress of the Medium- to Long-Term Sustainability Management Plan

In November 2021, we formulated our Medium- to Long-Term Sustainability Management Plan. In line with its corporate philosophy, “Everything we do is for our customers,” the Kaga Electronics Group will promote sustainability management that aims to achieve both a sustainable society and its own sustainable growth as a corporate group.

## Sustainability Policy

In line with its corporate philosophy, “Everything we do is for our customers,” the Kaga Electronics Group will strive for the realization of both a sustainable society and its own sustainable growth as a corporate group.

To inform our sustainability initiatives, we will also cherish dialogue with customers, business partners, shareholders,

investors, employees, local communities, and all other stakeholders based on our Basic CSR Policy, Environmental Policy, and Code of Conduct. In these ways, we will proactively play our part in the realization of a sustainable society while enhancing our corporate value.

### ① We tackle environmental issues through our business activities

In the course of our business activities, we will strive to reduce CO<sub>2</sub> emissions as well as curb emissions of waste while promoting waste recycling. At the same time, we will deliver products and services that give due consideration to the environment. By doing so, we will contribute to the realization of a society that values the Earth's environment.

### ② We respect human rights and nurture human resources

We respect the human rights of all stakeholders, irrespective of gender, age, nationality, social status, disability, or other personal attributes. Furthermore, we will secure a workplace environment that enables diverse employees to work safely even as they stay mentally and physically healthy. We will also develop personnel systems as well as education and training structures aimed at empowering employees to fully realize their individual potential. In these ways, we will nurture human resources able to take on the challenge of achieving innovation.

### ③ We aim to establish mutual trust with society

In compliance with laws, regulations, and other rules, we will practice a sincere approach to our corporate activities, such as engaging in fair competition, delivering high-quality products and services, and maintaining the timely and appropriate disclosure of information. Simultaneously, we will strive to strengthen our governance structure. We will thus remain a company deserving of society's trust.

	Main themes	Issues to be tackled or discussed	Medium-term targets*	Long-term targets
E	Aiming to raise the ratio of renewable energy to total energy consumption to 100%	<ul style="list-style-type: none"> <li>Introducing renewable energy at domestic sales bases</li> <li>Introducing renewable energy at domestic manufacturing bases</li> <li>Introducing renewable energy at overseas manufacturing bases</li> </ul>	2024: 40% (1%) 2024: Determine policies via information gathering and analysis In-house power generation/external procurement Solar panel/biomass power generation/renewable energy power generation businesses	2030: 100% 2030: 50% 2050: 100% 2030: 30% 2050: 100%
	Switchover of company-owned vehicles to EVs	<ul style="list-style-type: none"> <li>Switchover of vehicles used by domestic sales departments to EVs (including HVs, PHVs, and FCEVs)</li> </ul>	2024: 85% (78.5%)	2030: 100%
S	Diversity promotion and human resource management	<ul style="list-style-type: none"> <li>Securing diversity in core human resources (women, foreign nationals, and mid-career hires)</li> <li>Hiring elderly citizens and people with disabilities</li> </ul>	Ratio of women among new graduates hired as career-track employees 2023: 30% (5.8%) Ratio of women among managers 2024: 15% (13.3%)	Ratio of women among new graduates hired as career-track employees 2028: 40% Ratio of women among managers 2029: 17%
	An optimal balance between work-life management and productivity improvement	<ul style="list-style-type: none"> <li>Enhancing the content of various programs supporting employees engaged in child rearing, nursing care, and teleworking, etc.</li> <li>Aiming to be selected as an outstanding organization under the Certified Health &amp; Productivity Management Organization Recognition Program</li> </ul>	2022: Implemented revisions to various programs 2023: Recognized as an outstanding organization under the Certified Health & Productivity Management Organization Recognition Program	2025: Obtain external certification 2024- Maintain status as an outstanding organization
G	Restructuring the governance structure in response to the revision of the Corporate Governance (CG) Code and the reorganization of the Tokyo Stock Exchange	<ul style="list-style-type: none"> <li>Increasing the number of independent outside directors so that they account for one third or more of the Board membership</li> <li>Establish a Nomination and Compensation Committee</li> <li>Diversifying the composition of the Board of Directors</li> <li>Thoroughly complying with the revised CG Code and other requirements accompanying the Company's listing on the Prime Market</li> </ul>	Done in June 2021 June 2022: Determine policies Done in November 2021	Set targets in conjunction with the next round of revisions to the CG Code
	Further strengthening the supervisory and oversight functions of top management over business execution	<ul style="list-style-type: none"> <li>Introducing a commissioned executive officer system</li> <li>Transitioning to a “company with committees, etc.” system</li> </ul>	April 2022: Enforced March 2023: Determine policies	

Note: Figures in parentheses are values at the time of the formulation of the plan (November 2021).

In our efforts, we will also cherish dialogue with customers, business partners, shareholders, investors, employees, local communities, and all other stakeholders. In these ways, we will proactively play our part in the realization of a sustainable society while enhancing our corporate value.

## Progress of the Medium- to Long-Term Sustainability Management Plan

	Main themes	Issues to be tackled or discussed	Main activities and progress in FY2023/3
E	Aiming to raise the ratio of renewable energy to total energy consumption to 100%	Introducing renewable energy at domestic sales bases	Renewable energy-derived electricity has already been introduced at 1.2% of the total electricity volume, and studies are continuing with a plan to achieve 40% in FY2025/3
		Introducing renewable energy at domestic manufacturing bases	Calculated expected power generation capacities of solar panels to be installed at Aomori, Fukushima, and Tottori sites. Field design has begun
		Introducing renewable energy at overseas manufacturing bases	Introduction of renewable energy-derived electricity using solar panels at bases in China (Hubei) and Vietnam. Expected to cover 30-50% of annual electricity consumption at each site
	Switchover of company-owned vehicles to EVs	Switchover of vehicles used by domestic sales departments to EVs (including HVs, PHVs, and FCEVs)	Increase in the ratio of electrified vehicles by 1.2 percentage points from the previous year to 82.0% (as of March 31, 2023).

Solar panels installed on the roof of the Head Office building



Solar panels installed at our factory in Vietnam



	Main themes	Issues to be tackled or discussed	Main activities and progress in FY2023/3
S	Diversity promotion and human resource management	<ul style="list-style-type: none"> <li>Securing diversity in core human resources (women, foreign nationals, and mid-career hires)</li> </ul>	<ul style="list-style-type: none"> <li>The ratio of female new graduates in career-track positions increased by 12.3 percentage points to 18.1% from the previous year due to the implementation of recruitment activities in line with the formulated Action Plan</li> <li>Discussions were held within the Group to increase the ratio of female managers, and each company has already set its own target number of female managers. As of April 2023, the number of female managers was 16.5%, up 3.2 percentage points from the previous year</li> </ul>
	An optimal balance between work-life management and productivity improvement	<ul style="list-style-type: none"> <li>Hiring elderly citizens and people with disabilities</li> <li>Enhancing the content of various programs supporting employees engaged in child rearing, nursing care, and teleworking, etc.</li> <li>Aiming to be selected as an outstanding organization under the Certified Health &amp; Productivity Management Organization Recognition Program</li> </ul>	<ul style="list-style-type: none"> <li>Fully achieved statutory employment ratio for people with disabilities (March 31, 2023)</li> <li>Implemented a permanent remote work system as well as revised in-house rules and regulations</li> <li>Certified in March 2023</li> </ul>

	Main themes	Issues to be tackled or discussed	Main activities and progress in FY2023/3
G	Restructuring the governance structure in response to the revision of the Corporate Governance (CG) Code and the reorganization of the Tokyo Stock Exchange	<ul style="list-style-type: none"> <li>Increasing the number of independent outside directors so that they account for one third or more of the Board membership</li> <li>Establish a Nomination and Compensation Committee</li> </ul>	From June 2023 onward, the number of directors has been set at 6 (including 3 outside directors), at least half of whom will be outside directors. A Nomination and Compensation Committee has been established
		Diversifying the composition of the Board of Directors	A female candidate was nominated as a new Outside Corporate Auditor (to be appointed after approval at the Ordinary General Meeting of Shareholders). Continuing efforts to appoint female directors
		Thoroughly complying with the revised CG Code and other requirements accompanying the Company's listing on the Prime Market	Implemented since June 2022
	Further strengthening the supervisory and oversight functions of top management over business execution	<ul style="list-style-type: none"> <li>Introducing a commissioned executive officer system</li> <li>Transitioning to a “company with committees, etc.” system</li> </ul>	<ul style="list-style-type: none"> <li>Implemented since April 2022</li> <li>The corporate auditor system will remain in place, but the directors' terms of office will be reduced from the current two years to one year (implemented in June 2023)</li> </ul>



# We achieved substantial growth in operating results backed by the robust performance of electronic component and EMS businesses, with inventory reduction assisting in even greater cash generation.

**Yasuhiro Ishihara**

Senior Executive Officer  
Head of Administration Headquarters



## Making progress in inventory reduction

Over the past few years, a number of manufacturers worked to secure a solid volume of parts inventories, shifting their previous procurement policies on the back of factors such as the worldwide supply shortage of semiconductors and electronic parts, the prolongation of delivery lead time, and the disruption of international logistics networks.

KAGA ELECTRONICS was no exception. In the electronic component business, securing a sufficient inventory volume was crucial in the face of upfront orders placed by customers. Similarly, in the EMS business, we needed to secure a buffer inventory as part of business continuity plans (BCPs) and maintain the expanding volume of work-in-process products due to difficulties in procuring some components.

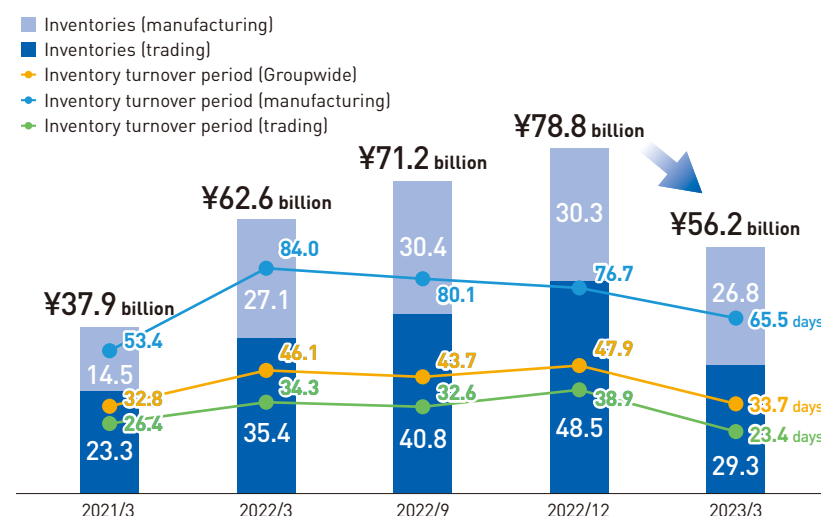
As a result, inventory increased from ¥62.6 billion at the beginning of the fiscal year ended March 31, 2023, to ¥71.2

billion as of September 20, 2022, and to ¥78.8 billion as of December 31, 2022.

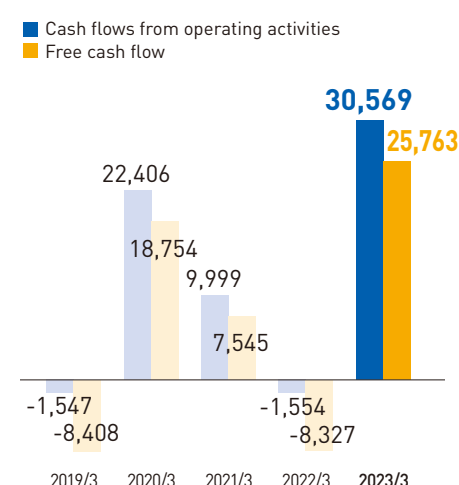
Therefore, we have positioned inventory reduction as a management issue requiring urgent response and identified a target of curbing inventories to ¥50.0 billion or less and maintaining this volume as a benchmark by the end of said fiscal year. Regrettably, this target was not met. However, we reduced inventories by more than ¥20.0 billion from the level recorded as of December 31, 2022, bringing their overall volumes to slightly more than ¥50.0 billion.

Our initiatives to reduce inventories were undertaken from the aspects of a manufacturing business centered on EMS, and a trading company business centered on electronic parts sales. As divesting inventories in the trading company business is inherently easier, we have been able to achieve a drastic reduction in this business from December 31, 2022, onward. On the other hand, in the manufacturing business, a certain

## Inventory trends / Inventory turnover period



## Cash flows from operating activities / Free cash flow (millions of yen)



volume of work-in-process inventories still remains, with the pace of reduction being modest. Nevertheless, we will strive to achieve a consolidated target of reducing the inventory turnover period to 30 days by the end of the fiscal year ending March 31, 2024.

Taking these annual trends into account, the volume of inventories at fiscal-year end amounted to ¥56,205 million, down ¥6,401 million year-on-year, with the inventory turnover period improving from 46.1 days to 33.7 days.

While consolidated net sales grew significantly, we have worked to reduce inventories. As result of these efforts, net cash provided by operating activities totaled ¥30,569 million, a substantial improvement from net cash used in operating activities totaling ¥1,554 million in the previous fiscal year.

With these cash inflows allocated to the repayment of borrowings, interest bearing debt decreased ¥9,232 million from the end of the previous fiscal year. At the same time, cash and cash equivalents as of the end of the fiscal year ended March 31, 2023 rose ¥11,066 million from the end of the previous fiscal year to ¥50,307 million.

## Review of the fiscal year ended March 31, 2023

In the fiscal year ended March 31, 2023, net sales rose 22.6% year-on-year to ¥608,064 million due to the significant expansion of both electronic component sales and EMS in the electronic components business. Moreover, gross profit was buoyed by increased net sales and improved sales mix and thus increased 29.7% year on year to ¥78,514 billion, with the gross profit margin improving significantly from 12.2% to

12.9%. Meanwhile, selling, general and administrative (SG&A) expenses increased 16.7% year-on-year to ¥46,265 million. However, as the pace of the increase in these expenses was kept in strict control. Thus, we were able to record operating income of ¥32,249 million, up 54.2% year-on-year.

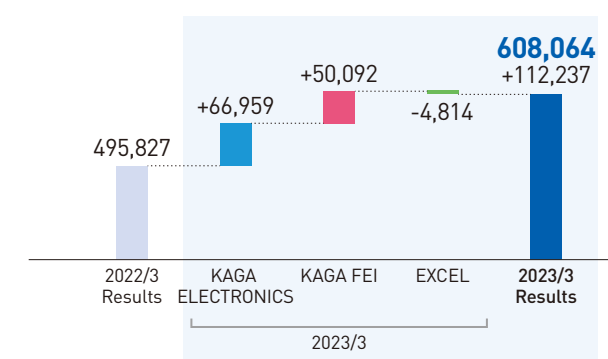
Looking at operating results by company, net sales of KAGA ELECTRONICS and KAGA FEI Co., Ltd. grew significantly thanks to the robust performance of the electronic component business. Specifically, net sales of KAGA ELECTRONICS increased 23.8% year-on-year to ¥348,034 million, while net sales of KAGA FEI Co., Ltd. rose 33.5% year-on-year to ¥199,548 million.

In addition, all three main Group companies achieved improvement in gross profit and gross profit margin. With the consolidated gross profit margin rising 0.7 of a percentage point to 12.9%, the margin recorded by KAGA ELECTRONICS, KAGA FEI Co., Ltd., and EXCEL CO., LTD. amounted to 15.3% (an increase of 0.4 of a percentage point), 10.5% (0.7 of a percentage point), and 7.3% (0.8 of a percentage point), respectively.

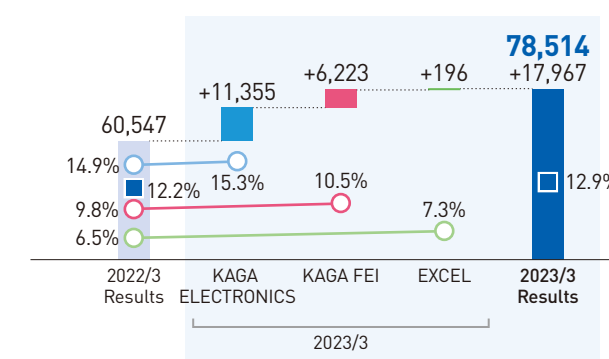
Although SG&A expenses increased, the SG&A expense ratio improved 0.4 of a percentage point.

As the increase in SG&A expenses was offset by higher gross profit, operating income recorded by KAGA ELECTRONICS, KAGA FEI Co., Ltd., and EXCEL CO., LTD. stood at ¥21,899 million (up 41.6% year-on-year), ¥8,103 million (up 121.8% year-on-year), and ¥2,072 million (up 7% year-on-year), respectively. The entire Group's operating income margin improved 1.1 percentage points, while the operating income margin at KAGA ELECTRONICS, KAGA FEI Co., Ltd., and EXCEL CO., LTD. improved by 0.8 of a percentage point, 1.7 percentage points and 0.4 of a percentage point, respectively.

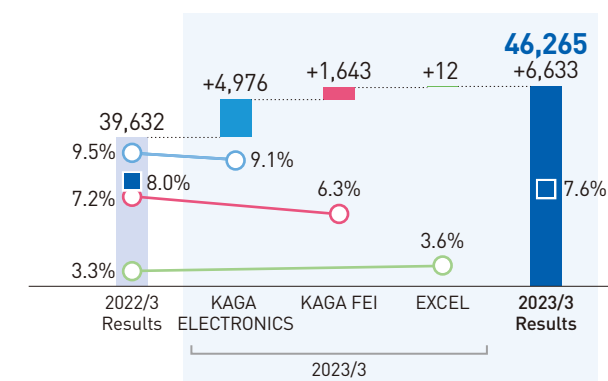
## Net sales (millions of yen)



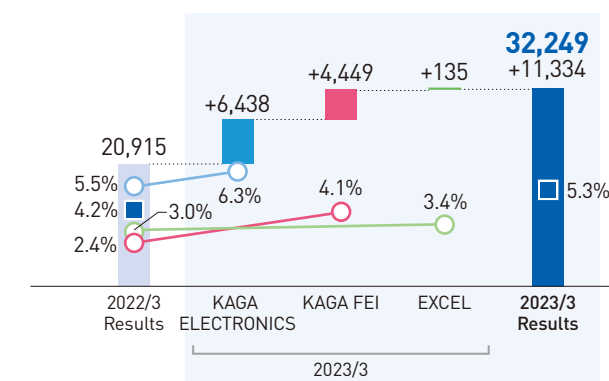
## Gross profit (millions of yen) / Gross profit margin



## SG&A expenses (millions of yen) / SG&A expense ratio



## Operating income (millions of yen) / Operating income margin



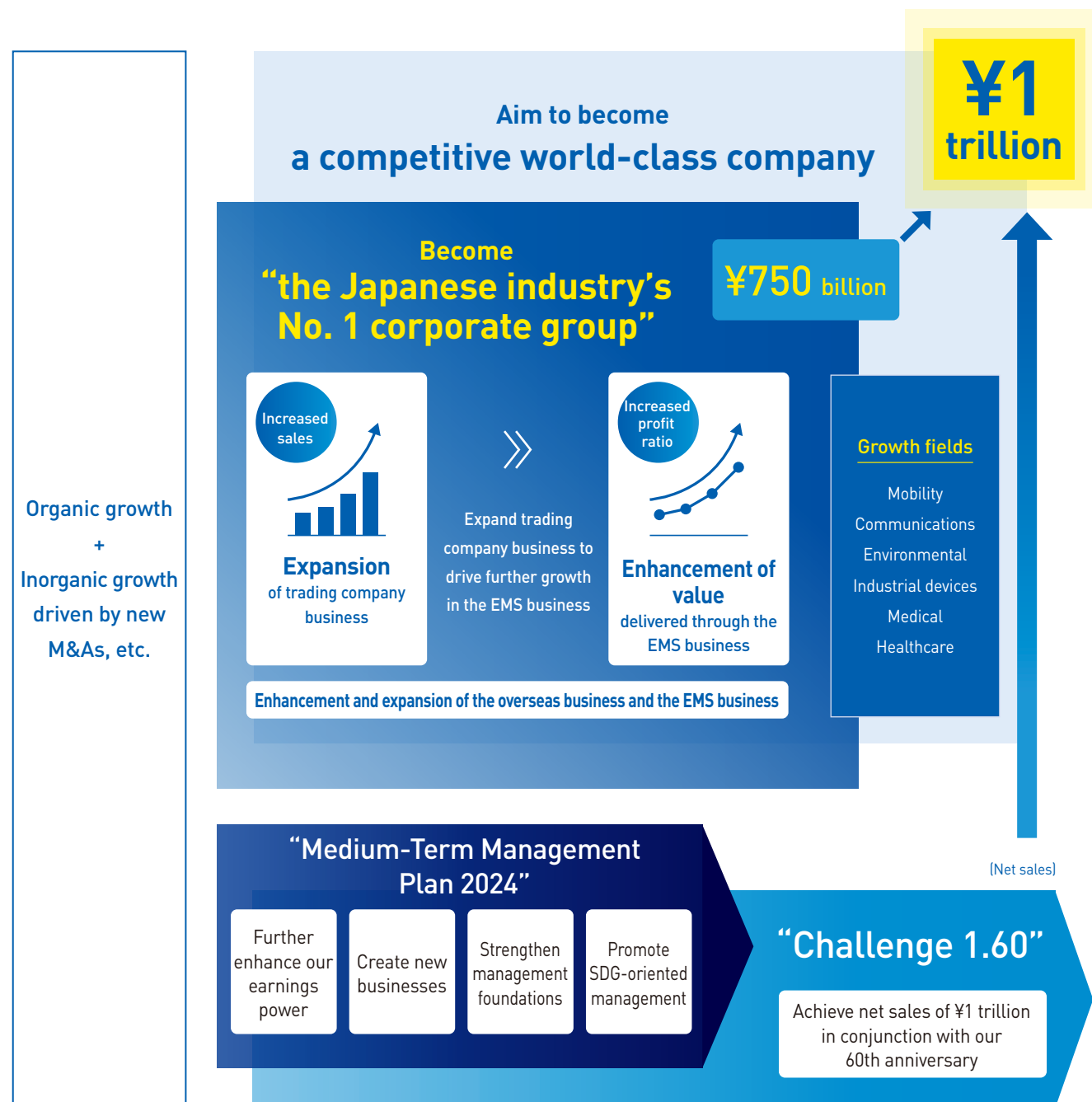
Note: Gross profit and operating income figures are shown prior to consolidated adjustments among the three companies. Consolidated adjustments are +¥33 million for gross profit and +¥173 million for operating income.



## The Kaga Electronics Group's Growth Drivers

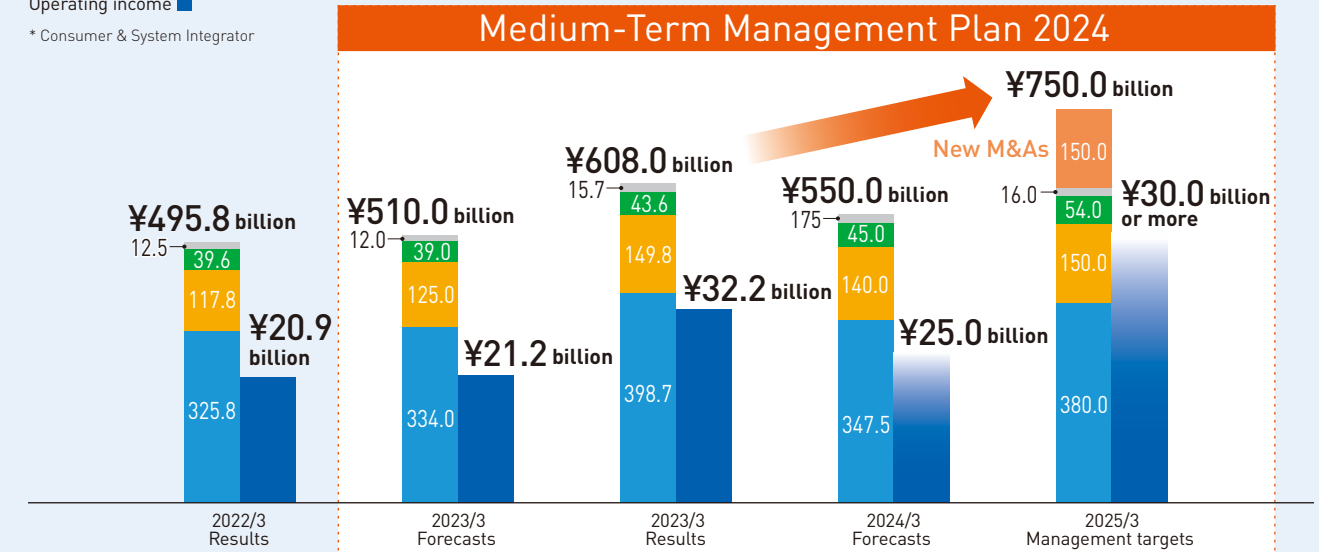
In line with the Medium-Term Management Plan 2024, we have defined “organic growth + new M&As” as the driver of expansion. Accordingly, we have positioned the trading company business centered on electronic components and the EMS business centered on circuit board mounting as growth drivers. Drawing on these two growth drivers, we will focus on growth fields, namely, the mobility, communications, environmental, industrial device, and medical and healthcare fields. Our scenario for the fiscal year ending March 31, 2025, the final year of this plan, is to become Japan's industry-leading company, capable of securing annual net sales of ¥750 billion. Once we have realized the aims set out under this plan, we will strive to achieve our vision of becoming a competitive worldclass company with net sales of ¥1 trillion.

### Overview of the new Medium-Term Management Plan



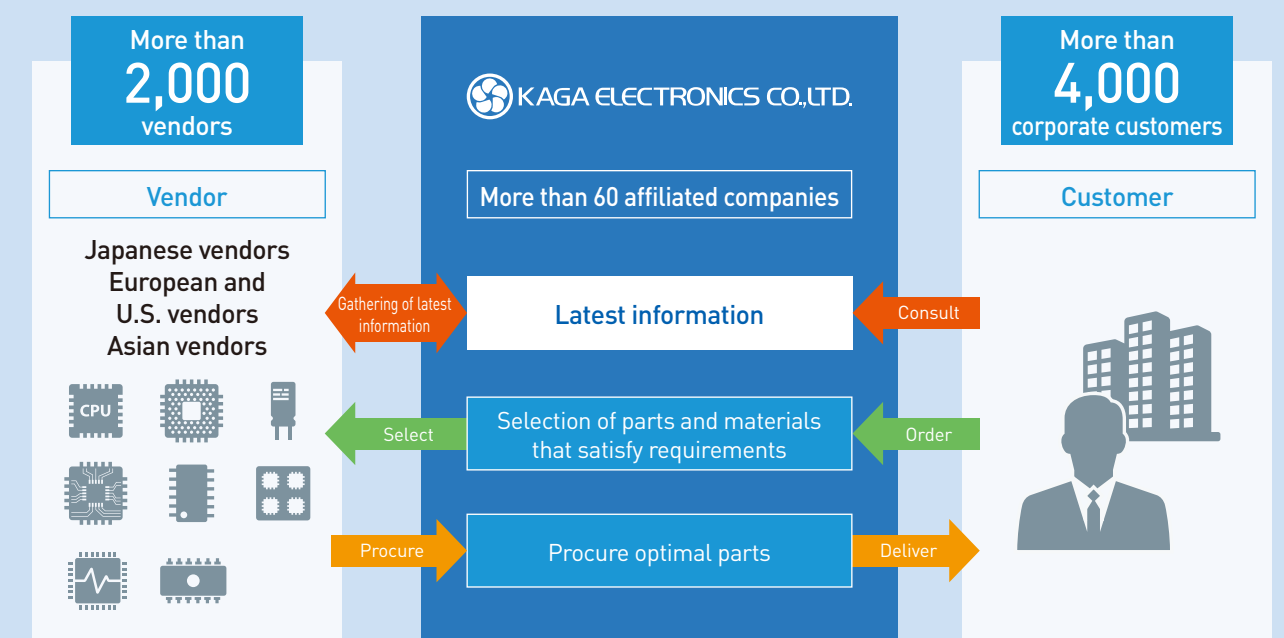
## Business portfolio

Net sales: Electronic components ■ EMS ■ CSI\* ■ Other ■  
Operating income ■  
\* Consumer & System Integrator



### Trading company business

Connect vendors around the world with customers and deliver the best possible products in an optimal way, to this end taking full advantage of our strengths as an independent trading company free of restrictions on the products it can handle



### Long-nurtured capability as a trading company to realign operations to reflect the changing times

#### Advantages of an independent general electronics trading company

Procurement capability that can be furnished only by an independent trading company backed by hard-earned trust and know-how accumulated over the course of more than 50 years

#### Global network capability

Information gathering capability that enables us to stay ahead of the changing times, thanks to various functions of Group companies in a diverse range of fields

#### Technical support structure

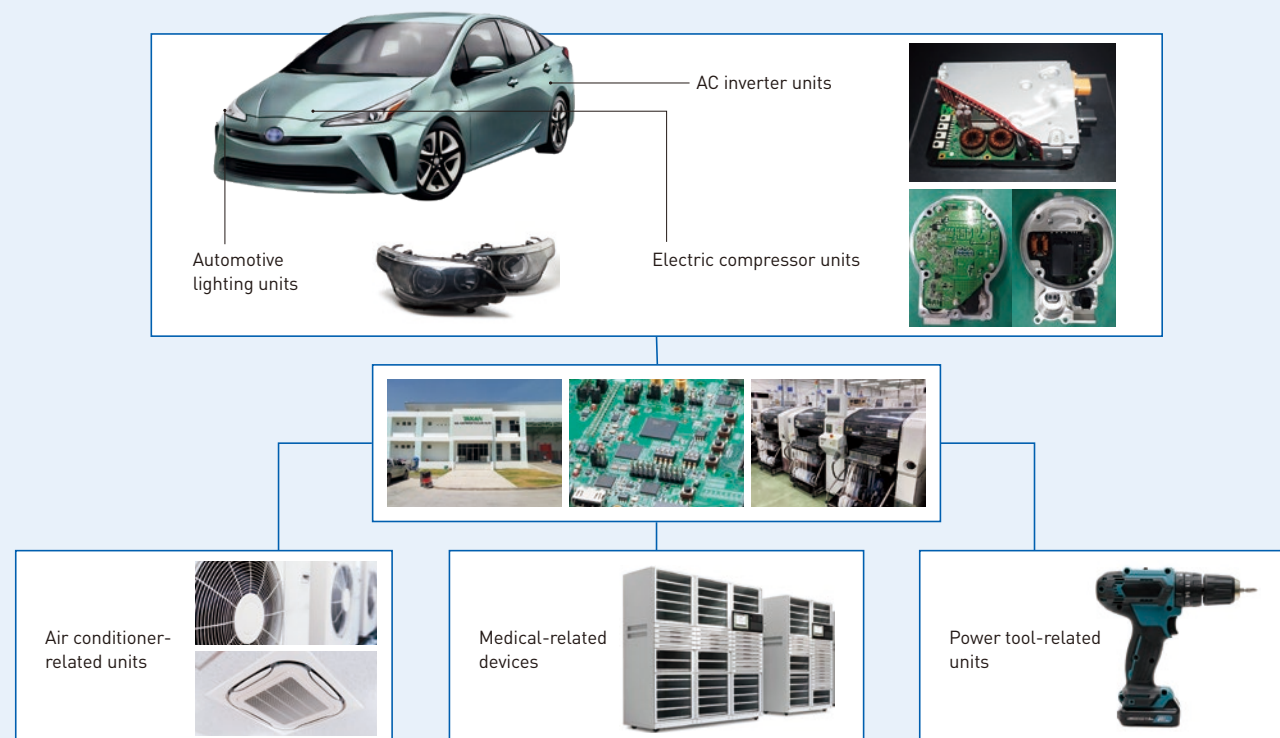
A rock-solid, trustworthy support structure afforded by a team of seasoned engineers



## EMS business

With high reliability and high-mix, low-volume production as our strengths, we develop our business through local production for local consumption by our nearby customers

### Main Items Manufactured in the EMS Business



### [Initiatives Related to the EMS Business]

## Reaching New Stages of Growth through the Maximization of Our Unique Strengths

**Motonori Toshinari** Managing Executive Officer

### Our strengths in the EMS business

Operations undertaken by the Kaga Electronics Group in its EMS business have mostly emerged from customer transactions based on our parts dealership. As an electronic component trading company, we have been involved in negotiations with customers from the design stage of semiconductors and delivered needed parts to them, with these negotiations often evolving into customer requests for EMS. Therefore, what distinguishes us from other companies is an environment conducive to the development of parts delivery transactions into EMS. Transactional relationships with our EMS customers typically last a decade or two as these operations are built upon hard-earned customer trust.

Our area of expertise is consistently concentrated on

low-volume, high-mix manufacture as opposed to mass-producing PC and cell phone components. Moreover, we locate our bases close to our clientele in order to follow the local-production, local-consumption model, exactly as convenience store chains do. Even while an EMS transaction typically begins with an order for the monthly manufacture of 100 units, other transactions could involve the manufacturing of up to 10,000 units each month.

Under the assumption that we rank around 20th within the global EMS industry, we aim to secure a position among top 10 companies. As our Japanese customers currently account for approximately 85% of our EMS customer portfolio, we consider securing a growing number of non-Japanese customers key to raising our industry ranking. Although the proportion of Chinese customers is expanding in our customer portfolio, European and U.S. customers still remain a minority. Accordingly, we are proactively striving to reach out to the latter customer group. To that end, our bases in Mexico and Turkey play important roles in our bid to serve customers in the United States and Europe, respectively.

### The genuine capabilities of the Kaga Electronics Group demonstrated during the COVID-19 pandemic

Amid the COVID-19 pandemic, we thoroughly implemented measures to curb infections among our workforce based on an awareness of the risk of disruption in factory operations as a result of the spread of the virus. We also addressed emerging

## Our strengths in the EMS business

Point  
1

### "Convenience store-type" EMS

Roll out of "convenience store-type" EMS on a global basis to deliver convenience and value to customers

Small initial investment  
(Leased land and buildings, standardized interiors)

High-mix, low-volume production

Local production, local consumption model  
(procurement, manufacturing and logistics)

Point  
2

### Global network

Maintain a global production system supported by 20 bases in 10 countries to swiftly and flexibly meet customer needs

Point  
3

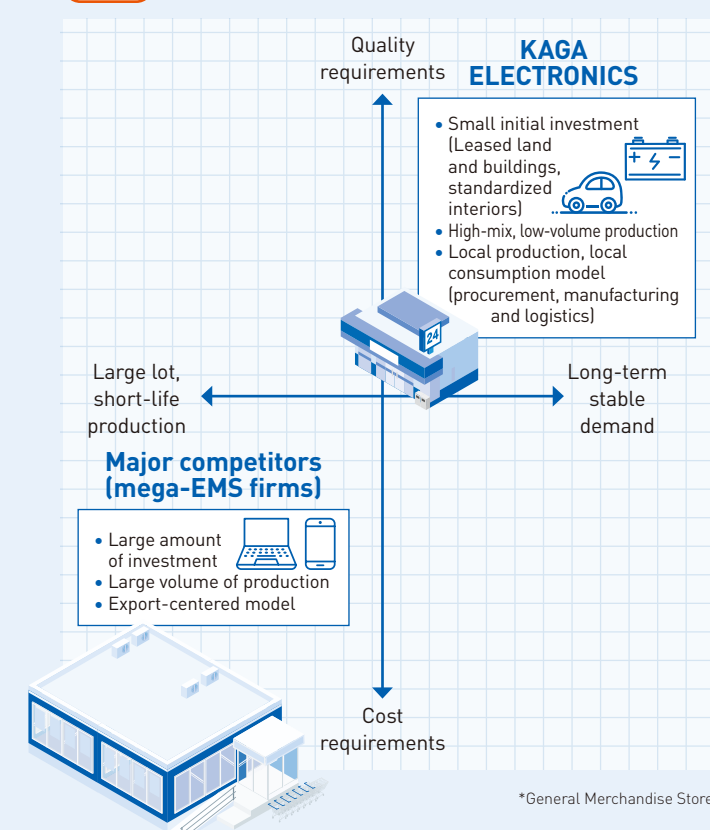
### One-stop solution capability

In addition to contract production, the Kaga Electronics Group's comprehensive strengths

enable it to provide one-stop services covering sales through after-sales support

Point  
1

### Convenience store-type EMS vs GMS\* type-EMS



Point  
2

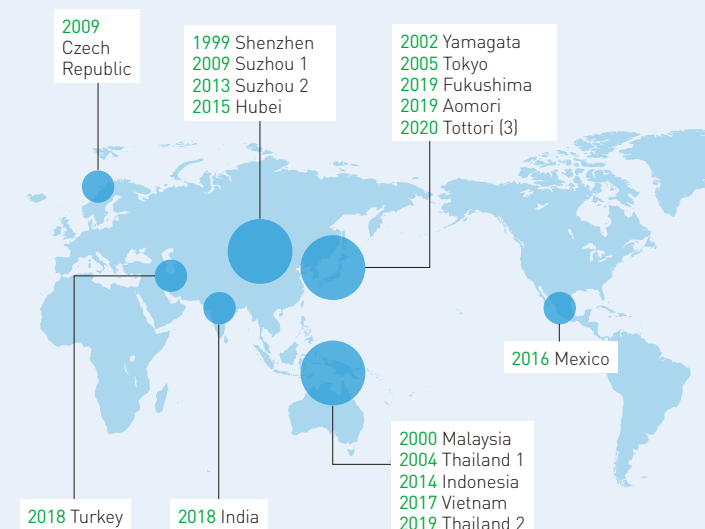
### Global expansion

## Maintaining 20 production bases in 10 countries

"We act as a close partner for our customers"

Securing a back-up system under which bases swiftly supplement one another to avoid country risks

Procurement from the closest source, production at the closest base, JIT supply







Managing Executive Officer  
Motonori Toshinari

subsequent issues arising from supply chain disruption, surging logistics costs, and the shortage of electronic parts. Specifically, we have leveraged all of the routes at our disposal as an electronic parts trading company to either gather necessary parts or propose alternative products to customers. Thanks to these efforts, we were able to overcome this challenging period.

Fortunately, there were no supply disruptions, and at no time did our production stoppages cause any customer line stoppages.

The markets for electronic parts and semiconductors are expanding due to the increasing use of electronics in all products, not just automobiles. Customers who want to reduce the burden of capital investment in these products are accelerating their active use of EMS. The use of EMS to reduce fixed costs is already well-established among Western companies. Similarly, Japanese companies are beginning to employ EMS, including our services, rather than investing in their own production lines, with the aim of focusing more on development and sales than ever before. Ultimately, someone has to make the goods. As a company that fills lines with orders from various companies, we can utilize EMS from small lots, and we expect that the number of situations in which our Company can be utilized will continue to expand in the future.

For example, our bases in China serve local corporations who prefer Japanese EMS providers to ensure that their products for exports are in conformity with global quality standards. Meanwhile, our customers in Japan utilize EMS offered by our bases in Turkey and Mexico in the course of manufacturing products for the United States and Europe in order to mitigate geopolitical risks.

### Building a foundation supporting the future growth of the EMS business

We sometimes encounter customers who have never prepared the necessary documents for commissioned parts manufacturing, as they have always been dependent on their own in-house manufacturing know-how. For customers unfamiliar with this type of EMS, the staff at KAGA EMS TOWADA CO., LTD. (TOWADA) has formed a team to provide onsite EMS launch support. We are also developing a framework in which TOWADA serves as the mother plant and production center, serving as a connecting hub for each base as well as dispatching its own staff.

To nurture human resources capable of supporting EMS, TOWADA, along with the Tottori Factory, another domestic

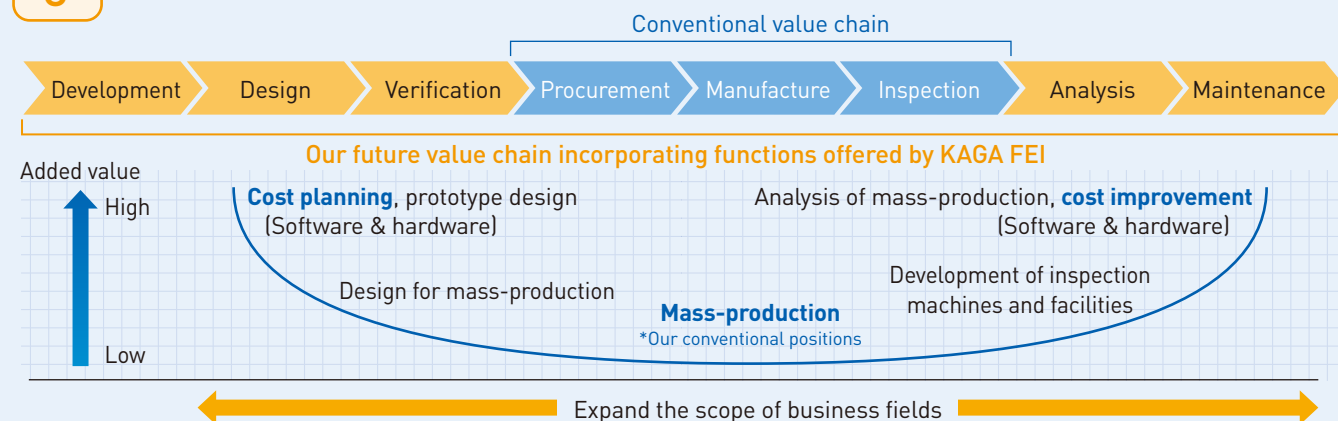
EMS base run by Kyokuto Electric Co., Ltd., have begun hiring graduates of industrial high schools and technical colleges. We are currently training these individuals with the aim of dispatching them to bases overseas bases. At the same time, we also invite human resources from overseas, including Vietnam and Indonesia, to undergo training programs in Japan.

The Kaga Electronics Group is aiming to become a company with sales of ¥1 trillion, of which we hope to generate at least ¥300 billion in EMS sales. Currently, sales are approximately ¥150 billion, and we are on track to reach ¥200 billion. The ratio between Japanese-affiliated and non-Japanese-affiliated customers is 6:4, with 40% believed to be non-Japanese-affiliated. In order to expand our non-Japanese affiliated customer base, local employees are indispensable. The Japanese way of thinking alone will never be enough. In terms of regions, Mexico, Turkey, and then India are next. As India is a vast country, we believe that multiple bases are necessary.

Looking ahead, we will not only offer EMS but also strive to secure customer understanding of our unique, comprehensive strength in the provision of one-stop services ranging from the procurement of electronic parts and repair to after-sales services. We are confident that the Group could be even stronger if we assess needs of each customer and sector in depth and accommodate such needs in a steadfast manner.

Point  
3

### Shifting our value chain to high-value-added fields: Development / design + EMS services



Facilitate collaboration among our bases around the globe and establish a human resource development structure, with KAGA EMS TOWADA (Production Center) playing a central role



### Proactive expansion of the EMS business

Oct. 2022

The relocated and expanded plant in Malaysia is now in full-scale operation. Invested approximately ¥1 billion to expand its facilities by more than 20% from the existing plant.



ASEAN ▶ New factory in Malaysia



Apr. 2024

The relocated and expanded Mexican base will be operational. The Company will invest approximately ¥5 billion over the next five years, aiming for sales of ¥50 billion and the creation of approximately 2,000 jobs within the first five years of operations.

The Americas ▶ New factory in Mexico

June 2023

A new factory in Turkey started operation. In light of strong needs arising from manufacturers' aversion of geopolitical risks, this factory is expected to serve as a main factor serving Europe.



Europe ▶ New factory in Turkey



# KAGA ELECTRONICS Is Pursuing an Ideal Governance Structure Based on Our Suggestions

Here, we present the summary of a roundtable talk among our three outside directors, Susumu Miyoshi, Akira Tamura and Noritomo Hashimoto, all of whom are seasoned corporate managers, to discuss the Kaga Electronics Group's ideals for corporate governance.

**Akira Tamura**  
Outside Director

**Susumu Miyoshi**  
Outside Director

**Noritomo Hashimoto**  
Outside Director



**KAGA ELECTRONICS downsized its Board of Directors, with the Board's membership being split between outside and internal directors. Please provide your assessments regarding recent revisions executed to update the Company's governance structure.**

**Miyoshi:** The downsizing of the Board's membership resulted in a better governance structure. This move will help the Board of Directors narrow its focus on determining the future direction the Company must take, identify priority agenda items, respond to changes in the external situation, and handle crisis management, information disclosure, M&A and other important matters even as it delegates authority over business execution to the executive officers. Although the Board is also expected to address and update its vision regarding how it should look going forward, I consider the downsizing of its membership a positive move in the right direction.

Having reduced the number of members, the Board of Directors is better positioned to spend time discussing each topic in depth. In addition, the roles to be borne by the Board have become much clearer. While supervising business execution is an important function of the Board of Directors, I believe that enabling the Board to robustly discuss what the Company should aim to accomplish is a matter of utmost importance. I believe the Board is now fully equipped to conduct future-oriented discussions.

**Tamura:** Attendees of Board of Directors meetings, Nomination and Compensation Committee meetings, Management Meetings, budget meetings and other important meetings are engaged in a free-spirited exchange of unfettered opinions. What supports these discussions are relationships of mutual trust among officers. At the same time, the differences in their standpoints enable them to avoid growing complacent and too cozy with each other. This is especially true of individuals from outside the Group with different backgrounds and are capable of providing fresh insights to those who have built their careers mostly within the Group. Moreover, the external environment surrounding the Company encompasses a diverse range of aspects. Accordingly, bringing multilateral perspectives into discussions will help us yield better results. On the other hand, a reduction in the number of Board members to the smallest possible extent was necessary in light of the importance of enabling the Board to engage in meaningful discussions.

Previously, separation between the Company's executive functions and its monitoring / supervisory functions had not been so clear. However, the Company transitioned to a structure in which authority over detailed management matters is delegated to executive officers to accelerate business execution, with the Board of Directors tasked with deliberating matters deemed particularly important for the Company as a whole. Although the three of us have repeatedly suggested that the Board of Directors focus on monitoring and providing necessary advice to executives, the recent revisions enabled the Board to realize just that.

Furthermore, the downsizing of the Board has put its members in a position in which they can harness their diverse backgrounds in discussions.

For the Company to maintain sustainable growth, it is important to secure excellent human resources capable of handling corporate management. To that end, we attend various important internal meetings, including Nomination and Compensation Committee meetings, in order to identify candidates from among individuals in a rank immediately under top management. We also conduct interviews to assess their awareness of issues confronting the Company.

To date, the Company has upheld KAGA-ism, which summarizes principles to be observed by employees and features various quotes selected from remarks by Chairman Tsukamoto in line with

a corporate philosophy of "Everything we do is for our customers." Although these principles have taken root among the workforce and provided employees with action guidelines, I believe the Company should update and align them with social norms, which evolve over time. Businesspeople who operate solely within the scope of a specific business could end up becoming ignorant to changes in society. I feel that the Board of Directors is called upon to stay apprised of such changes, believing that to do so is one form of the supervisory functions it is expected to exercise.

**Hashimoto:** A corporation can only exist by keeping its business running. Accordingly, the Management Meeting is deemed an extremely important meeting to support business execution. While this meeting is aimed at thoroughly deliberating on ways to accumulate sales and profit, the Board of Directors, including the three of us, will focus on discussing the Company's reason for being and the true value of its business as well as how it should look and what it aims to achieve going forward, based on the hard-earned results of its business operations. In short, the Company has secured a proper separation between supervisory functions, which employ an overarching perspective that takes the status of the entire Group into account, and executive functions, which are provided by the Management Meeting to robustly accumulate operating results.

For the former functions to be fully exercised, securing objectivity is of the utmost importance. In this light, the Board of Directors has gained a greater ability to objectively address issues affecting the entire Group while avoiding losing touch with what external stakeholders would say about its operations. I consider this ability to be the Board's most notable feature deserving appreciation.

Currently, KAGA ELECTRONICS adopts a system of a company with a board of corporate auditors with considerations toward a possible transition to a company with an audit committee system in the future. In addition, transitioning to a system of a company with three committees could one day become a viable option in the course of pursuing further corporate growth. In any case, the Board of Directors has now developed full capabilities to address these and other future-oriented subjects.

The updating of the governance structure also bears relevance to the Group's net sales target of ¥1 trillion. Doubling net sales from ¥100 billion to ¥200 billion is one thing, but doubling net sales of ¥500 billion to ¥1 trillion is something totally different. The latter will very likely cause various stakeholders in society to scrutinize whether the Company's conventional management structure is capable of maintaining this scale of operations. Employees will similarly be anxious about the same issue. I believe that, therefore, the Company must continue to update its governance structure in one way or the other.

**Miyoshi:** Since joining the Company's Board of Directors, I have been vocal about the necessity of female officers and have suggested appointing a female outside auditor as a first step. I am happy about the recent reconfiguration of the Board's membership, which included the appointment of the right person.

Although Mr. Hashimoto has touched on a topic associated with the Company's net sales target of ¥1 trillion, the Board of Directors will be called upon to discuss it as an important subject. I will elaborate on this subject from the following three aspects.

First, the pursuit of this target requires the alignment of the Company's business model. Previously, KAGA ELECTRONICS has largely been focused on procuring electronic parts from manufacturers and selling these parts. However, the Company needs to increase its emphasis on the provision of modules, namely, the EMS business, to meet customer requests. Failing to do so will deprive KAGA ELECTRONICS of its potential for corporate growth.

Second, M&A must be considered. Although nearly 30 listed companies operate in the electronics industry, there is an ongoing trend toward reorganization and mergers among them. This trend will continue. KAGA ELECTRONICS should similarly examine an option of merging with a partner capable of achieving mutual





Director Tamura

development with the Company itself. In addition, in order to expand its EMS business overseas at an even faster pace, the Company must consider forming alliances with EMS corporations abroad or signing M&A deals with them. It is about time for the Board of Directors to robustly deliberate on these issues to crystalize its strategies.

The third aspect is diversity. I consider promoting diversity to be a matter of extreme urgency. Specifically, the Company needs to empower women to serve as key workforce members in addition to effectively utilizing capabilities of employees of an advanced age and hiring foreign nationals. In particular, managers of overseas bases should be appointed from among employees local to the area. In this regard, the Company has recently decided to do just that in China. As employees local to the area are well-versed in local affairs, the Company should fully utilize their capabilities and networks in the course of expanding its EMS business overseas.

The Board of Directors needs to thoroughly address these three aspects going forward.

The aforementioned net sales target of ¥1 trillion must be achieved in a few years subsequent to the close of the current Medium-Term Management Plan. It is not a target for 2040. Rather, the Company is called upon to meet this target by 2028, in which it will celebrate the 60th anniversary of its founding. Accordingly, gaining greater momentum to this end is the foremost issue.

**Tamura:** The ¥1 trillion net sales target is not far-fetched, while, in the context of gaining the momentum for achieving it, the Company has thus far earned operating results in excess of its targets under its Medium-Term Management Plan. These results have, in turn, positively affected the morale of the Company's officers and employees as well as the market participants' assessment of its potential. KAGA ELECTRONICS should keep up the good work. In this regard, the appointment of a female corporate auditor is yet another positive move. Securing diverse human resources in terms of backgrounds and expertise is essential to enhancing the quality of discussions by key bodies, be it the Board of Directors or the Board of Auditors. Therefore, benefits arising from the aforementioned appointment transcend mere conformity with the growing public call for promoting diversity.

Meanwhile, the Sales Planning Department and other business units are currently striving to develop new businesses, to this end taking a forward-looking approach while abolishing the silo-based internal structure. Moreover, to better motivate employees, incentives granted to top-tier salespersons were substantially increased. Biannually, employees who achieved excellent performance are being commended in front of their peers. In addition, the overall salaries of employees have been upwardly revised.

The Company has also begun providing employees with special subsidies for the purchase of its shares. This measure was

introduced based on our suggestions aimed at invigorating the Employee Shareowners Association. When a growing proportion of employees become shareowners, employee affection and loyalty toward the Company will grow stronger. Share ownership among employees could also support share prices. We can conclude that our suggestions have contributed to a rise in share prices, expansion in sales and the enhancement of operating results as a whole while helping realize a virtuous cycle of these improvements.

**The Company's operating results forecasts for FY2024/3 include decreases in sales and profit due to a recoil from a temporary surge in demand during the COVID-19 pandemic and an inventory adjustment to be undertaken by customers. Please share your thoughts on initiatives the Kaga Electronics Group should undertake at this point of time to achieve further growth.**

**Hashimoto:** Although recovery in market demand from previous stagnation brought on by the COVID-19 pandemic resulted in widespread shortages of goods, the Kaga Electronics Group was able to expand sales as it handles a diverse range of parts without limiting the scope of markets it serves. Furthermore, the Group has succeeded in translating rises in raw material prices and other cost items into sales prices. It can be said that this achievement is a testament to customers' appreciation for the Group's procurement capabilities.

Taking these factors into account, I believe that it is not fair to pass a superficial judgment on the Company's single-year operating results, which were down from the previous fiscal year. Rather, KAGA ELECTRONICS has performed robustly despite unfavorable external conditions. This is where I give a positive assessment to the Company in light of its genuine function as a trading company.

**Miyoshi:** In the course of achieving business growth, plateaus are inevitable. It is important for companies to determine what should be done while facing a plateau. At present, KAGA ELECTRONICS should therefore work to improve internal operational efficiency in preparation for the coming of the next growth opportunity. It is time for the Company, in my opinion, to plan these and other preparatory measures.

When a corporation continues to grow, there is little time to pause and think. However, corporations that fail to do so will grow weaker in the long term. Experiencing a plateau could be a golden opportunity to think, plan and implement measures to grow even stronger. In summation, discussing what should be done at times of stagnation is of particular importance. As a director, I think that all of us at the Board are called upon to fulfill this crucial mission.

**Tamura:** From the management crisis amid chaos in the immediate aftermath of the World War II, Toyota learned the important lesson of securing cash and empowering human resources being vital to the company.

With regard to the former, a corporation with robust cash-generating capabilities is, indeed, better positioned to exercise management freedom. These capabilities will provide us with a basis for the execution of genuinely essential strategies. In line with Chairman Tsukamoto's remark that "Inventory is a liability," KAGA ELECTRONICS is currently striving to reduce the volume of inventories while also developing a foundation supporting its endeavors to attain a next growth stage.

As for the latter, a corporation whose employees work vibrantly typically achieves growth. I believe that the Company is about to establish a virtuous cycle of generating a robust volume of cash and motivating employees to work energetically.

**Hashimoto:** Concerns over a possible shortage of products is always on the minds of employees at the sales front lines as that will, in turn, cause them to fail to meet customer requests. On the

other hand, inventories are a source of risks as they could turn into dead inventories at any time. While inventories of raw materials may possibly be used for alternative purposes, KAGA ELECTRONICS handles parts and products. Once they become obsolete, these offerings could not be sold at even ¥1. Accordingly, inventories held by the Company are entirely based on orders placed by customers. Although the volume of inventories has been accumulated over the course of the period leading up to December 31, 2022, this volume was successfully reduced in the three months ended March 31, 2023 to a level below the volume at the beginning of the previous fiscal year.

**Miyoshi:** The phrase "bare minimum" has recently become customary among us when discussing the volume of inventories. In this regard, there is always a conflict of interest between sales and administrative departments. If we reduce the volume of inventories to zero, there would be no sales at all. Therefore, we should work to visualize an optimal level of inventories, issue an alert when the volume of inventories exceeds such a level and replenish them when the level is less than optimal. It is important to constantly monitor the volume of inventories to keep it at an optimal level.

**Tamura:** When it comes to empowering employees, establishing a positive cycle of achieving corporate growth, improving stock prices and raising wages for employees is of importance. Recently, KAGA ELECTRONICS placed 27th in a ranking compiled by Nikkei Newspaper of listed companies that substantially increased wages for employees. Going forward, employee shortages will become even more widespread in regions across Japan. Improvement in wages will help prevent the resignation of young employees. Accordingly, it is important to create a Company in which employees are highly motivated to pull together to support ongoing corporate growth.

**Although "business management conscious of stock prices" is a subject of public discourse, could you explain the stance taken by KAGA ELECTRONICS in this regard?**

**Tamura:** The Company's stock prices are trending stably while garnering robust market appreciation. For the Company to maintain these trends, it is extremely important to steadily implement IR and other activities aimed at gaining deeper public understanding of the good points of KAGA ELECTRONICS.

We often discuss these activities at Board of Directors meetings and remain aware of their importance.

**Miyoshi:** Stock prices are determined by the market. No corporations are in a position to manipulate the value of their shares. The Company is just called upon to do what it should do while maintaining proper information disclosure. I hope that the Company will take a more proactive approach to IR activities



Director Miyoshi



Director Hashimoto

because doing so could help it earn market appreciation, which will, in turn, lead to an improvement in stock prices and the establishment of an even better corporate image among the general public. Of course, achieving robust operating results is a basis for the success of these activities. Stock prices typically reflect the market's trust in a corporation. Accordingly, the speed-oriented execution of the management plan is another matter of importance.

Looking at ESG initiatives undertaken by the Company, discussions are underway regarding the near-future installation of solar panels at domestic manufacturing bases. Meanwhile, these panels have already been installed and are in operation at two overseas manufacturing bases. I think that it would be even better if solar panels are introduced at all the Group factories. I expect the Company to pursue this initiative, beginning in areas from which it can currently work on.

**Hashimoto:** Stock prices always involve a complex issue. For example, if all shareholders decided not to sell their shares, stock prices would no longer increase. When I joined the Company's Board of Directors, I was curious as to why its stock prices had not risen despite achieving solid sales and being in good shape. I also discussed this with my fellow outside directors to address this question from diverse perspectives.

Although the Company's stock prices have since risen in recent years, we must also stay alert about the possible consequence of stably high stock prices, which could lead to lower liquidity. This can also be detrimental to us, making it difficult to assess the genuine market reputation of the Company. Because of this, we cannot simplistically focus solely on pursuing higher stock prices.

Given these factors, if stock prices were to stay at the current level, we may need to consider reducing the minimum number of share units to enable shareholders to easily buy and sell, or execute a share split. These would be viable options for measures to be implemented by the Company to counter the possible deterioration of liquidity. I believe that discussing these subjects is another important role to be borne by the Board of Directors.

**Tamura:** In the course of IR activities, sincerely heeding opinions voiced by shareholders and investors is important. I deem it essential to directly engage with investors, both domestic and overseas, take heed of what they say about the Company and respond to their requests.

**Hashimoto:** For the Company to achieve higher stock prices backed by solid market reputation for its operating results and shareholder returns, IR activities are indeed a matter of extreme importance. As Mr. Miyoshi has noted, however, improving operating results will be a basis for the success of these activities. The Company therefore should swiftly execute measures to achieve goals of its management plan so that it can maintain the market's trust, which will, in turn, affect stock prices.



# Corporate Governance

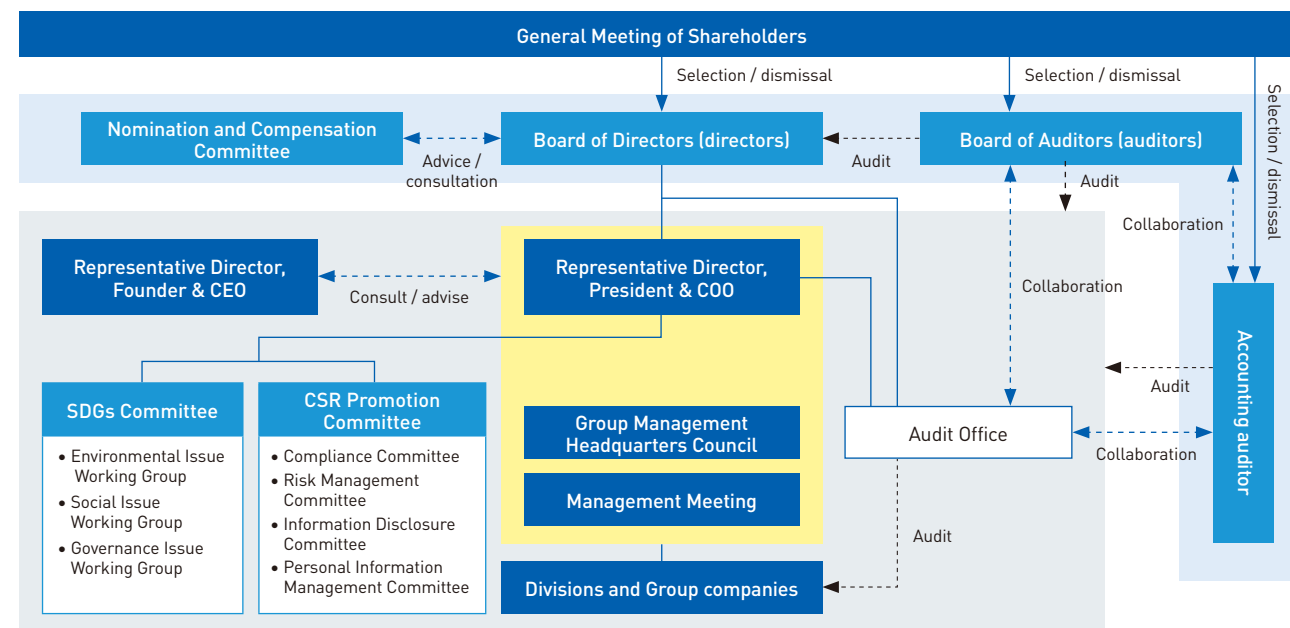
## Basic approach and structure of corporate governance

KAGA ELECTRONICS recognizes that enhancing corporate governance is a key management issue. The Company is therefore building a corporate governance system with the fundamental policies and aims of ensuring total compliance with corporate ethics, laws, and regulations, reinforcing internal control systems, and securing the soundness, efficiency, and transparency of business operations to improve its corporate value. Moreover, in light of the importance of corporate governance, the Company maintains the CSR Promotion Committee, the SDGs Committee and the Nomination and Compensation Committee, thereby strengthening its corporate governance structure.

KAGA ELECTRONICS is a company with a board of directors and board of auditors. It has adopted a corporate governance system based on collaboration among its Board of Directors, auditors and Board of Auditors, and with the accounting auditor. In principle, the Board of Directors meets once a month and holds extraordinary meetings on a flexible basis. The Board of Directors makes decisions on important matters related to items stipulated by laws and regulations as well as

to management, and it supervises the execution of duties by directors. Consisting of six directors, including three of both internal and outside directors, the Board of Directors is capable of sufficiently discussing the aforementioned matters and making accurate and swift decisions. In addition, although the Company has maintained an employment-based executive officer system since April 1, 2005, it switched to a commissioned executive officer system on April 1, 2022, in order to further enhance corporate governance. Based on this system, the Company has even more clearly defined the roles of individuals tasked with management decision making and supervision and those tasked with business execution, thereby facilitating the separation of functions. Moreover, with this move the Company secured a structure capable of responding swiftly to changes in the external environment even as it strengthened both Board of Directors functions and executive functions. The Board of Auditors consists of four auditors, including three outside auditors. Auditors regularly attend Board of Directors meetings while proactively participating in other important internal meetings as part of their duties.

### Corporate Governance Organizational Diagram



#### Nomination and Compensation Committee

The Company has established the Nomination and Compensation Committee in an effort to secure the transparency and objectivity of its process for nominating candidates for directors and auditors, evaluating their performance and determining remuneration for these individuals. The Nomination and Compensation Committee consists of at least three directors selected by the Board of Directors, a majority of whom shall be independent outside directors, and the chairperson of the committee shall be selected from the independent outside directors.

#### Audit Office

The Company established an Audit Office under the direct authority of the Representative Director, President & COO. The Audit Office works in collaboration with the Administration Headquarters, etc., conducting audits to assess the appropriateness of business activities undertaken by Group companies and other entities, monitor the status of management resources they use, and confirm that they are in compliance with laws and regulations, the Articles of Incorporation, and other internal rules. Moreover, pursuant to the Financial Instruments and Exchange Act, the Audit Office conducts evaluations of internal control systems.

#### SDGs Committee

The SDGs Committee is chaired by the President and COO, and comprises each division's chief officers, among others. Working groups on the environment (E), society (S), and governance (G) are set up under this committee to establish guidelines, measures and objectives for these ESG issues, as well as to monitor progress and perform other functions.

#### CSR Promotion Committee

The CSR Promotion Committee is chaired by the Representative Director, President & COO. The Company established Information Disclosure Committee, Risk Management Committee, Compliance Committee and Personal Information Management Committee as subordinate organizations. These organizations work to normalize decision-making and the execution of business operations throughout the Group.

## Outside officers

The Company has appointed three outside directors and three outside auditors. Based on the Tokyo Stock Exchange standards on independence, we appoint outside officers who do not have any special interests in the Company and who 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, that 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, of this schedule in order to improve attendance.

### Attendance at Board of Directors Meetings

Name	Position and assignment at the Company	Status of attendance at Board of Directors meetings held during the year ended March 31, 2023		Committee membership		
		Attendance (times)	Attendance rate (%)	Nomination and Compensation Committee	CSR Promotion Committee	SDGs Committee
Isao Tsukamoto	Representative Director, Founder & CEO	17/18	94.4	●		
Ryoichi Kado	Representative Director, President & COO	18/18	100.0	●	●	●
Shintaro Kakei	Director, Senior Managing Executive Officer	18/18	100.0		●	●
Susumu Miyoshi	Outside Director	18/18	100.0	●		
Akira Tamura	Outside Director	17/18	94.4	●		
Noritomo Hashimoto	Outside Director	18/18	100.0	●		

Outside : Outside directors Independent : Independent directors as defined by the rules of the Tokyo Stock Exchange ● : Committee chair ● : Committee member



## Internal Control / Compliance

### Areas of specialty of Directors and Auditors

	Name	Corporate management	Global business	Sales and marketing	Law and risk management	Finance and accounting	Personnel management and human resource development	Technology and manufacturing	IT and digital technology
Directors	Isao Tsukamoto	●	●	●		●			
	Ryoichi Kado	●	●	●			●		
	Shintaro Kakei		●	●				●	●
	Susumu Miyoshi	Outside Independent	●	●	●	●			
	Akira Tamura	Outside Independent	●	●	●				●
	Noritomo Hashimoto	Outside Independent	●		●		●	●	
Auditors	Eiji Kawamura		●			●	●		●
	Susumu Kitsunai	Outside Independent	●	●		●			
	Yoichi Sato	Outside Independent			●		●		
	Kyoko Oyanagi	Outside Independent	●		●		●		

Note: Up to four skill categories are presented per individual in line with the Company's expectations regarding their contributions in their respective areas of specialty. The above matrix does not fully describe the expertise possessed by each individual.

### Remuneration system for officers

The Company's basic policy regarding remuneration for its directors is to structure a remuneration system that is linked with shareholder interests and that robustly incentivizes these individuals to strive for ongoing improvement in corporate value, with the aim of securing and retaining excellent human resources capable of practicing and realizing its corporate philosophy. To this end, the Company strives to set remuneration for each director at a level commensurate with their assigned responsibilities. Specifically, remuneration for executive directors

comprises basic fixed remuneration, performance-linked remuneration, and share-based remuneration. Remuneration for outside directors, who are tasked solely with exercising supervisory functions, consists only of basic remuneration due to the nature of their duties.

The Company has also made it a rule to ensure that procedures for determining remuneration for directors are rational, objective and transparent as is the content of such remuneration itself.

#### Total amount of remuneration for the year ended March 31, 2023

	Total remuneration, etc. (millions of yen)	Number of recipients
Directors [Of which, outside directors]	1,039 [40]	11 [4]
Auditors [Of which, outside auditors]	46 [10]	4 [2]

### Basic approach to internal control systems

The Kaga Electronics Group is aware that enhancing corporate governance is an important management issue. Our fundamental policy is ensuring compliance with corporate ethics and laws and regulations and reinforcing internal control systems while maintaining the soundness, efficiency and transparency of management and raising corporate value.

To this end, the Company has defined its basic approach to internal control systems. Moreover, 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 one another's execution of duties 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 the proper execution of duties by employees of the Company and Group companies. And to make this effective, the Company has also set up the Compliance Committee under the umbrella of the CSR Promotion Committee chaired by the President & COO. In this way, the Company secured a structure to ensure the appropriate execution of business throughout the Group.

### Risk management system

Potential risks that the Group faces include factors relating to economic conditions, exchange rate fluctuations, country risks, price competition and rivalries, product procurement capabilities, internal brand risks, legal regulation, market risks, major litigation, severance pay obligations, personal information, accidents, the environment, and information management. As part of efforts to create the needed appropriate systems to manage every risk the Group may face, the Company has designated divisions tasked with handling specific risks while appointing

risk control officers and managers tasked with spearheading risk countermeasures undertaken by such division.

The Risk Management Committee, a subordinate body of the CSR Promotion Committee, analyzes and examines the Group's various risks, and the predetermined departments in charge of each foreseeable risk are working to mitigate the risks. In addition, the Company has established Risk Management Regulations to clarify how to respond to risks in business operations and to strengthen the risk management system.

### Ensuring appropriate operations at Group companies

The Company has established Rules on the Management of Affiliated Companies to ensure appropriate business operations at affiliated companies and executes controls based on these rules. In addition, it is required that any coordination among Group companies as well as any action on important matters are first discussed by the Company's Management Meeting and Board of Directors before decisions are made.

The Company's Audit Office conducts audits in collaboration with the Administration Headquarters and other business units to ensure that business activities undertaken by Group

companies meet unified standards and to confirm the appropriateness and compliance of their operations with laws and regulations as well as the Articles of Incorporation. The Office also provides guidance for improvements in business activities.

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

### Efforts toward the elimination of antisocial forces

The basic position of the Kaga Electronics Group is to maintain no relationships whatsoever with antisocial forces that threaten social order and safety and to remain resolute in its refusal of all improper demands from antisocial forces as set forth in its Fundamental Compliance Rules and Employment Rules.

In cases where the Company is subject to improper demands from antisocial forces, the General Affairs Department and CSR Promotion Committee work together,

acting in collaboration with crisis management advisors and company attorneys on an as necessary basis in their efforts to ensure proper and organized responses to such incidents. The Company also holds regular discussions with company attorneys, meets with police departments and other external specialized organizations, and participates in training and other activities to gather relevant information on antisocial forces.



Directors and Auditors

As of June 27, 2023

Directors



**Representative Director,  
Founder & CEO**  
**Isao Tsukamoto**  
**1968** Founded KAGA ELECTRONICS CO., LTD. (private management)  
**1968** Established KAGA ELECTRONICS CO., LTD. President  
**2007** Founder & CEO  
**2021** Outside Director of ITbook Holdings Co., Ltd. (present position)  
**2022** Representative Director, Founder & CEO



**Representative Director,  
President & COO**  
**Ryoichi Kado**  
**1980** Joined KAGA ELECTRONICS CO., LTD.  
**1991** General Manager of Sales Department, 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 Sales Headquarters  
**2012** Vice President  
**2014** President & COO  
**2022** Representative Director, President & COO



**Director, Senior Managing  
Executive Officer**  
**Shintaro Kakei**  
**1980** Joined ITOMAN Co., Ltd.  
**1993** Joined KAGA ELECTRONICS CO., LTD.  
**2000** Division Director of Overseas Business Division, Electronics Sales Headquarters  
**2000** Director  
**2005** Managing Director  
**2014** Senior Managing Director  
**2022** Director, Senior Managing Executive Officer



**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 Maxell Holdings, Ltd.  
**2015** Director of the Company



**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)  
**2012** Advisor to Niigata Sohgo Security Services Co., Ltd. (ALSOK) (present position)  
**2015** Director of the Company  
**2019** Outside Board Director of Solekia Limited (present position)



**Outside Director**  
**Noritomo Hashimoto**  
**1977** Joined Mitsubishi Electric Corporation  
**2009** Director, Chairman of the Nomination Committee, Chairman of the Compensation Committee, Executive Officer, 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, in charge of Corporate Strategic Planning and Operations of Associated Companies  
**2012** Director, Member of the Nomination Committee, Senior Vice President, in charge of Corporate Strategic Planning and Operations of Associated Companies  
**2016** Director  
**2016** Advisor  
**2019** Director of the Company  
**2021** Outside Director of IBOKIN CORP. (present position)

Auditors



**Auditor (Full-time)**  
**Eiji Kawamura**  
**1979** Joined KAGA ELECTRONICS CO., LTD.  
**1985** President of TAXAN (UK) 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, Head of Administration Headquarters  
**2022** Director, Managing Executive Officer Head of Administration Headquarters  
**2023** Auditor (Full-time)



**Outside Auditor**  
**Susumu Kitsunai**  
**1997** Joined Tokyo Office of Tohmatsu & Co. (currently Deloitte Touche Tohmatsu LLC)  
**2001** Registered as Certified Public Accountant  
**2002** Opened Kitsunai Certified Public Accountant Office as Representative (present position)  
**2004** Established Asia Alliance Partner Co., Ltd. as Representative Director (present position)  
**2018** Auditor of KAGA ELECTRONICS CO., LTD.  
**2022** Outside Director of Agent Insurance Group, Inc.



**Outside Auditor**  
**Yoichi Sato**  
**1977** Assistant Judge at Tokyo District Court  
**1989** Judge at Tokyo District Court  
**1996** Judge at Tokyo High Court  
**2016** Admitted to the bar, Joined Alpha Partners Law Offices (present position)  
**2018** Auditor of KAGA ELECTRONICS CO., LTD.  
**2021** Auditor of Bouygues Asia K.K.



**Outside Auditor**  
**Kyoko Oyanagi**  
**2002** Joined Sanken Outsourcing K.K.  
**2004** Joined Sugata Labor Management Office (currently Sakura Management Office)  
**2005** Registered as a labor and social security attorney  
**2006** Executive Director, Tokyo Labor Improvement Promotion Association (Labor insurance affairs association)  
**2016** Representative of Social Insurance and Labor Advisors Corporation, Sakura Management Office (present position)  
**2020** Chairperson, Tokyo Labor Improvement Promotion Association (Labor insurance affairs association) (present position)  
**2023** Auditor of KAGA ELECTRONICS CO., LTD.

Executive Officers

Founder & CEO	Isao Tsukamoto	
President & COO	Ryoichi Kado	
Senior Managing Executive Officer	Shintaro Kakei	
Managing Executive Officer	Motonori Toshinari Mitsuhiro Nohara	
Senior Executive Officer	Mitsuhiro Ikeda	President of EXCEL CO., LTD.
	Takeshi Tsukamoto	Representative Director, President of KAGA FEI Co., Ltd
	Takao Okabe	Division Director of EMS Business Division
	Yasuhiro Ishihara	Head of Administration Headquarters

Executive Officer	Shoji Seki	Representative Director, President of KAGA SPORTS CO., LTD.
	Hiroki Suzuki	President of DIGITAL MEDIA LAB., INC.
	Hiroaki Maruyama	Director, Managing Executive Officer of KAGA FEI Co., Ltd.
	Kazuhira Watanabe	Division Director of Communication Network Sales Division
	Hironaga Nagasaka	General Manager of Sales Strategy Office
	Takahiro Urazawa	Senior Managing Director of KAGA SPORTS CO., LTD.
	Katsutoshi Suzuki	Representative Director, President of KAGA DEVICES CO., LTD.
	Satoshi Eguchi	Representative Director, President of KAGA MICRO SOLUTION CO., LTD.
	Mitsuhiro Kumabe	Representative Director, President of KAGA SOLUTION NETWORK CO., LTD.
	Hitoshi Koujitani	General Manager of Corporate Strategy Office
	Kenji Shimazaki	Managing Director of KAGA SOLUTION NETWORK CO., LTD.
	Zhen Zhou Zhu	China Supervisor



## [Human Capital-related Initiatives]

## Putting “People Are Our Greatest Asset” into Practice

### Ken Ishizaki

General Manager,  
Administration Headquarters  
Personnel Department



### Our Basic Concept on Human Resources and Initiatives to Develop Human Resources

The Kaga Electronics Group’s approach to human resources can be summarized into a single sentence, “People are our greatest asset.” In line with this approach, we have worked to nurture independent, autonomous, and self-motivated individuals with a strong spirit. In the course of human resource management, we remain mindful of what can be done to maximize the value of our human resources and bring out their full potential while encouraging them to exercise their unique strengths as Kaga Electronics Group employees.

At the core of our training system are in-house position level qualification systems and training programs that differ based on employees’ years of service. The former grants membership to each employee upon joining the Group and, as they accumulate experience, promotes them to leader, chief, manager, general manager and, ultimately, senior general manager. These titles, however, are irrespective of their job functions. For example, an individual at the “leader” rank could be appointed to a manager position if deemed to possess management skills. Likewise, a general manager can be appointed from among individuals who have only reached the “manager” level. As such, our in-house position level qualification is designed to be flexible, imposing minimal limitations so that competent individuals can be rapidly promoted to higher positions.

Meanwhile, our training programs that differ based on employees’ years of service require employees to undergo annual training until the end of their fourth year within the Group. Usually, those in their fifth or sixth year would have reached the “leader” level and would then begin participating in leadership training via the position level-based training programs. Accordingly, the pace of promotion begins to vary by individual.

The three job categories are sales, engineering and administrative staff. From the viewpoint of overall proportion of employees within each category, sales staff account for a substantial majority with administrative staff constituting our

workforce’s second largest group. The number of engineering staff is small.

Recently launched human resource development initiatives include sales training for younger employees, in addition to sales capability enhancement (strategic thinking) training, in which employees better hone their sales capabilities by learning side by side with managers. Previously, on-the-job (OJT) training was the main skill development method implemented at KAGA ELECTRONICS as this approach can be closely aligned with what occurs at the front lines of business and yield immediate effects. However, we have since realized that proficiency level could vary by individual based on the staffing situation of each business unit to which new recruits are assigned. This was ultimately the reason behind the launch of new training programs. We believed basic concepts and methods for human resource development should be unified. Furthermore, while the overall resignation rate remains low at slightly in excess of 2%, we must provide new recruits with robust training in order to curb the resignation of employees in their second and third years of joining the workforce.

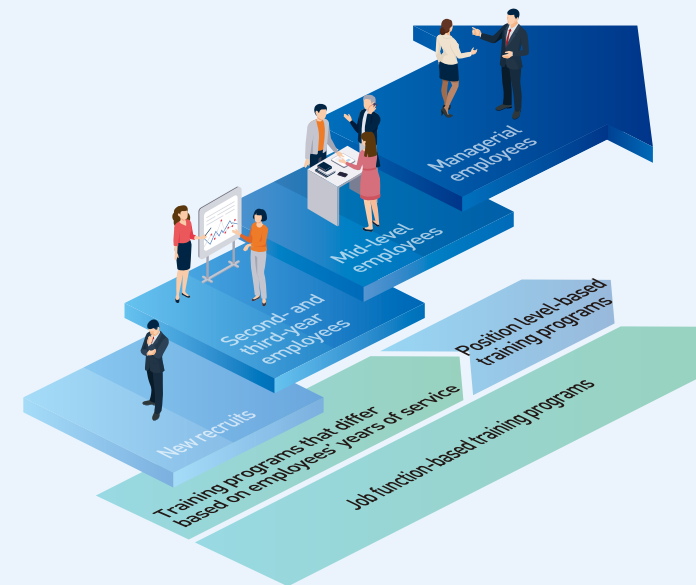
Sales capability enhancement (strategic thinking) training brings together younger employees and managers from multiple sales departments and encourages them to interact, learn from each other and inspire one another to enhance their strategic thinking skills while they collectively study that will be put to use in their sales activities. While this may not immediately turn new recruits into fully equipped salespersons, we aim to equip employees with 70% to 80% of the necessary skills at a very early stage of their careers, with the hope of mitigating the risk of resignation.

Moreover, an issue associated with the low frequency of personnel transfer has come to our attention. Therefore, between 2021 and 2022, we implemented the Strategic Human Resource Management Project. As we also aim to enable employees to gain robust experience at early stages, we have made it a rule to proactively undertake transfers, including those between business divisions and Group companies.

Looking ahead, we will leverage the database accumulated in the course of the above project regarding our human resources, including those at Group companies, to inform our future measures to develop top management candidates.

To date, we have rarely recruited mid-career hires. However, this traditional policy has now been changed due in part to the expansion of the size of our operations. While we have previously employed a handful of mid-career hires specialized in fields such as accounting and engineering, we have begun to proactively recruit a growing scope of individuals from external sources, including salespersons.

Traditionally, recruiting mid-career employees has been seen as involving the risk of hiring individuals with an approach that is incompatible with KAGA-ism, especially in terms of sales activities. However, KAGA ELECTRONICS itself has undergone changes in many respects, with KAGA-ism being updated to align with the times. Accordingly, we feel that this no longer discourages the recruitment of mid-career hires.



### Nurturing Global Human Resources Based on the EMS Business, Which Is Expanding Overseas

With regard to the development of global human resources, the EMS Business Division serves as a hub from which employees are dispatched to overseas assignments. Specifically, we first assign salespersons who joined the Group as mid-career hires to the EMS Business Division and then dispatch them to overseas destinations after amassing front line experience for two to three years. Meanwhile, KAGA MICRO SOLUTION, a manufacturing subsidiary, recruits mid-career hires specialized in manufacturing and then secondments them to the Production Center of the EMS Business Division after they gain proficiency. Following this secondment, they are transferred to overseas bases. Going forward, we aim to nurture human resources capable of handling overseas production management. To this end, we plan to promote such initiatives as assigning new recruits to KAGA EMS TOWADA CO., LTD., and then sending them to countries abroad after a stint at domestic factories, including those run by Kyokuto Electric Co., Ltd.

To leverage the capabilities of foreign national employees, KAGA EMS TOWADA CO., LTD. annually accepts technical trainees from Indonesia and Vietnam, leveraging a government-sponsored foreign technical intern training

program. These trainees are given the option of either returning to their home countries after a three-year training period or continuing their career at KAGA EMS TOWADA CO., LTD. Meanwhile, Kyokuto Electric Co., Ltd. accommodates human resources from its subsidiary in Thailand, providing its own in-house training.

### Initiatives to Promote Diversity & Inclusion

In terms of women’s empowerment, our Medium- to Long-Term Sustainability Management Plan includes the specific target of increasing the consolidated ratio of women in managerial positions to 15% by 2024 and 17% by 2029. Currently, we have made steady progress toward this target. However, when looking at KAGA ELECTRONICS on a non-consolidated basis, along with its domestic Group companies, this ratio is not steadily growing. With this in mind, we have formulated targets aligned with the situation of each Group company. Furthermore, we are assiduously promoting initiatives to raise the ratio of women as newly hired career track employees to 30%. We recognize a need to focus on the nurturing of our female employees at a robust pace at KAGA ELECTRONICS and other domestic companies.

With regard to the promotion of foreign national employees, Mr. Zhen Zhou Zhu, our China Supervisor, was appointed as the first foreign national executive officer of KAGA ELECTRONICS.

As for the empowerment of older employees, although the retirement age of 60 years old remains unchanged, we consider reaching this age to be yet another milestone of employee career development. We intend to provide older employees with duties that allow them to leverage their experience and offers them fair wages. By doing so, we hope our employees will remain highly spirited and serve as key workforce members in an ever-broader range of business fields even after reaching the age of retirement.

We also believe that “a company never thrives unless its employees are healthy.” Based on this, we have undertaken a variety of initiatives focused on promoting employee health. In recognition of these efforts, in March 2023, KAGA ELECTRONICS was selected as an outstanding organization under the Certified Health & Productivity Management Organization Recognition Program. In addition, our pursuit of health and productivity management has allowed us to gather the health-related data of employees, which, in turn, led to the clarification of issues that should be addressed to promote employee health.

### Remaining an Organization in Which High Motivation is Standard

When it comes to wages for our employees, our underlying approach is to equally distribute what we have earned. Over past several years, we have provided special bonuses at the end of each fiscal-year, as well as granting biannual bonuses in summer and winter. In this way, we have helped employees maintain stable livelihoods even amid progressing inflation.

Thanks to these and other initiatives, we placed 27th in a ranking of listed companies that substantially increased wages for employees based on a survey conducted by Nikkei Newspaper. Our stance has always been to return our profit to our employees in times of strong operating results. This, in turn, results in high levels of motivation among employees.

To maintain such a high level of employee motivation, we will engage in in-depth communication with employees and further improve their engagement with the Company.



## 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 F.Y.T (pronounced “fight”). This guideline expresses our commitment to always be Flexible and to think and act Young when Trying to take on challenges.

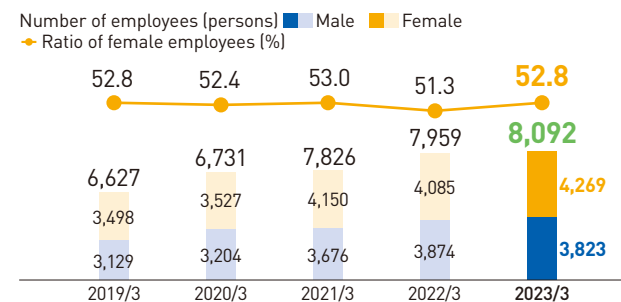
Implementing the idea that “everyone is a corporate manager”

### Human resource strategy / Diversity management

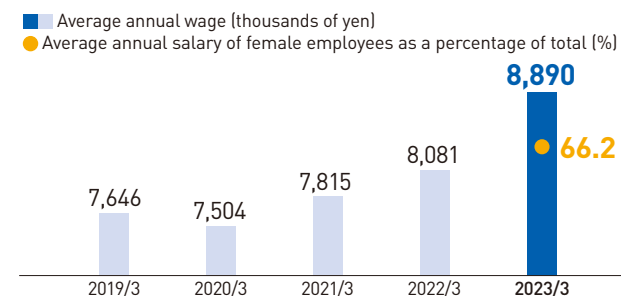
As our business activities become more global and the market environment undergoes abrupt change, diversity and taking on challenges are keys to driving sustainable growth. This is because diversity enables us to look at risk as an opportunity, and when we take on challenges we can take full advantage 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.

#### Number of employees / Ratio of female employees (consolidated)

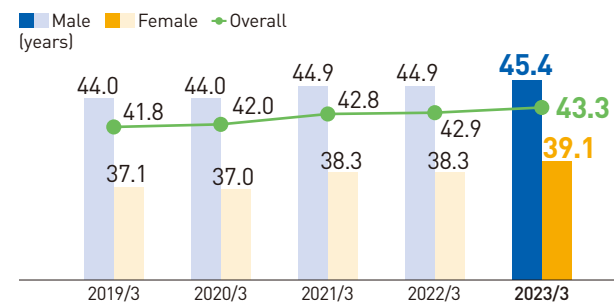


#### Average annual wage (including bonus)

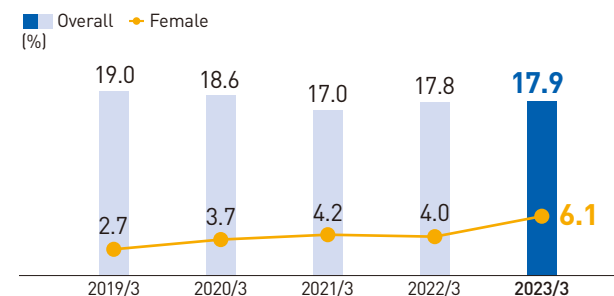


Note: The average annual wage for the fiscal years ended March 31, 2022 and March 31, 2023 include special stock incentives.

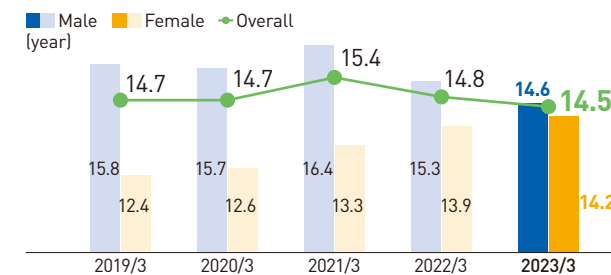
#### Average age of employees



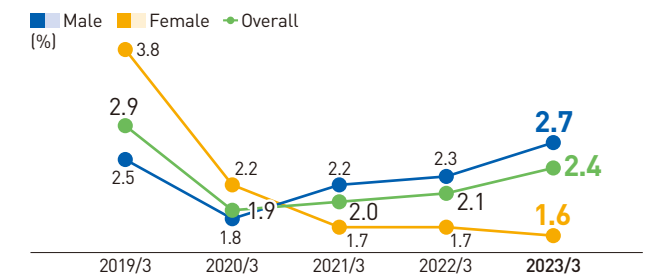
#### Ratio of managers



#### Average length of service / Job turnover rate

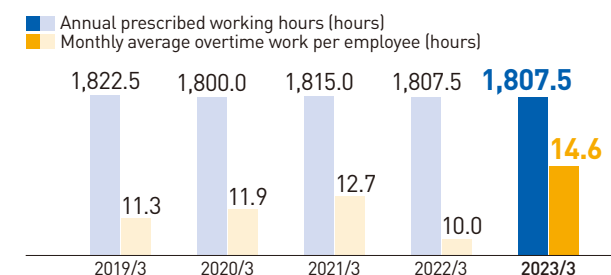


#### Attrition Rate

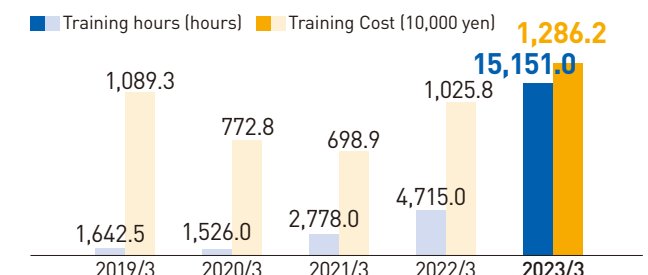


Note: The job turnover rate represents figures for KAGA ELECTRONICS on a non-consolidated basis and is calculated by dividing the number of permanent employees who have resigned over the course of each fiscal year by the number of permanent employees at the beginning of said year.

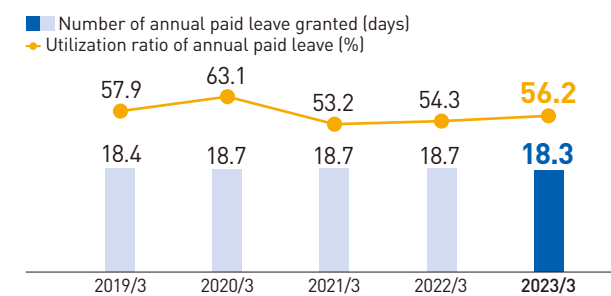
#### Annual prescribed working hours / Monthly average overtime work per employee



#### Training Hours / Training Cost

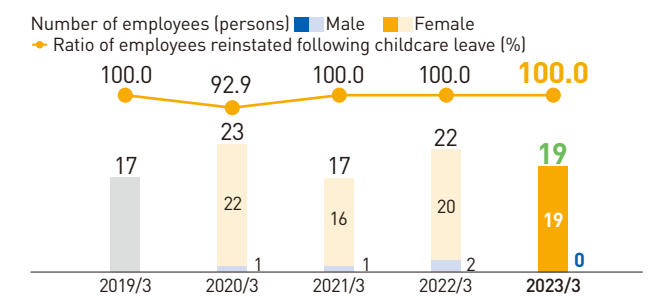


#### Number of annual paid leave granted / Utilization ratio of annual paid leave



Note: Average of all employees, excluding the number of annual paid leave days carried over to the subsequent fiscal year

#### Number of employees who took childcare leave / Ratio of employees reinstated following childcare leave



Note: The above number represents the simple sum of employees who took childcare leave.

### Recognized as a 2023 Certified Health & Productivity Management Outstanding Organization

We believe that it is essential for each and every employee to be healthy both mentally and physically, and to be a group of professionals with integrity and high corporate ethics. We have been making various efforts toward health management, such as organizing a Health Management Promotion Committee and conducting stress checks. In recognition of these efforts, we were recognized as a 2023 Certified Health & Productivity Management Outstanding Organization.



Pursuing a comfortable working environment

### Employee education, training and income compensation programs

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

Every year, we grant a total of six days of paid “refresh leave,” which is separate from annual paid leave, to all employees. We also instituted a sick leave program for those who develop one of three specified types of serious disease (cancer, cerebral stroke and myocardial infarction) to help them secure

their income during their hospitalization and absence from work. Specifically, employee entitlement for paid sick leave is accumulated in step with years of service, for a maximum of 20 days. Employees are also allowed to take hourly paid leave. Through such initiatives as these, we aim to strike a good work-life balance for a safer work environment for employees.

Also, in the course of responding to the COVID-19 pandemic, we placed the utmost priority on ensuring safety and security for our employees at home and abroad.



Training room opened in Kaga Electronics Head Office building

### Promotion of employees' physical and mental health

With the aim of supporting the maintenance and improvement of employee health as well as betterment of work-life balance, the Kaga Electronics Group has established its own welfare facilities. In addition to maintaining company villas in four locations in Japan, the Company owns two cruiser boats (Yokohama and Kyoto). Moreover, the Company provides employees with access to resorts in Japan and abroad, contract golf courses and other facilities. Furthermore, in August 2023, we opened a training room for employees in the Kaga Electronics Head Office building, equipped with the latest AI machines that can provide optimal training tailored to each employee's physical factors through the use of electronic tags. We will continue to implement various health promotion initiatives so that all of our employees can voluntarily maintain and improve their health.



## 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 overseas production, and KAGA EMS TOWADA CO., LTD., which boast a wealth of experience in the manufacture of in-vehicle related products. 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 and Japan as well as countries in the ASEAN region, Europe and North America to advance the standardization of production facilities, IT systems and operational processes, and the sharing of information, for example, to prevent the recurrence of issues. Through standardization, the aim is to ensure identical standards, quality and customer service.

In addition, regular exchange meetings are held to reinforce quality on a Groupwide basis.



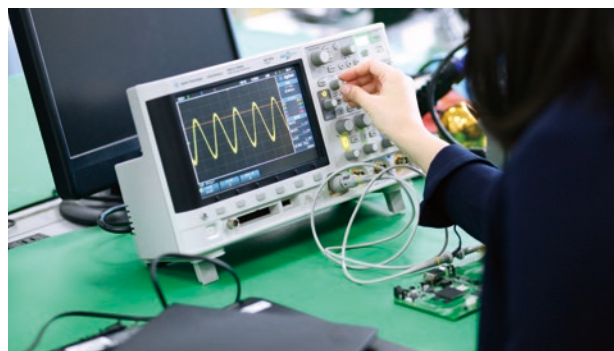
The remote verification of inspection machines involving an active exchange of ideas among attendees

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

#### Efforts to enhance quality

The Company’s Engineering Department controls the technological resources of the entire Group, from planning and development to design, manufacturing and quality assurance, and works to optimize these resources, strengthen technological capabilities and expand business across the organization. The Quality Assurance Department, one of the bodies of the Engineering Department, seeks to enhance development quality and manages safety standards throughout the Group.

This department works with other departments responsible for quality within the Group, depending on the circumstances, in order to resolve issues.



Prototype evaluation using a measurement device

#### Status of ISO9001 certification

KAGA ELECTRONICS and the following Group companies have attained ISO9000 series certification, an international standard for quality management. The Company is striving to further enhance customer satisfaction through the continuous improvement of its quality management system.

- Japan:** KAGA ELECTRONICS CO., LTD., KAGA TECH CO., LTD., AD DEVICE CO., LTD., KAGA MICRO SOLUTION CO., LTD., KAGA FEI Co., Ltd., NV DEVICES CO., LTD., KAGA EMS TOWADA CO., LTD., Kyokuto Electric Co., Ltd., KAGA TECHNO SERVICE CO., LTD.
- Overseas:** KAGA (H.K.) ELECTRONICS LIMITED, KAGA (SHENZHEN) ELECTRONICS LTD., KAGA COMPONENTS (MALAYSIA) SDN.BHD., KAGA ELECTRONICS (THAILAND) COMPANY LIMITED, KD TEC (Czech Republic) s.r.o., SUZHOU TAXAN KAGA TRADING CO., LTD., KAGA TECHNOLOGY (SUZHOU) ELECTRONICS CO., LTD., KAGA ELECTRONICS INDONESIA, PT, HUBEI KAGA ELECTRONICS LIMITED, TAXAN MEXICO, S.A. DE C.V., KAGA ELECTRONICS (VIETNAM) CO., LTD., KD TEC TURKEY ELECTRONIK SANAYI VE TICARET LIMITED SIRKETI, KAGA ELECTRONICS INDIA PRIVATE LIMITED, KAGA FEI AMERICA, Inc., KAGA FEI EUROPE GmbH

## Together with the Community

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

### Contributing to the local community

The Kaga Electronics Group, which conducts business activities around the world, takes on a variety of social contribution activities at its sites in Japan and overseas as well.

Overseas, TAXAN MEXICO S.A. DE C.V. (United Mexican States) conducts tree-planting activities with students attending nearby schools. The plant plans to move to a new factory in 2024 to expand its area and number of employees. As a multinational company, the company also participates in events to eliminate cultural and gender discrimination, in addition to hosting events focused on how to avoid diversity-based discrimination and violence.



Tree-planting activities at a nearby school (TAXAN MEXICO)



Plant tour for local junior high school students (KAGA EMS TOWADA)



The Smart Move Commuting Award (KAGA EMS TOWADA)

In Japan, KAGA EMS TOWADA CO., LTD. participated in the Aomori Smart Move Campaign, an event organized by Aomori Prefecture with the aim of curbing global warming. This company achieved a reduction of 667 kg-CO<sub>2</sub> during the campaign period and winning the Smart Move Commuting Award. Moreover, KAGA EMS TOWADA CO., LTD. engages in regular cleanup activities conducted at nearby sightseeing spots and around the plant.

We also provide work experience training and internships for local junior high and high school students at various locations, including KAGA MICRO SOLUTION CO., LTD. Kyokuto Electric Co., Ltd. is also promoting initiatives that are rooted in the local community, such as cooking classes for the purpose of interaction between foreign national employees working at the plant and local residents.



Cooking classes with neighborhood residents (Kyokuto Electric)

### Supporting education and welfare

At KAGA ELECTRONICS, the Founder & CEO Isao Tsukamoto gives lectures to students as a specially appointed professor for the Faculty of Service Innovation, Chiba University of Commerce. Tsukamoto speaks at such events as study sessions for young corporate managers who run SMEs.

In addition, the Company also contributes to society in a wide range of fields related to education and arts and culture, such as co-sponsoring “The Marriage of Figaro,” a Kyogen-style opera supported by the Ministry of Foreign Affairs and other organizations, and Hamamatsu Jazz Week held in Hamamatsu City, Shizuoka Prefecture.



Tsukamoto lectures to students at Chiba University of Commerce



Hamamatsu Jazz Week



# 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 includes 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 to preserve and enhance the natural environment in order to protect our irreplaceable Earth.

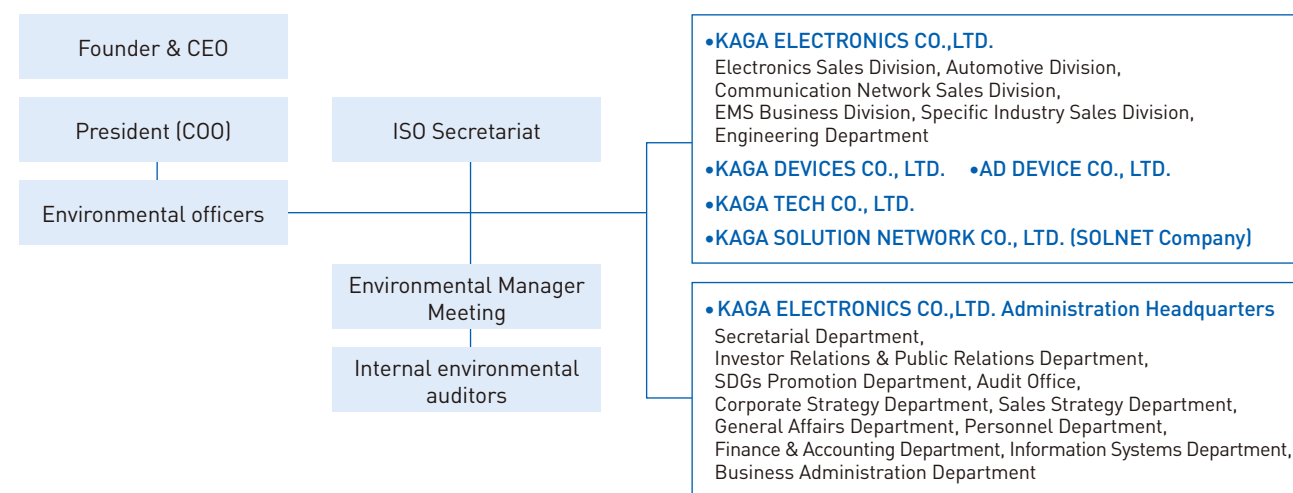
- 1 The Kaga Electronics Group shall establish an environmental management system that involves all employees and promote ongoing improvement of this system to preserve the global environment and prevent pollution in all of our business activities to provide products and services.
- 2 In executing our 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 composed 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. Under the system, environmental officers, the ISO Secretariat, the Environmental Manager Meeting and internal environmental auditors team up and, guided by the president, conduct envi-

ronmental management at KAGA ELECTRONICS and its Group companies. In addition, we have attained ISO14001 certification, an international standard for environmental management systems, at the Company and 19 sites at four Group companies in Japan. We are strengthening our system through a PDCA cycle.

### Environmental management system



Note: KAGA FEI, KAGA EMS TOWADA and EXCEL have each acquired ISO 14000 certification for their respective environmental management systems.

## Initiatives to reduce environmental burden

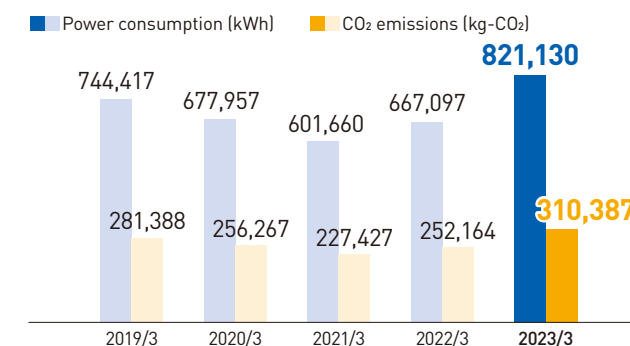
### Reduction of CO<sub>2</sub> emissions

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 provides enhanced sound insulation. In addition, the building incorporates a variety of environmental technologies, with the use of solar panels on the roof enabling eco-energy and the installation of LED lighting throughout.

In addition, the Kaga Electronics Group began calculating the Group's overall electricity consumption in the fiscal year ended March 31, 2023, which totaled 56,993,984 kWh.

Due to an increase in employees commuting to work after the relaxation of behavioral restrictions against COVID-19 infection, both electricity consumption and CO<sub>2</sub> emissions at the Kaga Electronics Head Office building increased in the fiscal year ended March 31, 2023; however, we will continue our efforts to conserve energy and lower CO<sub>2</sub> emissions in the future.

### Power consumption and CO<sub>2</sub> emissions at the Head Office building



\* Double-skin technology refers to a method of construction in which part or all of a building exterior is covered by a two-layered double-glazed façade.

### Start of specific biodiversity conservation activities

KAGA ELECTRONICS views the 21st century as the century for protection of the global environment and is committed to addressing environmental issues such as the reduction of CO<sub>2</sub> and other greenhouse gases through its business activities.

A biotope\* was installed on the roof of our Head Office building in an effort to preserve biodiversity and protect the natural environment through the cultivation of living organisms and plants, as well as to preserve species and create an environment conducive to their habitat.

In the future, we will conduct periodic habitat surveys of the biotope's organisms (about three times a year in spring, summer, and fall), as well as share information about the biotope on our website.

\*A cohesive space in which local wildlife lives.



The biotope on the roof of our Head Office building

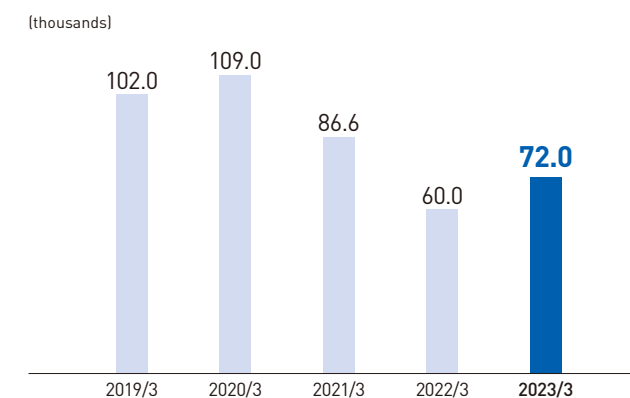
### PC product reuse and recycling business

The Kaga Electronics Group company KAGA MICRO SOLUTION CO., LTD. has flexibly changed and expanded its 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 has leveraged know-how in the production of electronic equipment and an extensive procurement route for electronic parts and materials—both of which were accumulated in the EMS business, a strength of the Group—to focus on a reuse and recycling business for PC products in recent years.

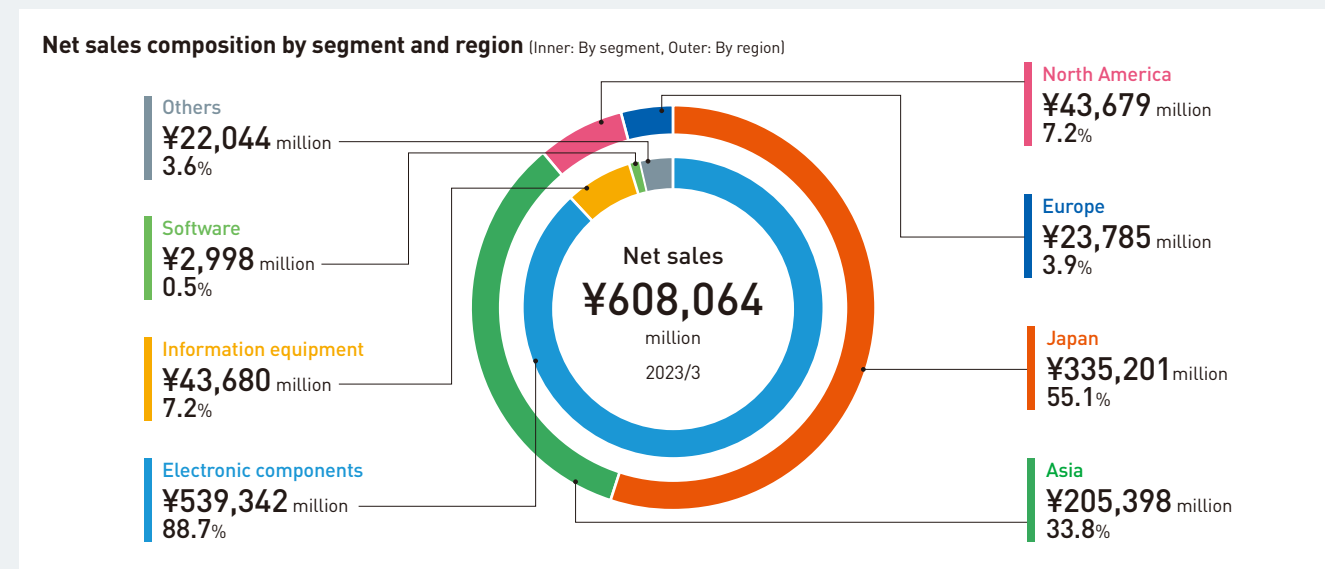
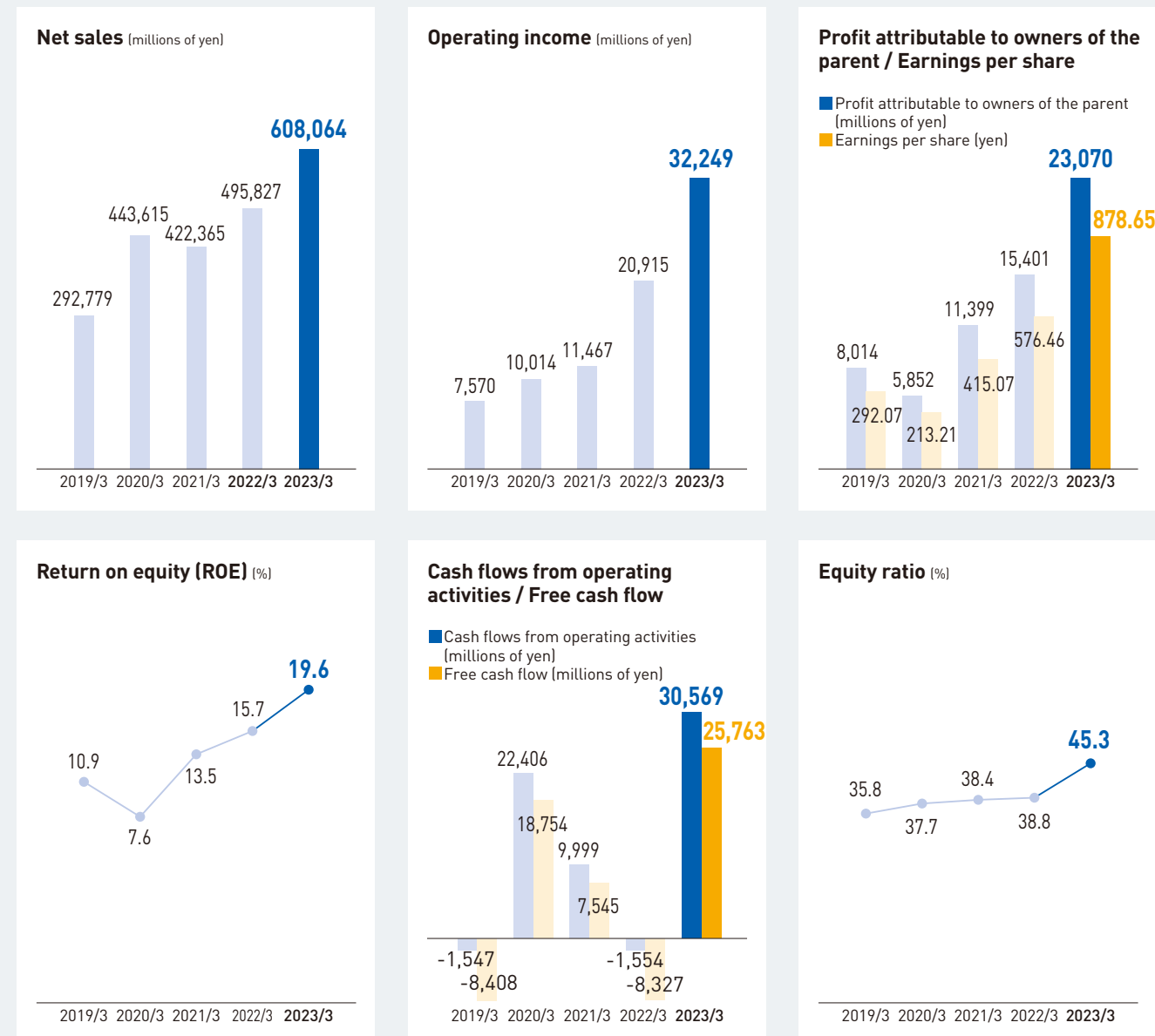
In addition to "reduce programs" that look especially at cutting CO<sub>2</sub> and rubbish levels, the Group will contribute to a reduction in environmental burden from a reuse and recycling perspective and to the realization of a recycling-oriented society.

### Number of PC products reused



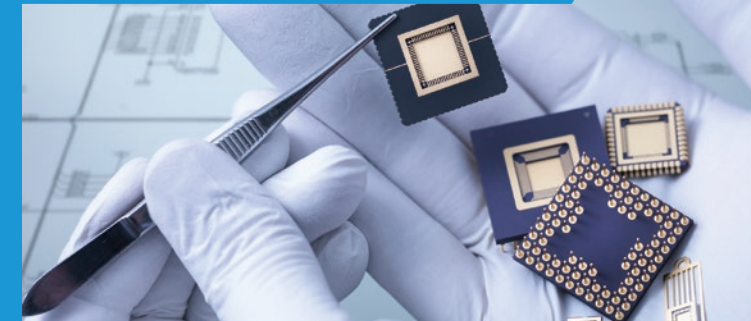


## Financial Highlights

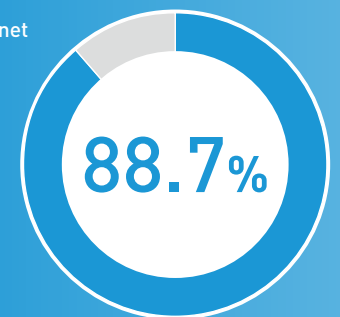


## Outline of Business Segments

### Electronic Components



Proportion of consolidated net sales



#### Business description

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

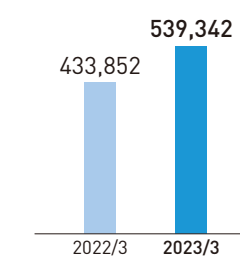
#### Review of FY2023/3 performance

In the electronic component business, sales to a wide range of industries remained high as the supply-demand situation for semiconductors and electronic components improved from the second half of the fiscal year. For some parts whose supply has constantly fallen short of demand, we strove to secure sales volumes while proposing alternatives. In the EMS business, sales to the automotive industry grew significantly, while sales to the medical and office equipment industries remained strong, and the yen's depreciation since the beginning of the fiscal year boosted earnings on a yen basis.

As a result, net sales were ¥539,342 million (up 24.3% year-on-year) and segment income was ¥28,314 million (up 56.4% year-on-year).

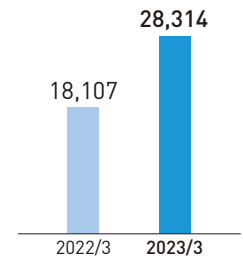
#### Net sales

Up **24.3%**  
(millions of yen)



#### Segment income

Up **56.4%**  
(millions of yen)



### Business overview and opportunities / risks

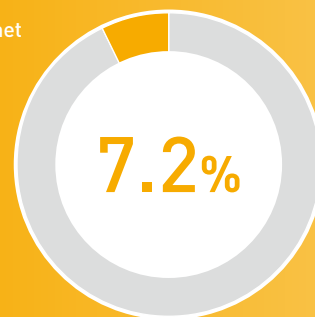
	Business overview	Opportunities	Risks
Electronic component business	In the electronic component business, sales to a wide range of industries remained high as the supply-demand situation for semiconductors and electronic parts, which had remained tight, improved from the second half of the fiscal year. On the other hand, for some products for the in-vehicle market, supply shortages persisted, and the Group made concerted efforts to secure sales volume by taking advantage of its procurement capabilities as an independent trading company and to propose alternative products.	<ul style="list-style-type: none"> <li>Advancement of automobile-related technologies represented by EV (electric vehicles) and CASE*.</li> <li>Expansion in demand due to the popularization of high-performance electronics related to ICT, such as those supporting the 5G mobile communication system, IoT and AI</li> <li>Continued tight supply-demand balance for some semiconductors and electronic components, including those for automotive applications</li> </ul> <p>*Stands for Connected, Autonomous, Shared &amp; Services, and Electric</p>	<ul style="list-style-type: none"> <li>Soaring prices of resources and other commodities due to the prolonged conflict in Ukraine</li> <li>Financial system instability associated with policy rate hike measures</li> <li>Loss of commercial rights due to a change in commercial distribution at a sales destination or supplier</li> <li>Rebound from the significant increase in demand from the COVID-19 pandemic</li> <li>Impact of inventory adjustment by customers due to recession risk</li> </ul>
	In the EMS business, sales to such major customers as manufacturers in the medical equipment-related and office equipment-related industries remained strong, while sales to automotive-related industries grew significantly. Furthermore, the yen's depreciation since the beginning of the period boosted earnings in yen terms.	<ul style="list-style-type: none"> <li>Progress in a return to normal for socioeconomic activities and semiconductor shortages, and subsiding supply chain disruptions</li> <li>Increased demand from the industrial sector due to the elimination of shortages and extended delivery times for semiconductors and electronic components</li> <li>Increase in the number of fabless companies and rising demand for outsourcing</li> <li>Growing need for further automation and efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Shortage of human resources both in Japan and overseas</li> <li>Natural disasters such as earthquakes, or floods, or the spread of infectious diseases</li> <li>Suspension of factory operations due to other external political and economic factors</li> </ul>



## Information Equipment



Proportion of consolidated net sales



### Business description

Sale of PCs, PC peripherals, home electric appliances, photographic and imaging products, and finished products, such as original goods

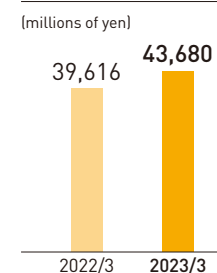
### Review of FY2023/3 performance

Sales of PCs to corporate customers and educational institutions remained sluggish in terms of volume due to the prolonged replacement cycle, but they were strong in terms of value due to the contribution of sales of high-end products. In the LED installation business, large-scale nationwide projects, which had been delayed due to material shortages, progressed smoothly, contributing significantly to business earnings.

As a result, net sales were ¥43,680 million (up 10.3% year-on-year) and segment income was ¥2,449 million (up 17.4% year-on-year).

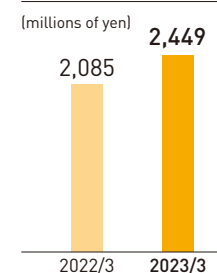
### Net sales

Up 10.3%



### Segment income

Up 17.4%



## Business overview and opportunities / risks

	Business overview	Opportunities	Risks
Information equipment	Sales of PCs to corporate customers and educational institutions remained sluggish in terms of volume, but they performed well in terms of value due to the contribution of sales of high-priced products. Moreover, sales of security software and other PC peripheral products were robust. In the LED installation business, large-scale nationwide projects progressed smoothly, contributing significantly to business earnings.	<ul style="list-style-type: none"> <li>Robust expansion of needs for information-related devices on the back of advances in ICT</li> <li>Growing needs for security related solutions among higher education institutions</li> <li>Discovery of new commercial products</li> </ul>	<ul style="list-style-type: none"> <li>Loss of sales opportunities due to parts supply shortages</li> <li>Loss of commercial rights and product procurement routes due to changes in the distribution policies of buyers and suppliers</li> <li>Intensifying competition due to lower prices and more new market entrants</li> </ul>

### TOPICS

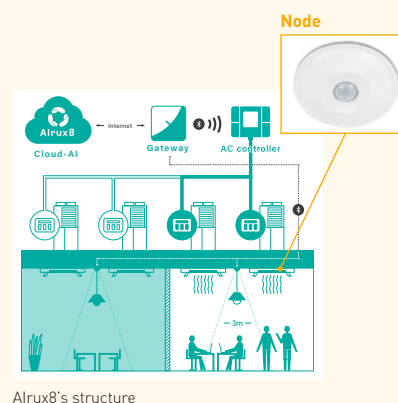
### AI-based Power Cost Reduction System Reduces Power Usage

In January 2023, we became the first distributor in Japan to sell AlruX8, an electricity cost reduction system based on AI technology developed by TRaas On Product.

Using AI, the AlruX8 system collects and analyzes data, for example, congestion and absence status within a facility, through a centralized controller device called a Node that operates motion sensors. The system communicates with the IoT lighting equipment and air conditioning equipment installed in the facility and then, depending on the situation, including the time of day, day of the business week, and season, automatically adjusts the lighting brightness and air conditioning temperature settings in each lighting area group.

In Japan, where electricity and other energy prices continue to soar, energy cost reduction is a pressing issue for all companies, regardless of industry, and AlruX8 is a truly groundbreaking solution for reducing electricity consumption to achieve carbon neutrality, which is becoming increasingly important factor in the global trend to promote the SDGs.

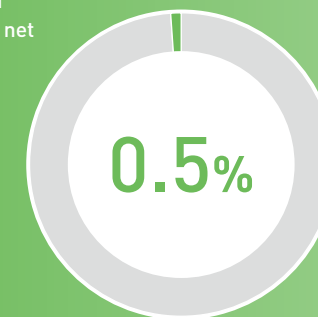
Through the sale of AlruX8, which solves these social issues, we will contribute to the realization of a sustainable society.



## Software Business



Proportion of consolidated net sales



### Business description

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

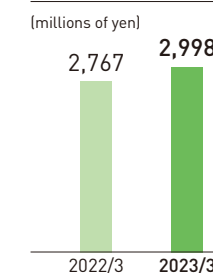
### Review of FY2023/3 performance

Business profitability improved, with orders for large-scale projects and new projects in smartphone game and computer graphics production recovering, and progress in cost reductions.

As a result, net sales were ¥2,998 million (up 8.3% year-on-year) and segment income amounted to ¥286 million (compared with a segment loss of ¥26 million in the previous fiscal year).

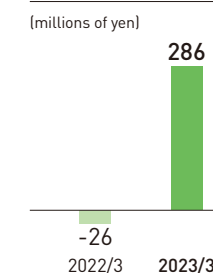
### Net sales

Up 8.3%



### Segment income

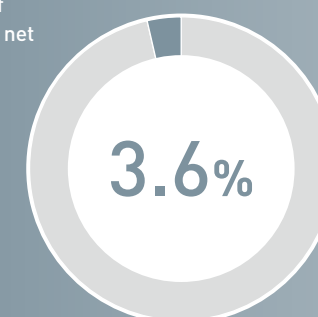
—



## Other Business



Proportion of consolidated net sales



### Business description

Repair and provision of support for electronic equipment, manufacture and sale of amusement equipment, sale of sports goods, and other activities

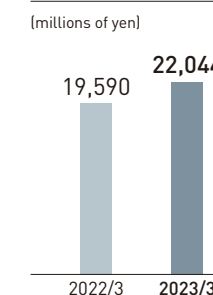
### Review of FY2023/3 performance

In this segment, the PC product and PC peripheral recycling business performed well. Sales of arcade game machines for the amusement industry and golf equipment also recovered, reflecting the easing of restrictions on activities during the COVID-19 pandemic.

As a result, net sales amounted to ¥22,044 million (up 12.5% year-on-year), and segment income amounted to ¥1,101 million (up 76.0% year-on-year).

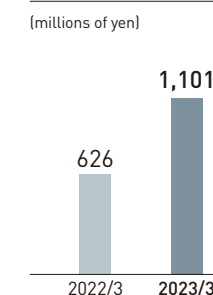
### Net sales

Up 12.5%



### Segment income

Up 76.0%





11-Year Financial Summary

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31 from 2013 to 2023

	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3	2021/3	2022/3	2023/3
Fiscal year											
Net sales (millions of yen)	216,405	257,852	255,143	245,387	227,209	235,921	292,779	443,615	422,365	495,827	608,064
Gross profit (millions of yen)	27,462	32,522	32,738	33,648	31,225	32,498	35,546	47,016	47,936	60,547	78,514
Selling, general and administrative (SG&A) expenses (millions of yen)	26,202	27,416	26,376	25,859	24,346	24,379	27,976	37,001	36,469	39,632	46,265
Operating income (millions of yen)	1,260	5,106	6,362	7,788	6,879	8,119	7,570	10,014	11,467	20,915	32,249
Ordinary income (millions of yen)	1,931	5,847	7,664	7,908	7,343	8,740	7,859	10,137	11,241	21,456	32,739
Profit attributable to owners of the parent (millions of yen)	444	3,877	4,416	5,437	6,975	6,490	8,014	5,852	11,399	15,401	23,070
Cash flows from operating activities (millions of yen)	7,041	3,334	9,127	9,546	10,746	10,077	(1,547)	22,406	9,999	(1,554)	30,569
Cash flows from investing activities (millions of yen)	(4,910)	(3,339)	(1,465)	(1,263)	(258)	(4,173)	(6,860)	(3,651)	(2,453)	(6,772)	(4,805)
Free cash flow (millions of yen)	2,131	(5)	7,661	8,283	10,487	5,904	(8,408)	18,754	7,545	(8,327)	25,763
Cash flows from financing activities (millions of yen)	(403)	1,024	(4,431)	(3,067)	(6,118)	(2,811)	11,684	(7,544)	(6,851)	1,155	(15,549)
Depreciation (millions of yen)	2,303	2,418	1,907	1,604	1,452	1,481	1,740	2,754	3,167	3,738	4,000
Capital expenditures / Investment and loans (millions of yen)*1	3,748	4,087	2,660	2,166	1,464	4,520	6,712	6,133	2,906	5,739	4,910
Fiscal year end											
Total assets (millions of yen)	111,888	126,028	127,948	124,281	125,751	128,755	213,761	207,638	237,004	272,139	286,217
Net assets (millions of yen)	48,806	52,825	59,603	61,808	65,932	70,631	84,259	86,250	95,062	105,800	129,737
Equity (millions of yen)	48,656	52,786	59,564	61,764	65,872	70,556	76,604	78,284	90,967	105,680	129,608
Interest bearing debt (millions of yen)	15,089	17,244	14,573	12,739	9,805	8,900	32,851	28,736	38,261	51,171	41,938
Cash and deposits (millions of yen)	12,258	14,192	18,130	22,516	26,423	30,803	35,003	43,384	45,636	41,051	52,600
Inventories (millions of yen)	18,779	21,219	22,703	19,175	19,325	19,455	40,026	31,908	37,948	62,607	56,205
Per share data											
EPS (yen)	16.09	137.22	156.28	192.43	249.43	236.58	292.07	213.21	415.07	576.46	878.65
Annual dividend (yen)	30.00	35.00	40.00	55.00	60.00	70.00	80.00	70.00	80.00	120.00	220.00
Payout ratio (%)	186.5	25.5	25.6	28.6	24.1	29.6	27.4	32.8	19.3	20.8	25.0
BPS (yen)	1,721.86	1,868.07	2,108.04	2,185.94	2,401.00	2,571.79	2,790.97	2,850.99	3,311.24	4,026.22	4,935.36
Major indicators											
Gross profit margin (%)*2	12.7	12.6	12.8	13.7	13.7	13.8	12.1	10.6	11.3	12.2	12.9
Ratio of SG&A expenses to net sales (%)	12.1	10.6	10.3	10.5	10.7	10.3	9.6	8.3	8.6	8.0	7.6
Operating income margin (%)*3	0.6	2.0	2.5	3.2	3.0	3.4	2.6	2.3	2.7	4.2	5.3
Ordinary income margin (%)*4	0.9	2.3	3.0	3.2	3.2	3.7	2.7	2.3	2.7	4.3	5.4
Profit attributable to owners of the parent margin (%)	0.2	1.5	1.7	2.2	3.1	2.8	2.7	1.3	2.7	3.1	3.8
ROE (%)*5	0.9	7.6	7.8	9.0	10.9	9.5	10.9	7.6	13.5	15.7	19.6
ROIC (%)	0.2	5.0	5.2	7.5	8.1	7.2	5.8	6.3	6.9	10.4	13.0
ROA (%)*6	0.4	3.3	3.5	4.3	5.6	5.1	4.7	2.8	5.1	6.1	8.3
Equity ratio (%)	43.5	41.9	46.6	49.7	52.4	54.8	35.8	37.7	38.4	38.8	45.3
Debt equity ratio (times)*7	0.31	0.33	0.24	0.21	0.15	0.13	0.43	0.37	0.42	0.48	0.32
CCC (days)*8	51.4	49.7	49.8	45.9	44.7	40.0	47.1	34.4	46.7	66.6	55.4
Receivables turnover period (days)*9	92.1	85.9	83.2	81.5	83.6	77.1	77.0	75.2	93.7	89.0	77.5
Inventory turnover period (days)*10	31.7	30.0	32.5	28.5	31.0	30.1	35.1	26.3	32.8	46.1	33.7
Payables turnover period (days)*11	72.4	66.2	65.9	64.2	69.9	67.3	65.0	67.0	79.8	68.6	55.8
Number of employees (persons)	5,048	4,752	5,092	5,243	5,216	5,427	6,627	6,731	7,826	7,959	8,092

\*1. Including spending associated with the purchase of property, plant and equipment, intangible assets and investment securities as well as the purchase of shares of subsidiaries resulting in change in scope of consolidation.  
\*2. Gross profit margin = Gross profit / Net sales × 100 (%)  
\*3. Operating income margin = Operating income / Net sales × 100 (%)  
\*4. Ordinary income margin = Ordinary income / Net sales × 100 (%)  
\*5. ROE = Profit attributable to owners of the parent / Average equity × 100 (%)

\*6. ROA = Profit attributable to owners of the parent / Average total assets × 100 (%)  
\*7. Debt equity ratio = Interest bearing debt / Equity (times)  
\*8. Cash conversion cycle (CCC) = Receivables turnover period (days) + Inventory turnover period (days) – Payables turnover period (days)  
\*9. Receivables turnover period (days) = Notes and accounts receivable—trade / Net sales × 365 (days)  
\*10. Inventory turnover period (days) = Inventories / Net Sales × 365 (days)  
\*11. Payables turnover period (days) = Notes and accounts payable—trade / Total purchase of goods × 365 (days)



# Analysis of Financial Condition and Results of Operations

Fiscal year ended March 31, 2023

## Analysis of business performance

During the fiscal year ended March 31, 2023, the economic environment surrounding the Kaga Electronics Group at home and abroad has seen modest yet constant recovery due to the normalization of socio-economic activities in step with the relaxation of movement restrictions that had been in place to curb the COVID-19 pandemic, along with the alleviation of semiconductor shortages and supply chain disruption. On the other hand, future outlook remains unclear on the back of the prolongation of Russia-Ukraine situation, which resulted in surges in food and energy prices, while policy rate hikes aimed at countering inflation induced a radical shift in foreign exchange rates, with these factors leading to the growing instability of financial systems as a whole.

In the United States and Europe, personal consumption has been mostly robust. However, a sense of anxiety for the future has grown stronger due mainly to the collapse of some financial institutions affected by hyperinflation and monetary tightening. In China, although the economy was negatively impacted by the country’s “zero-COVID” policy, there were signs of recovery in personal consumption following the policy’s lifting. In Japan, despite raised concerns over the impact of surging prices for various items due to the depreciation of the yen as well as hikes in prices for resources and cereal crops, the economy has recovered modestly in step with progress in the normalization of socio-economic activities.

In the electronics industry, to which the Kaga Electronics Group belongs, manufacturers have largely succeeded in resolving lingering issues arising from supply shortages of some semiconductors and electronic parts as well as the resulting prolongation of delivery timeframes. Moreover, demand remained robust in a broad range of industrial fields.

Against this backdrop, the Kaga Electronics Group enjoyed substantial growth in sales from the electronic components business—its core business. Particularly, sales of goods related to automotive and medical equipment saw significant growth in both the electronic parts and EMS businesses.

In the information equipment business, sales of high-end PC products and security soft expanded, as did sales from the LED installation business.

Meanwhile, the software business has benefitted from a recovery in the volume of orders received for smartphone game production and computer graphics production.

In the other business, business results for the recycling of PCs and other products were robust.

As a result, sales increased year on year for all business segments, with consolidated net sales for the fiscal year ended March 31, 2023 amounting to ¥608,064 million, up 22.6% from the previous fiscal year.

Operating income rose 54.2% year on year to ¥32,249 million due to increased sales and the improved gross profit margins, both of which, in turn, contributed to significant expansion in gross profit. Ordinary income grew 52.6% year on year to ¥32,739 million, while profit attributable to owners of the parent rose 49.8% year on year to ¥23,070 million. Thus, the Group achieved record-high net sales for the second consecutive year. Furthermore, operating income and ordinary income both hit an all-time high for the fourth consecutive year, while profit attributable to owners of the parent similarly hit a record high for the third consecutive year.

## Financial condition analysis

Total assets as of March 31, 2023 were up ¥14,077 million from the previous fiscal year-end, amounting to ¥286,217 million. The main items are as follows.

Current assets	Non-current assets
Current assets increased ¥11,587 million to ¥245,572 million. This is primarily due to an increase of ¥11,549 million in cash and deposits.	Non-current assets increased ¥2,490 million to ¥40,645 million. This was primarily due to an increase of ¥1,830 million in investment securities.
Total liabilities	Total net assets
Liabilities decreased ¥9,859 million from March 31, 2022, to ¥156,479 million. This was primarily due to a ¥7,260 million decrease in notes and accounts payable—trade a ¥4,273 million decrease in short-term loans payable.	Net assets increased ¥23,937 million from March 31, 2022, to ¥129,737 million. This was primarily thanks to a ¥18,522 million increase in retained earnings due mainly to ¥23,070 million in profit attributable to owners of the parent, along with a ¥4,128 million increase in foreign currency translation adjustment.

## Cash flows

Cash and cash equivalents as of March 31, 2023 increased ¥11,066 million from March 31, 2022 to ¥50,307 million. The status and factors thereof for each cash flow category in the fiscal year ended March 31, 2023 are as follows.

Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities
Net cash and cash equivalents provided by operating activities totaled ¥30,569 million, compared with ¥1,554 million used in operating activities in the previous fiscal year. This was mainly due to the recording of income before income taxes.	Net cash and cash equivalents used in investing activities totaled ¥4,805 million, compared with ¥6,772 million used in the previous fiscal year. This was mainly due to purchases of property, plant and equipment.	Net cash and cash equivalents used in financing activities totaled ¥15,549 million, compared with ¥1,155 million provided by the previous fiscal year. This was due mainly to the repayment of borrowings and the payment of cash dividends.

## Analysis of capital resources and cash liquidity

As for the financing of necessary working capital and funds for capital expenditure, the Kaga Electronics Group utilizes such sources as cash on hand and borrowings. Looking ahead, the Group intends to procure the necessary working capital and funds for capital expenditure to support its future operations internally, with cash flows from operating activities positioned as its financial base.

Funding requirements	Financial policy
The main elements of the Group’s working capital requirement are funds for the purchase of products to be marketed by the Group and for the purchase of raw materials and components to produce its own products. It also requires funds to cover manufacturing costs and selling, general and administrative expenses. Funding needed for investment purposes is largely in connection with capital expenditures and costs associated with new business M&As and securing commercial rights.	With respect to the procurement of short-term working capital, the Group’s basic stance is to strive to achieve optimal capital efficiency within the Group before resorting to borrowings from financial institutions.  With respect to the procurement of funds for M&As, capital expenditures and long-term working capital, the Group’s basic stance is to conduct optimal procurement using the various methods available to it, extending from direct to indirect financing, with due consideration given to financial conditions at the time of procurement as well as to the term and purpose of each funding requirement.



# Consolidated Balance Sheet

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries  
At March 31, 2022 and 2023

		Millions of Yen	Thousands of U.S. Dollars (Note)
ASSETS	2022	2023	2023
<b>CURRENT ASSETS:</b>			
Cash and bank deposits	¥ 41,051	¥ 52,600	\$ 393,923
Notes receivable—trade	1,449	1,534	11,492
Electronically recorded monetary claims	9,258	9,683	72,517
Accounts receivable—trade	110,240	117,881	882,810
Short-term investment securities	264	195	1,463
Merchandise and finished goods	46,230	41,375	309,855
Work in process	2,363	2,277	17,056
Raw materials and supplies	14,013	12,552	94,007
Others	9,388	7,624	57,098
Allowance for doubtful accounts	[275]	[153]	[1,147]
Total CURRENT ASSETS	233,984	245,572	1,839,077
<b>NONCURRENT ASSETS:</b>			
PROPERTY, PLANT AND EQUIPMENT			
Buildings and structures	15,033	15,680	117,434
Accumulated depreciation	(8,108)	(8,990)	(67,326)
Buildings and structures, net	6,925	6,690	50,107
Machinery, equipment and vehicles			
Machinery, equipment and vehicles	14,181	16,187	121,226
Accumulated depreciation	(8,132)	(9,721)	(72,800)
Machinery, equipment and vehicles, net	6,048	6,466	48,426
Tools, furniture and fixtures			
Tools, furniture and fixtures	5,697	5,880	44,042
Accumulated depreciation	(4,667)	(4,777)	(35,780)
Tools, furniture and fixtures, net	1,030	1,103	8,261
Land			
Land	5,074	5,859	43,881
Construction in progress	313	39	292
Total PROPERTY, PLANT AND EQUIPMENT	19,393	20,158	150,969
INTANGIBLE ASSETS			
Goodwill	98	48	363
Software	3,021	2,617	19,601
Others	42	36	270
Total INTANGIBLE ASSETS	3,163	2,702	20,235
INVESTMENTS AND OTHER ASSETS:			
Investment securities	10,313	12,144	90,949
Deferred tax assets	2,189	2,162	16,193
Guarantee deposits	1,068	1,280	9,587
Insurance funds	915	920	6,892
Distressed receivables	2,295	4,842	36,263
Others	1,171	1,298	9,727
Allowance for doubtful accounts	(2,355)	(4,864)	(36,426)
Total INVESTMENTS AND OTHER ASSETS	15,598	17,784	133,187
Total NONCURRENT ASSETS	38,155	40,645	304,391
Total ASSETS	¥ 272,139	¥ 286,217	\$ 2,143,469

		Millions of Yen	Thousands of U.S. Dollars (Note)
LIABILITIES	2022	2023	2023
<b>CURRENT LIABILITIES:</b>			
Notes and accounts payable—trade	¥ 86,493	¥ 79,232	\$ 593,371
Short-term loans payable	23,858	19,585	146,674
Accrued expenses	7,138	8,400	62,907
Income taxes payable	2,834	6,011	45,018
Provision for directors' bonuses	301	465	3,485
Others	12,291	13,852	103,739
Total CURRENT LIABILITIES	132,918	127,547	955,196
<b>NONCURRENT LIABILITIES:</b>			
Bonds payable	—	10,000	74,889
Long-term loans payable	25,136	10,600	79,382
Deferred tax liabilities	2,046	2,634	19,728
Provision for directors' retirement benefits	123	143	1,073
Net defined benefit liabilities	2,095	2,148	16,092
Asset retirement obligations	572	627	4,701
Others	3,446	2,778	20,805
Total NONCURRENT LIABILITIES	33,421	28,932	216,673
Total LIABILITIES	166,339	156,479	1,171,870
<b>NET ASSETS</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	12,133	12,133	90,867
Capital surplus	14,818	14,820	110,988
Retained earnings	77,423	95,945	718,532
Treasury stock	(5,643)	(5,614)	(42,043)
Total SHAREHOLDERS' EQUITY	98,732	117,285	878,345
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>			
Changes in the fair value of available-for-sale securities	1,299	2,534	18,977
Deferred gains or losses on hedges	(2)	(18)	(141)
Foreign currency translation adjustment	5,439	9,568	71,655
Remeasurements of defined benefit obligations	210	239	1,792
Total ACCUMULATED OTHER COMPREHENSIVE INCOME	6,948	12,322	92,283
Non-controlling interests	120	129	970
Total NET ASSETS	105,800	129,737	971,599
Total LIABILITIES AND NET ASSETS	¥ 272,139	¥ 286,217	\$ 2,143,469

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 ¥133.53 to \$1, the rate of exchange at March 31, 2023.



# Consolidated Statement of Income and Comprehensive Income

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2022 and 2023

		Millions of Yen	Thousands of U.S. Dollars (Note)
	2022	2023	2023
Net sales	¥ 495,827	¥ 608,064	\$ 4,553,769
Cost of sales	435,280	529,550	3,965,776
Gross profit	60,547	78,514	587,992
Selling, general and administrative expenses	39,632	46,265	346,476
Operating income	20,915	32,249	241,516
NON-OPERATING INCOME			
Interest income	135	211	1,582
Dividend income	195	279	2,091
Commission fee	183	227	1,701
Foreign exchange gains	252	107	805
House rent income	104	126	947
Share of profit of entities accounted for using equity method	—	97	732
Others	572	412	3,087
Total NON-OPERATING INCOME	1,443	1,461	10,948
NON-OPERATING EXPENSES			
Interest expenses	315	748	5,602
Share of loss of entities accounted for using equity method	472	—	—
Others	114	223	1,673
Total NON-OPERATING EXPENSES	902	971	7,276
Ordinary income	21,456	32,739	245,188
EXTRAORDINARY INCOME			
Gain on sales of property, plant and equipment	15	20	151
Gain on sales of investment securities	363	626	4,694
Gain on transfer of business	7	—	—
Gain on revision of retirement benefit plan	—	126	943
Gain on reversal of estimated loss of funds from U.S. subsidiary	176	—	—
Others	34	1	7
Total EXTRAORDINARY INCOME	596	774	5,797
EXTRAORDINARY LOSS			
Impairment loss	93	644	4,823
Loss on disposal of property, plant and equipment	13	37	277
Loss on sales of investment securities	2	12	95
Loss on valuation of investment securities	260	348	2,609
Loss on liquidation of subsidiaries and associates	175	—	—
Provision of allowance for doubtful accounts	129	—	—
Others	29	11	88
Total EXTRAORDINARY LOSS	¥ 705	¥ 1,054	\$ 7,893

		Millions of Yen	Thousands of U.S. Dollars (Note)	
		2022	2023	2023
Income before income taxes	¥ 21,348	¥ 32,460	\$ 243,092	
Income taxes—current	5,071	9,197	68,883	
Income taxes—deferred	606	167	1,258	
Total income taxes	5,678	9,365	70,141	
Net income	15,669	23,094	172,951	
Profit attributable to owners of the parent	15,401	23,070	172,776	
Profit attributable to non-controlling interests	268	23	174	
OTHER COMPREHENSIVE INCOME				
Changes in the fair value of available-for-sale securities	(78)	1,235	9,252	
Deferred gains or losses on hedges	(52)	(16)	(126)	
Foreign currency translation adjustment	4,922	4,033	30,206	
Remeasurements of defined benefit obligations, net of tax	188	28	212	
Share of other comprehensive income of entities accounted for using equity method	95	97	731	
Total OTHER COMPREHENSIVE INCOME	5,075	5,378	40,276	
Comprehensive income	¥ 20,745	¥ 28,472	\$ 213,227	
Comprehensive income attributable to:				
Owners of the parent	¥ 20,428	¥ 28,445	\$ 213,026	
Non-controlling interests	316	26	200	

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 ¥133.53 to \$1, the rate of exchange at March 31, 2023.



# Consolidated Statement of Cash Flows

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2022 and 2023

		Millions of Yen	Thousands of U.S. Dollars (Note)
	2022	2023	2023
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Income before income taxes	¥ 21,348	¥ 32,460	\$ 243,092
Depreciation and amortization	3,738	4,000	29,956
Impairment loss	93	644	4,823
Amortization of goodwill	110	54	406
Increase (Decrease) in net defined benefit liability	16	(33)	(253)
Increase in provision for directors' retirement benefits	16	20	151
Increase in provision for directors' bonuses	175	163	1,226
Increase in allowance for doubtful accounts	92	2,358	17,662
Interest and dividend income	(403)	(490)	(3,674)
Interest expenses	315	748	5,602
Share of loss (profit) of entities accounted for using equity method	472	(97)	(732)
Gain on sales of property, plant and equipment	(14)	(8)	(64)
Loss on retirement of property, plant and equipment	13	37	277
Gain on sales of investment securities	(360)	(614)	(4,599)
Loss on valuation of investment securities	260	348	2,609
Gain on reversal of estimated loss of funds from U.S. subsidiary	(187)	—	—
Increase in notes and accounts receivable-trade	(7,889)	(5,952)	(44,578)
(Increase) Decrease in inventories	(22,088)	9,316	69,773
Increase (Decrease) in notes and accounts payable-trade	2,451	(11,503)	(86,147)
Decrease in accounts receivable-other	583	2,239	16,771
Increase in accrued expenses	887	994	7,450
Decrease (Increase) in advance payments	1,349	(417)	(3,130)
(Increase) Decrease in consumption taxes refund receivable	(822)	2,340	17,530
Increase in other current assets	(264)	(741)	(5,550)
Increase in other current liabilities	2,030	393	2,949
Others, net	797	922	6,908
Subtotal	2,723	37,183	278,463
Interest and dividend income received	124	491	3,679
Interest expenses paid	(315)	(732)	(5,484)
Income taxes paid	(4,263)	(6,372)	(47,726)
Others, net	175	—	—
Net cash provided by (used in) operating activities	¥ (1,554)	¥ 30,569	\$ 228,932

		Millions of Yen	Thousands of U.S. Dollars (Note)
	2022	2023	2023
<b>NET CASH USED IN INVESTING ACTIVITIES</b>			
Payments for time deposits	¥ (856)	¥ (397)	\$ (2,976)
Proceeds from withdrawal of time deposits	474	—	—
Purchase of property, plant and equipment	(3,276)	(3,691)	(27,647)
Proceeds from sales of property, plant and equipment	32	34	261
Purchase of intangible assets	(1,377)	(467)	(3,502)
Purchase of investment securities	(1,085)	(750)	(5,624)
Proceeds from sales of investment securities	834	1,102	8,260
Payments of short-term loans receivable	(388)	(421)	(3,155)
Payments of long-term loans receivable	(1,180)	(7)	(54)
Purchase of insurance funds	(4)	(4)	(33)
Payments for guarantee deposits	(28)	(103)	(777)
Proceeds from collection of guarantee deposits	65	37	284
Other payments	(174)	(170)	(1,273)
Other proceeds	194	33	249
Net cash used in investing activities	(6,772)	(4,805)	(35,990)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>			
Increase in short-term loans payable	7,636	(5,555)	(41,606)
Proceeds from long-term loans payable	5,000	500	3,744
Repayment of long-term loans payable	(668)	(15,040)	(112,634)
Proceeds from issuance of bonds	—	9,945	74,481
Purchase of treasury stock	(3,681)	(2)	(21)
Cash dividends paid	(2,551)	(4,590)	(34,377)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(3,811)	(21)	(158)
Others, net	(767)	(784)	(5,877)
Net cash (used in) provided by financing activities	1,155	(15,549)	(116,450)
Effect of exchange rate change on cash and cash equivalents	2,079	852	6,382
Net increase in cash and cash equivalents	(5,092)	11,066	82,875
Cash and cash equivalents-beginning balance	44,333	39,240	293,871
Cash and cash equivalents-ending balance	¥ 39,240	¥ 50,307	\$ 376,747

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 ¥133.53 to \$1, the rate of exchange at March 31, 2023.



# Corporate Information

As of March 31, 2023

## Company overview

Name	KAGA ELECTRONICS CO., LTD.
Address	20 Kandamatsunagacho, Chiyoda-ku, Tokyo 101-8629, Japan TEL +81-3-5657-0111 FAX +81-3-3254-7131
Business description	Sale of electronic parts and semiconductors, provision of 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 <small>(Including KAGA ELECTRONICS Co., Ltd.)</small>	64 [23 in Japan, 41 overseas and three accounted for by the equity method] <small>[As of September 30, 2023]</small>
Number of employees <small>(consolidated)</small>	8,092
Stock Listing	Tokyo Stock Exchange <small>(Prime Market)</small>
Securities code	8154
Fiscal year-end	March 31



KAGA ELECTRONICS Head Office

## Major affiliates in Japan

KAGA TECH CO., LTD.	Sale of electronic parts and electronic equipment, etc.
KAGA DEVICES CO., LTD.	Sale of electronic parts and electronic equipment, etc.
KAGA SOLUTION NETWORK CO., LTD.	Development, design, construction and maintenance of computer network systems, etc.
AD DEVICE CO., LTD.	Sale of electronic parts and electronic equipment, etc.
KAGA MICRO SOLUTION CO., LTD.	Development, manufacture, sale and recycling of PCs and PC peripherals, etc.
DIGITAL MEDIA LAB., INC.	Planning, development and sale of computer graphics
KAGA SPORTS CO., LTD.	Manufacture, wholesale and sale of sporting goods, etc.
KAGA AMUSEMENT CO., LTD.	Sale of electronic parts and electronic equipment, etc.
KAGA TECHNO SERVICE CO., LTD.	Electrical and communication facilities installation, interior work, etc.
KAGA FEI Co., Ltd.	Sale of electronic parts and electronic equipment, etc.
KAGA EMS TOWADA CO., LTD.	Manufacture and sale of electronic parts and electronic equipment, etc.
EXCEL CO., LTD.	Sale of electronic parts and electronic equipment, etc.
Kyokuto Electric Co., Ltd.	Manufacture and sale of electronic parts and electronic equipment, etc.
KAGA AEROSYSTEMS CO., LTD.	Import, export, sale and lease of aircraft and related parts

## Major affiliates overseas

### ▼ China



KAGA (SHENZHEN)  
ELECTRONICS LTD.



KAGA TAXAN (SUZHOU)  
ELECTRONICS CO., LTD.



KAGA (SHANGHAI)  
ELECTRONICS CO., LTD.



KAGA (H.K.)  
ELECTRONICS LIMITED

### ▼ Asia



KAGA ELECTRONICS  
(THAILAND)  
COMPANY, LIMITED



KAGA COMPONENTS  
(MALAYSIA) SDN.BHD.

### ▼ North America



KAGA FEI AMERICA, Inc.



TAXAN MEXICO S.A. de C.V.

### ▼ Europe



KD TEC TURKEY ELEKTRONIK  
SANAYI VE TICARET LIMITED  
SIRKETI



KAGA FEI 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	9,657

## Principal shareholders

Name	Number of shares held (thousand shares)	Percentage of total shares issued
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,819	10.73
OKOZE CO., LTD.	1,840	7.01
Custody Bank of Japan, Ltd. (Trust Account)	1,815	6.91
Kaga Electronics Employee Shareowners Association	1,503	5.73
MUFG Bank, Ltd.	1,137	4.33
Mizuho Bank, Ltd.	950	3.62
Isao Tsukamoto	730	2.78
The Bank of New York Mellon 140044	516	1.97
Mitsubishi Electric Corporation	500	1.90
Nippon Life Insurance Company	459	1.75

Note: In addition to the above, there are 2,438 thousand shares of treasury stock.  
Percentage of total shares issued is calculated after excluding treasury stock.

## Breakdown by type of shareholder

