

Summary of Consolidated Financial Results for the First Half Ended September 30, 2017 [Japan GAAP]

| | |
|--|---|
| Name of Company: | KAGA ELECTRONICS CO., LTD. |
| Stock Code: | 8154 |
| Stock Exchange Listing: | Tokyo Stock Exchange, First Section |
| URL: | http://www.taxan.co.jp/ |
| Representative | Title: President & COO |
| | Name: Ryoichi Kado |
| Contact Person | Title: Managing Director, Administration Headquarters |
| | Name: Eiji Kawamura |
| Phone: | +81-(0)3-5657-0111 |
| Date of filing of quarterly securities report (tentative): | November 14, 2017 |
| Date of commencement of dividend payment (tentative): | December 1, 2017 |
| Quarterly earnings supplementary explanatory documents: | Yes |
| Quarterly earnings presentation: | Yes (For institutional investors and analysts) |

(Yen in millions, rounded down)

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

(1) Result of operations (Consolidated, year-to-date)

(Percentage figures represent year on year changes)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | |
|---------------------------------|-------------|--------|------------------|--------|-----------------|--------|---|------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| First half ended September 2017 | 116,582 | 6.3 | 4,394 | 36.8 | 4,703 | 54.4 | 3,516 | 13.0 |
| First half ended September 2016 | 109,659 | (10.8) | 3,212 | (23.4) | 3,045 | (31.2) | 3,111 | 5.7 |

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

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

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

(2) Financial Position (Consolidated)

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

Reference: Shareholders' equity

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

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

2. Dividends

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

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

Breakdown of interim dividend for FY3/17: Ordinary dividend: 20.00 yen; Extraordinary dividend: 5.00 yen

Breakdown of year-end dividend for FY3/17: Ordinary dividend: 20.00 yen; Extraordinary dividend: 15.00 yen

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

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

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

(Percentage figures represent year on year changes)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | | Earnings per share |
|-----------|-------------|-----|------------------|-----|-----------------|------|---|-------|--------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full year | 232,000 | 2.1 | 7,500 | 9.0 | 8,200 | 11.7 | 6,300 | (9.7) | 229.63 |

Note: Change in the forecast from the latest announcement: None

*** Notes**

(1) Changes in significant subsidiaries (Changes in specified subsidiaries accompanied by changes in the scope of consolidation):

None

(2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements: None

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

(a) Changes due to revision of accounting standards: None

(b) Changes other than (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury shares)

| | | | |
|---------------------------|------------|-----------------------|------------|
| As of September 30, 2017: | 28,702,118 | As of March 31, 2017: | 28,702,118 |
|---------------------------|------------|-----------------------|------------|

(b) Treasury shares

| | | | |
|---------------------------|-----------|-----------------------|-----------|
| As of September 30, 2017: | 1,267,060 | As of March 31, 2017: | 1,266,468 |
|---------------------------|-----------|-----------------------|-----------|

(c) Average number of shares (quarterly consolidated during the period)

| | | | |
|----------------------------------|------------|----------------------------------|------------|
| Period ended September 30, 2017: | 27,435,430 | Period ended September 30, 2016: | 28,255,145 |
|----------------------------------|------------|----------------------------------|------------|

* The quarterly review procedures are not applicable to this Financial Results report.

* Cautionary statement regarding forecasts of operating results and special notes

(Remarks on forward-looking statements)

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

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

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

Index for Supplementary Information

| | |
|--|---|
| 1. Results of Operations | 2 |
| (1) Overview of consolidated business performance | 2 |
| (2) Overview of financial condition..... | 2 |
| (3) Qualitative information on consolidated earnings forecast | 3 |
| 2. Quarterly Consolidated Financial Statements and Major Notes | 4 |
| (1) Quarterly consolidated balance sheet | 4 |
| (2) Quarterly consolidated statements of income and comprehensive income | 6 |
| For the first half (April 1, 2017 - September 30, 2017) | 6 |
| (3) Consolidated statement of cash flows | 7 |
| (4) Notes to quarterly consolidated financial statements | 8 |
| (Notes to going concern assumptions)..... | 8 |
| (Significant change in shareholders' equity) | 8 |
| (Additional information) | 8 |
| (Segment information, etc.)..... | 8 |

1. Results of Operations

(1) Overview of consolidated business performance

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

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

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

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

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

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

Business segment performance was as follows:

(a) Electronic components (Development, manufacture and sale of semiconductors, general electronic components and other products, the electronics manufacturing service (EMS), and other activities)

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

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

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

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

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

(Note 3) Virtual Reality

(Note 4) Augmented Reality

(d) Others (Repair and supports for electronics equipment, and sales of amusement equipment and sports goods, and others)

Sales of arcade amusement machines and golf products in Japan showed solid growth. As a result, net sales increased 23.8% to 6,075 million yen, and segment income was 198 million yen (segment loss of 57 million yen one year earlier).

(2) Overview of financial condition

(a) Assets, liabilities and net assets

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

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

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

(b) Cash flows

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

(Operating activities)

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

(Investing activities)

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

(Financing activities)

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

(3) Qualitative information on consolidated earnings forecast

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

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Million yen)

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

(Million yen)

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

(2) Quarterly consolidated statements of income and comprehensive income

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

(Million yen)

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

(3) Consolidated statement of cash flows

(Million yen)

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

(4) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Significant change in shareholders' equity)

Not applicable

(Additional information)

(Adoption of consolidated taxation system)

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

(Segment information, etc.)

Segment information

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

Information about net sales and income (loss) by reportable segments

(Million yen)

| | Reportable segments | | | | | Adjustment (Note 1) | Consolidated (Note 2) |
|-------------------------------------|--------------------------|--------------------------|----------|--------|---------|------------------------|--------------------------|
| | Electronic components | Information equipment | Software | Others | Total | | |
| Net sales: | | | | | | | |
| Sales to external customers | 82,784 | 20,524 | 1,442 | 4,909 | 109,659 | — | 109,659 |
| Inter-segment sales or transfers | 511 | 261 | 1,041 | 1,584 | 3,399 | (3,399) | — |
| Total | 83,295 | 20,786 | 2,483 | 6,493 | 113,059 | (3,399) | 109,659 |
| Segment income (loss) | 2,366 | 539 | 307 | (57) | 3,156 | 56 | 3,212 |

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

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

Information about net sales and income (loss) by reportable segments

(Million yen)

| | Reportable segments | | | | | Adjustment (Note 1) | Consolidated (Note 2) |
|-------------------------------------|--------------------------|--------------------------|----------|--------|---------|------------------------|--------------------------|
| | Electronic components | Information equipment | Software | Others | Total | | |
| Net sales: | | | | | | | |
| Sales to external customers | 85,918 | 23,446 | 1,142 | 6,075 | 116,582 | — | 116,582 |
| Inter-segment sales or transfers | 593 | 503 | 463 | 336 | 1,896 | (1,896) | — |
| Total | 86,511 | 23,949 | 1,605 | 6,412 | 118,479 | (1,896) | 116,582 |
| Segment income | 2,893 | 1,116 | 111 | 198 | 4,319 | 74 | 4,394 |

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