

June 3, 2020

KAGA ELECTRONICS CO., LTD.
TSE First Section: 8154

**Basic agreement concerning sponsorship of civil rehabilitation
of Kyokuto Electric Co., Ltd.**

Kaga Electronics Co., Ltd. (President & COO: Ryoichi Kado; headquarters: Chiyoda-ku, Tokyo; hereafter “the Company”) concluded a basic agreement dated June 3, 2020 (hereafter “the Basic Agreement”) to consider inheriting business to achieve civil rehabilitation of Kyokuto Electric Co., Ltd. (Representative Director: Yasuhiro Sawada; headquarters: Osaka; hereinafter “Kyokuto Electric”), which petitioned the Osaka District Court for the application of the Civil Rehabilitation Act on April 28, 2020. The details are set forth below:

1. Background and purpose of the Basic Agreement

On April 28 of this year, Kyokuto Electric petitioned the Osaka District Court to commence civil rehabilitation procedures (Osaka District Court: 2020 (Sai) 6), and it received a ruling ordering commencement of civil rehabilitation procedures on May 12 this year. At present, rehabilitation procedures and business restructures are being implemented, with auditing by the Rehabilitation Court and auditors appointed by the Rehabilitation Court.

Kyokuto Electric indicated its intent to restructure its business while receiving support from sponsors out of some of anxiety about maintaining business due to a credit crunch caused by the petition to commence civil rehabilitation procedures, such as difficulty securing finance to procure funds. As a result of seeking support from sponsor candidates through its website, etc., it has only received one specific letter of intent in the period of about one month from the petition for civil rehabilitation to the end of May this year, which was from the Company when civil rehabilitation commenced, stating that the Company is consulting and giving consideration to the possibility of providing support.

The Company and Kyokuto Electric concluded the Basic Agreement in order to set matters for negotiation, etc., to move toward final agreement concerning the Company becoming a sponsor (hereafter “Final Agreement”), as the Company feels that it is possible to achieve better manufacturing that meets the needs of the market, by combining the Company’s planning and sales capabilities with Kyokuto Electric’s manufacturing and technological capabilities, and it is confident that it is possible to restructure Kyokuto Electric’s business and achieve its supply responsibilities as a manufacturer by enhancing creditworthiness through the Company’s support.

Furthermore, the auditors have granted consent with regard to the Basic Agreement.

2. Outline of the Final Agreement foreshadowed by the Basic Agreement¹

(1) Means of sponsorship

The Company intends to provide support by inheriting the businesses operated by Kyokuto Electric listed in (2) (hereafter “the Businesses”), either itself or through nominated parties (hereafter “Inheritor”) (hereafter “This Business Inheritance”).

¹ It is possible that these schemes or conditions, etc., will change in the course of negotiations aimed at Final Agreement.

(2) Businesses subject to support (the Businesses)

The following are intended to be the Businesses subject to This Business Inheritance.

1. Printed circuit board mounting business and electronic device contracted manufacturing business (so-called EMS business)
2. Onboard automotive product assembly business
3. Production equipment, tooling, and manufacturing business
4. Safety breaker, earth leakage breaker, and DC switch manufacturing business
5. Switching device characteristic inspection and assembly production business
6. Plastic molding processing business
7. Other businesses conducted at the Kyokuto Electric Tottori Works Urayasu Plant, Yatsuhashi Plant, and Nakayama Plant as of the date the Basic Agreement was concluded
8. Businesses that hold equity in Kyokuto Vietnam Co., Ltd.

(3) Assets, etc., subject to This Business Inheritance

As part of This Business Inheritance, Inheritors intend to inherit the assets, etc., necessary for This Business Inheritance. Investigations and negotiations are currently underway with regard to the content of This Business Inheritance, issues regarding treatment of liabilities, the amount of consideration for inheritance, and settlement method, etc. These matters shall be determined by the Final Agreement.

(4) Support for Kyokuto Vietnam Co., Ltd.

The Company is also giving consideration to providing support for Kyokuto Vietnam Co., Ltd., (hereafter “KVL”) which is a group company of Kyokuto Electric, either at the same time as giving support to Kyokuto Electric or close to that time. Because of this, it is anticipated that KVL will regain its public creditworthiness, and that KVL will continue to trade as an indispensable manufacturing contactor during the restructure of Kyokuto Electric.

(5) Permission from the Rehabilitation Court and consent by the auditors

Achieving Final Agreement is conditional upon obtaining consent, resolution, or permission to apply the requirements stipulated by the Civil Rehabilitation Act and other relevant laws and ordinances. The Company will strive to comply with relevant laws and implement the proper procedures.

3. Outline of Kyokuto Electric

1) Name	Kyokuto Electric Co., Ltd.
2) Address	6-2-1 Shinmori, Asahi-ku, Osaka-shi, Osaka
3) Representative	Representative Director: Yasuhiro Sawada
4) Business description	Manufacture and sale of electrical equipment
5) Capital	99 million yen
6) Performance in the most recent fiscal year	Net sales: 5,579 million yen (year ended December 2019)

4. Schedule

Basic agreement date: June 3, 2020

Final Agreement date: Late July 2020 (planned)

Effective date of This Business Inheritance: Around September 2020 (planned)

*At present, the schedule merely indicates plans and it is subject to change.

5. Effect on performance

This agreement is a basic agreement with no legally binding force, concluded in order for the Company to give consideration to inheriting the relevant business. At this point, there has been no decision to inherit the relevant business.

Going forward, we will provide prompt notification if specific rehabilitation support means and scope are determined, and if the impact on the Company's performance for the year ending March 2021 becomes clear.

■ Inquiries concerning this matter

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