



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



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Kaga Electronics Group
Integrated Report

2022



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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.

Period covered
This report covers the fiscal period from April 1, 2021 to March 31, 2022, except certain parts that include information prior and subsequent to these dates, as required.

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

Scope of report
Data calculation in this report covers Kaga Electronics Co., Ltd. and its 63 consolidated subsidiaries (23 in Japan and 40 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 23 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.

The Timeline of Our Growth Driven by the Kaga Spirit

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

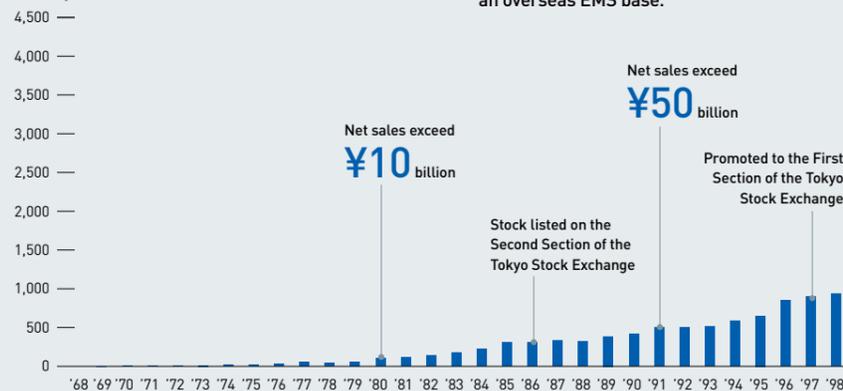
The Kaga Electronics Group continues to tackle new challenges with a view that there is no end goal to corporate activities based on the philosophy that "people are a finite asset; companies are perpetual entities." Pursuing aggressive M&A activities and developing new products and services that resolve 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 m², 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, we became a supplier of mask ROMs for use in Family Computer, a mega-hit gaming unit, in 1983, thus making an entry into the field of game software for household gaming devices.

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

1990-

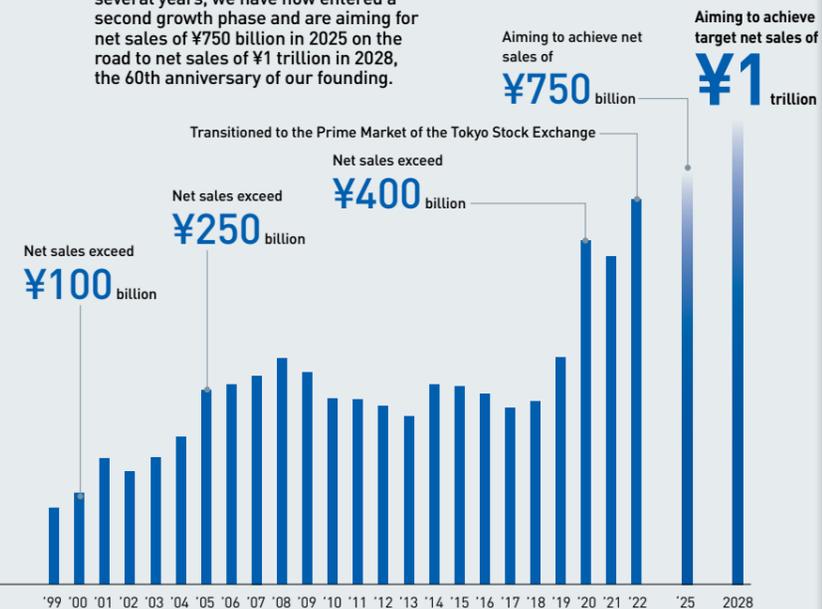
- Mar. 1991 Net sales exceed ¥50 billion
- Jun. 1992 KAGA (H.K.) ELECTRONICS LIMITED established in Hong Kong
- Jul. 1994 KAGA (SINGAPORE) ELECTRONICS PTE. LTD. established in Singapore
- Feb. 1995 KAGA (KOREA) ELECTRONICS CO., LTD. established in the Republic of Korea
- Dec. 1995 KAGA (TAIWAN) ELECTRONICS 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

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, to this end 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.

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. Having pursued 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.



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
- Aug. 2006 KAGA (DALIAN) ELECTRONICS CO., LTD. established in China
- Apr. 2009 KAGA (EUROPE) ELECTRONICS LTD. established in the UK
- KD TEC s.r.o. established in the Czech Republic
- Mar. 2014 Transferred to current Head Office building (company-owned building)
- Jan. 2017 TAXAN MEXICO, S.A. DE C.V. established in Mexico
- Jul. 2017 KAGA ELECTRONICS (VIETNAM) CO., LTD. established in Vietnam
- 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 Transited 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.

Our Hard-Earned Business Strengths Coupled with a Solid Operating Base Encompassing Regions around the Globe

Overview of Our Primary Business Segments as Defined under the Medium-Term Management Plan

Electronic components: electronic parts and semiconductor business

In this business, we provide a wide range of electronics-related components and materials that include semiconductors, general electronic parts, LEDs, sensors and liquid crystal displays. We leverage our network of more than 60 companies in the United States, Europe, Asia and other parts of the globe to deliver world-class parts and components to customers. Our exceptional support system enables us to meet the needs of customers globally.

Electronic components: EMS business

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

Information equipment

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

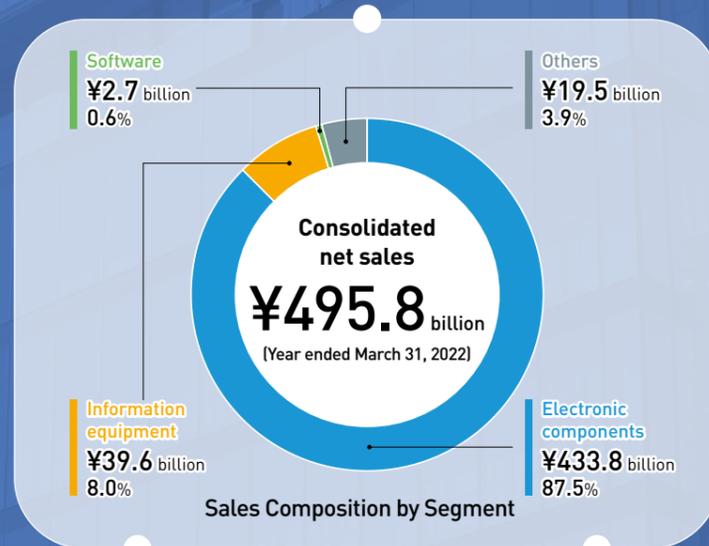
Others

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

Strengths Nurtured over the Course of More than 50 Years of Operations

Strength (1) Comprehensive capability in the electronics field

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



Strength (2) Global network capability

We provide peace of mind to customers and instill confidence through our sales and production network, which spans 16 countries and regions worldwide, as well as our global procurement and information-gathering competencies that we have built up over 50 years, which have been reinforced by the addition to the Group of KAGA FEI Co., Ltd. and EXCEL CO., LTD.

Strength (3) One-stop solution capability

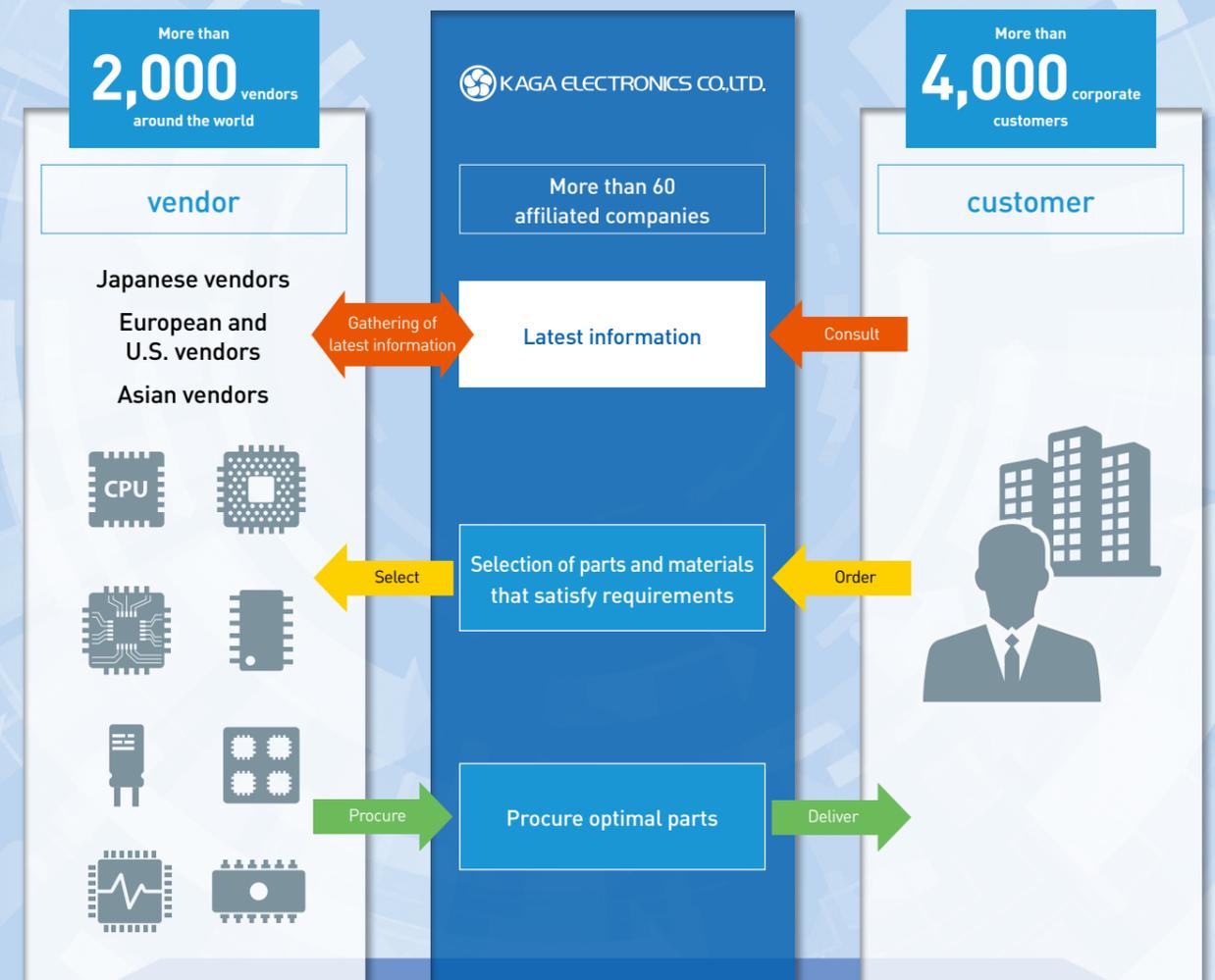
The Kaga Electronics Group, as an independent general electronics trading company, has been expanding its business domains in accordance with customer needs. At present, Group companies worldwide are working together to build a "one-stop service system" that transcends the boundaries of a trading company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

Strength (1)

Comprehensive capability in the electronics field

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

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

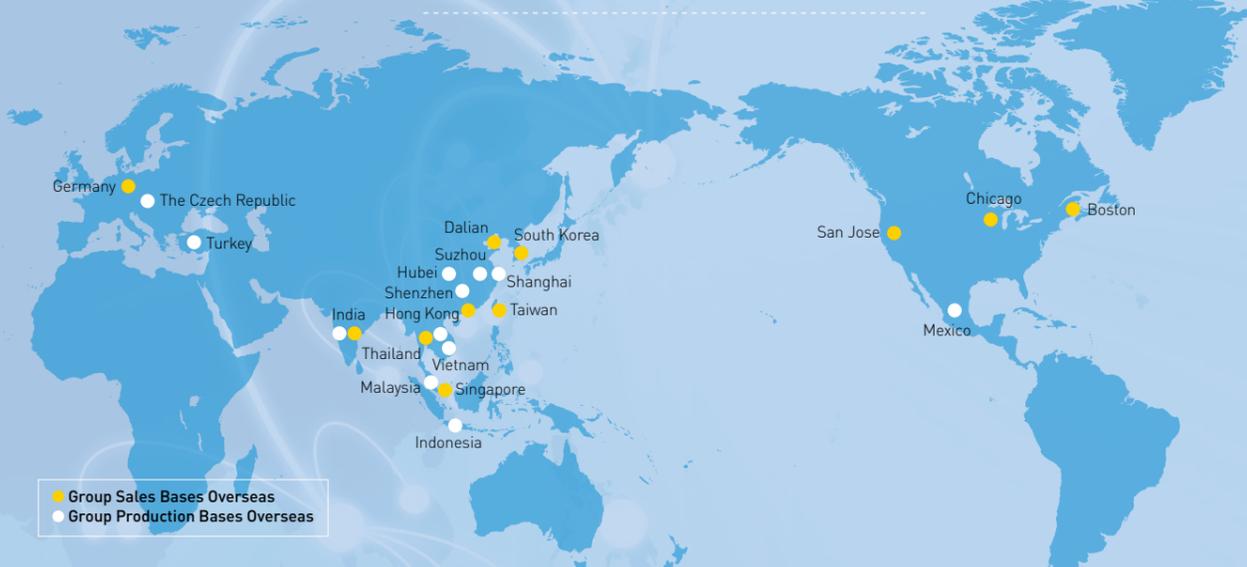


Long-nurtured capability as a trading company to realign operations to reflect the changing times

Strength (2) Global network capability

Aiming to Win Global Competition as a General Electronics Trading Company

A total of 63 companies, 40 companies in 16 countries abroad and 23 companies 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 21 bases in 10 countries

- | | | |
|--|--|---|
| <p>Europe</p> <ul style="list-style-type: none"> Garner a growing volume of orders for subcontracting associated with air conditioner-related products on the back of tightening regulations on CO₂ emissions Newly establish a circuit board mounting facility in Turkey, thereby shifting from our conventional Asia-centered production system and meeting demand in Europe | <p>China</p> <ul style="list-style-type: none"> Initiate the introduction of solar panels to utilize renewable energy Promote cost reductions via a shift to in-house production (automated facilities, wire harness assemblies, etc.) A growing number of customer production bases are now shifting to Japan, ASEAN, the Americas and Europe | <p>Japan</p> <ul style="list-style-type: none"> Enhance the Towada Factory's functions as a global mother plant Accommodate demand arising from a shift to domestic production in the face of the depreciation of the yen and the trend toward the shortening of logistics distances Garner a growing volume of orders associated with automotive equipment, industrial machinery, air conditioners and medical devices |
| <p>Americas</p> <ul style="list-style-type: none"> A growing number of customer production bases are now shifting from China and ASEAN nations Garner a growing number of orders for subcontracting from new customers based in Europe and the United States | <p>ASEAN</p> <ul style="list-style-type: none"> Robust demand associated with air conditioners, automotive equipment and office automation equipment Focus on developing new customers in the Indian market, which boasts potential for demand growth | |

Strength (3) One-stop solution capability

Supporting customers' business development by securing a one-stop support structure that rallies the resources of the entire Group

In addition to contract production, the Kaga Electronics Group's strengths enable it to provide one-stop services covering sales through after-sales support

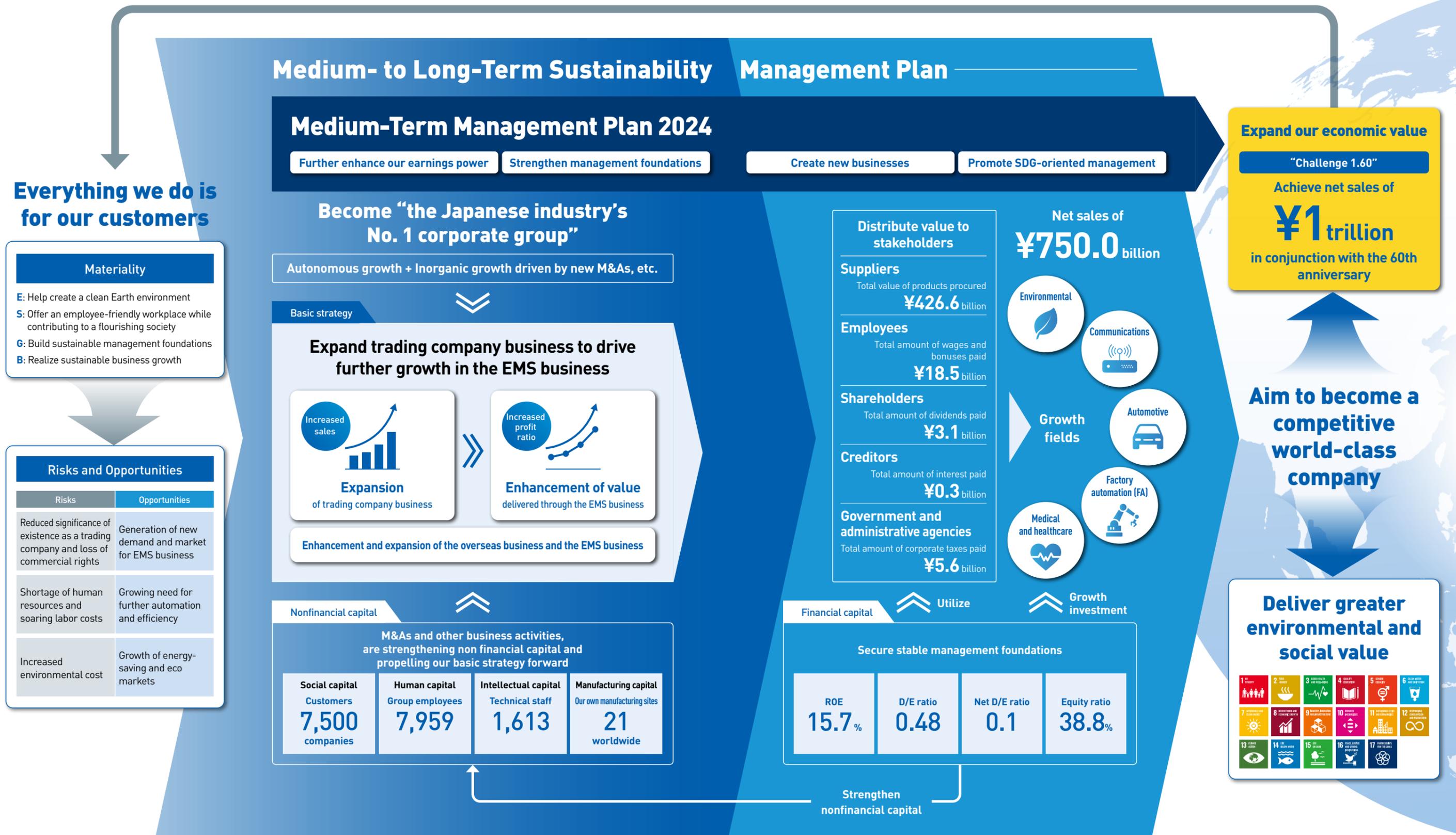
Since its founding in 1968 as an independent electronics trading company, the Kaga Electronics Group has provided optimal solutions to issues that meet its customers' requirements, which have evolved over time. Today, operating in the four primary business segments of electronic parts and semiconductors, EMS business, information equipment and others, KAGA ELECTRONICS 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 Group companies while collaborating together.



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 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 s.r.o. / KD TEC TURKEY ELEKTRONIK		

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.





Isao Tsukamoto
Representative Director,
Founder & CEO

Getting back to the basics, we will take full advantage of the strength afforded by our DNA of trying new businesses with open ideas

An entrepreneurial spirit that seeks to leverage each first-mover advantage is embedded in the DNA of KAGA ELECTRONICS

The world changes and needs for products and services can completely transform overnight. General trading companies—like ourselves—capable of assessing the new issues their customers are confronting and swiftly delivering solutions, are the best positioned to thrive in evolving times like this moment. The success of these endeavors typically hinges on employees who are unafraid of taking risks, quick to move and good at tackling new challenges in a way that leverages a first-mover advantage. Since its founding, KAGA ELECTRONICS has upheld a management approach focused on minimizing inventories and maintaining a smooth flow of products. This has, in turn, made us quite resilient against changes. Thanks to the strength afforded by this approach, we have always been able to turn crisis into opportunity instead of being swept away by the waves of history.

How is it that we manage to ride the waves of the time? The secret lies in our focus on listening closely to our customers. In line with our corporate philosophy,

“Everything we do is for our customers,” we have always carefully listened to customers and done our utmost to help them resolve the issues they confront. Quite often, it has been this very act of listening to our customers that has enabled us to identify the needs and issues society as a whole is confronting. Thus, helping resolve these needs and issues has not only resulted in our customers’ success but also led us to a growth path. I am convinced that now is exactly the time for us to achieve further growth by fully taking advantage of this approach.

For us to remain capable of addressing the issues our customers are confronting, we need to be apprised of their circumstances. This means that everyone at the Kaga Electronics Group must be ready to spontaneously take action to gather intelligence in the course of striving to raise sales, launch new businesses and improve products. Being sensitive to customer circumstances on a daily basis will, in turn, better position us to meet that person who will provide us with a tip or enable us to catch it ourselves. This is how we obtain real-life market insight while expanding our network.

An entrepreneurial spirit of this kind is embedded in the DNA of KAGA ELECTRONICS. Although I currently fill the position of Chairman, I am always mindful of where to seek

out seeds of exciting new businesses. As a matter of fact, I would rather position myself as a KAGA ELECTRONICS salesperson for the rest of my life. Also, our employees are equipped with a flexible mindset and the ability to act, both of which are essential to developing business operations. That is why I believe they have infinite possibilities.

We remain a company that cherishes employees and considers them an indispensable asset

At the Kaga Electronics Group, every employee is considered a most valuable asset. Human resources are essential to any type of corporations. This also applies to our partners and the suppliers we engage with in the course of business.

In a time of change, we may meet new customers among players from entirely different sectors or fields. This is why we deem it necessary to cherish every new encounter. Furthermore, we are always thinking about what we can offer them, rather than being focused solely on what they can offer us. These are the ways we seek out seeds of new

businesses and generate synergies.

KAGA ELECTRONICS maintains two sets of employee action guidelines called “F. Y. T.” and “3G.”

“F. Y. T.” consists of FLEXIBILITY (flexibility to align with changes in the market), YOUNG (young mindset and ability to act) and TRY (try courageously). Meanwhile, “3G” stands for GENERAL (general trading encompassing all kinds of products), GLOBAL (global operations) and GROUP (group capabilities).

Personally, I prefer to add “*Giri Ninjo*” to the above guidelines, a phrase that communicates a sense of duty and human empathy and has traditionally been embraced by Japanese merchants. I strongly believe that, irrespective of the changes of the times, cherishing people should remain at the heart of our business operations.

The DNA of trying new businesses with open ideas, which we have long held in esteem, will serve as our “engine” going forward and provide the Kaga Electronics Group with the driving force needed to achieve significant growth. Getting back to the basics, we will remain a company in which every employee can work enthusiastically and find their job rewarding.

Launching the “Medium-Term Management Plan 2024” and the “Medium- to Long-Term Sustainability Management Plan”

Ryoichi Kado
Representative Director, President & COO



In this message, I intend to report on the review of operating results for the fiscal year ended March 31, 2022 as well as the outcomes of the Medium-Term Management Plan 2021. At the same time, I will go over the details of two newly formulated plans: The Medium-Term Management Plan 2024 and the Medium- to Long-Term Sustainability Management Plan.

Overview of the new Medium-Term Management Plan



Review of the fiscal year ended March 31, 2022

During the fiscal year ended March 31, 2022, the business environment remained harsh due mainly to global shortages of semiconductors and other electronic parts as well as the disruption and stagnation of international logistics networks along with the emergence of COVID-19 variants and resulting resurgences of the pandemic. In the electronics industry, demand for semiconductors and electronic parts for use in a broad range of fields, including automotive and industrial equipment, grew; however, because production failed to keep up with the rise in demand in some areas, supply shortages and the progression of price hikes were prolonged.

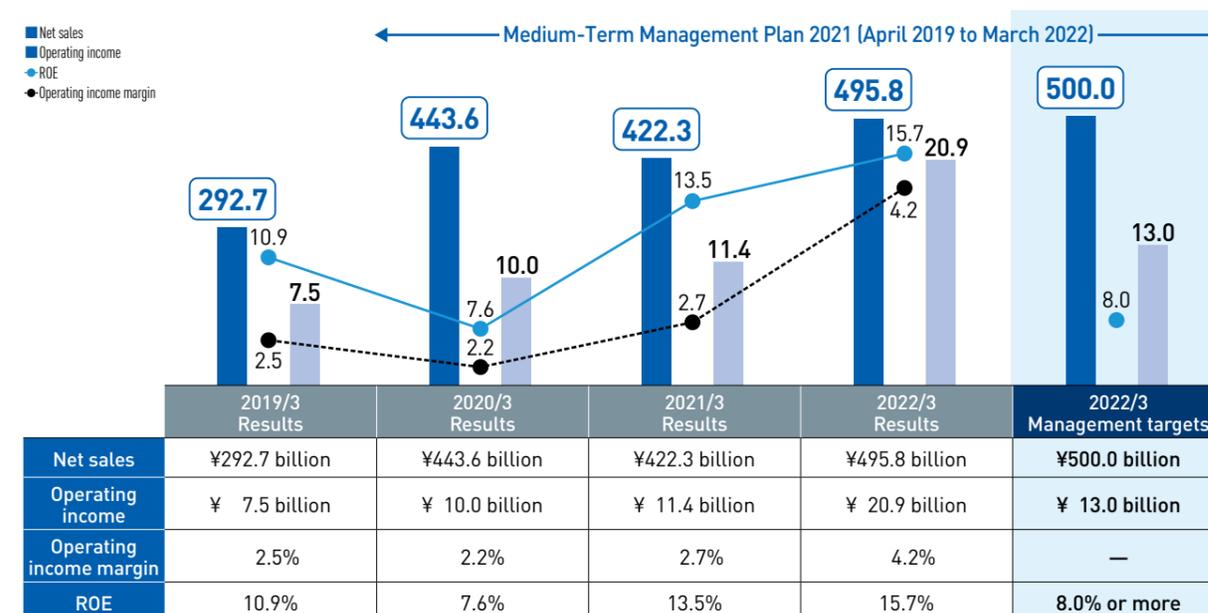
Against this backdrop, the Kaga Electronics Group adopted a forward-looking approach to accommodating requests from customers in a variety of sectors while taking full advantage of its unique strength as an independent trading company to secure sales volumes via global marketing. Thanks to these efforts, net sales hit an all-time best for the first time in two fiscal years. Moreover, we achieved a third consecutive year of record highs

for both operating income and ordinary income in addition to hitting a new high in profit attributable to owners of the parent for the second year in a row.

Review of the Medium-Term Management Plan 2021

Having concluded the final year of the Medium-Term Management Plan 2021, net sales stood at ¥495.8 billion, slightly falling short of our annual target of ¥500.0 billion. Nevertheless, we were largely able to offset a series of unanticipated negative factors that emerged during the management plan period, including a significant loss of commercial rights formerly possessed by KAGA FEI, the outbreak of the COVID-19 pandemic, and semiconductor shortages, thereby achieving an operating income of ¥20.9 billion, far in excess of the operating income target of ¥13.0 billion. Furthermore, after meeting our ROE target of 8% one year ahead of schedule, we recorded an ROE of 15.7% in the final year of the plan.

Now, I will detail the plan’s outcomes in line with its three



Review of the Medium-Term Management Plan 2021: Management Measures

Basic policies	Priority themes	Main achievements
Enhancement of the revenue base	Focus on markets and fields with high potential for growth and profitability	<ul style="list-style-type: none"> Revenue growth attributable to M&As: Approximately ¥215.0 billion Growth in the EMS business: Approximately ¥ 28.0 billion
Stabilization of the management base	Strive for the early improvement of the Group’s management efficiency and financial soundness, both of which have been weakened as a result of M&As	<ul style="list-style-type: none"> KAGA FEI: Gross profit margin: 6.3% (2019/3) → 9.8% (2022/3) KAGA ELECTRONICS: Consolidated SG&A expense ratio: 9.5% (2019/3) → 8.0% (2022/3) KAGA ELECTRONICS: Equity ratio: 35.8% (March 31, 2019) → 38.8% (March 31, 2022)
Creation of new business	Secure greater resilience against changes in the external environment by proactively leveraging both in-house resources and M&As	<ul style="list-style-type: none"> Venture investment: 19 cases (invested in a total of 42 companies) Businesses aimed at addressing social issues: Full-fledged entries into disaster-prevention helicopter- and EV bus-related businesses and preparation for entering the medical device business

basic policies, namely, "Enhancement of the revenue base," "Stabilization of the management base" and "Creation of new business."

In terms of "Enhancement of the revenue base," we executed a rapid series of M&As, with KAGA FEI, KAGA EMS TOWADA, EXCEL, and Kyokuto Electric made into Group companies over the course of three years. By expanding our customer base, this has grown our sources of sales approximately ¥215 billion.

In the EMS business, through which we offer high-value-added products and services, our business growth in such priority markets as automotive and medical equipment contributed to operating results, with net sales from this business amounting to ¥117.8 billion, up approximately ¥28.0 billion from ¥89.4 billion recorded in the fiscal year ended March 31, 2019, the first year of the Medium-Term Management Plan.

In terms of "Stabilization of the management base," KAGA FEI's gross profit margin has increased from 6.3% at the time of acquisition to 9.8%, a rise of 3.5 percentage points in three years. Meanwhile, KAGA ELECTRONICS saw an improvement of 1.5 percentage points in the SG&A expense ratio during the course of this period, with its equity ratio recovering to nearly 40%. In light of these and other achievements, we are confident that our management efficiency and financial soundness have steadily improved.

Lastly, our initiatives under the banner of "Creation of new business" encompassed a number undertaken with the aim of addressing social issues, including those associated with helicopters for disaster prevention applications and EV buses. However, these initiatives have yet to yield notable results.

About the Medium-Term Management Plan 2024

The Medium-Term Management Plan 2024 builds on the basic design of the previous management plan.

Specifically, the new plan has defined "autonomous growth + new M&As" as the driver of expansion. In line with this plan, we aim to expand the overseas business and the EMS business while focusing on the growth fields, namely, the mobility, communications, environmental, industrial device, and medical and healthcare fields. Under the plan, we aim to become Japan's industry-leading company in these fields, capable of securing annual net sales of ¥750 billion. Accordingly, we have positioned the trading company business centered on electronic components and the EMS business centered on circuit board mounting as growth drivers.

Once we have realized the aims set out under this plan, we will strive to achieve our vision of becoming a competitive world-class company with net sales of ¥1 trillion.

Under the Medium-Term Management Plan 2024, our management goal for the fiscal year ending March 31, 2025 comprises two separate targets for autonomous growth and new M&As. We aim to achieve a ¥600 billion increase in net sales from the former endeavor while securing additional sales growth through the latter, thereby raising consolidated net sales to ¥750 billion.

With an eye to realizing the above vision, sales expansion arising from autonomous growth will be supplemented by new sources of sales obtained via M&As so that we will be able to achieve net sales of ¥750 billion during the period of the Medium-Term Management Plan.

On the other hand, our operating income target of ¥20 billion is now subject to revision due to demand for electronic parts

being higher than forecast in November 2021, when this plan was formulated. The higher demand resulted in greater profit and led to operating income for the fiscal year ended March 31, 2022—on which our new operating income target is based—to reach ¥20.9 billion, exceeding the previous plan's target. In addition, we have upwardly revised our operating income forecast for the fiscal year ending March 31, 2023, the first year of the new plan, from ¥21.2 billion to ¥24.0 billion. As we have now gained greater momentum than before in terms of profit, we intend to adjust our management targets upon the careful assessment of the status of operating results in the first half of the fiscal year ending March 31, 2023.

As for ROE, we have set our target at "stable 8.5% or more," with an eye to securing an ROE stably in excess of the cost of shareholders' equity (around 7% to 8%).

Moving on, I will discuss management measures set forth in the Medium-Term Management Plan 2024, namely, "Further enhance our earnings power," "Strengthen management foundations," "Create new businesses" and "Promote SDG-oriented management."

In order to further enhance our earnings power, we will continue focusing on promising markets with high potential for growth and profitability.

To strengthen management foundations, we will strive to enhance corporate governance, promote efficient Group management, and invest in human capital as we consider securing management foundations suitable to our goal of becoming "Japan's industry-leading company," an important issue.

To create new businesses, we will remain committed to promoting open innovation via venture investment while proactively taking on the challenge of executing M&As aimed at attaining disruptive growth.

We will also promote SDG-oriented management and, to this

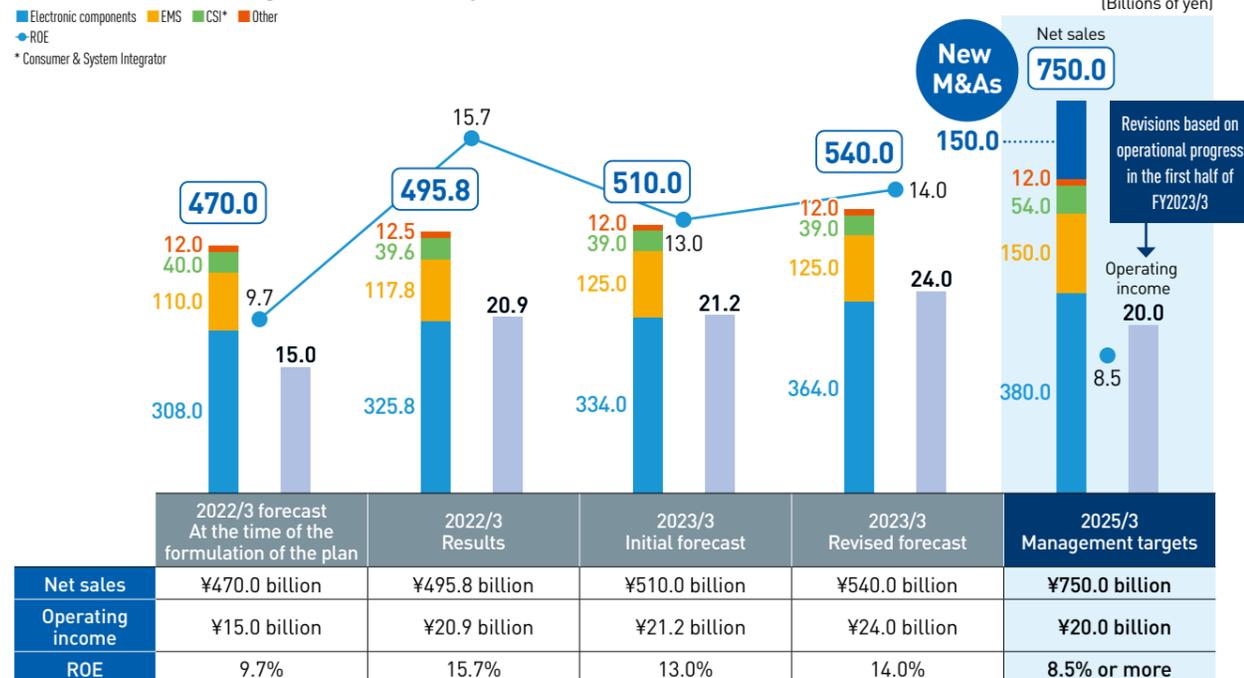
end, pursue cross-organizational initiatives encompassing the Group to promote sustainability management, with the aim of both addressing social issues and securing sustainable corporate growth.

About shareholder returns

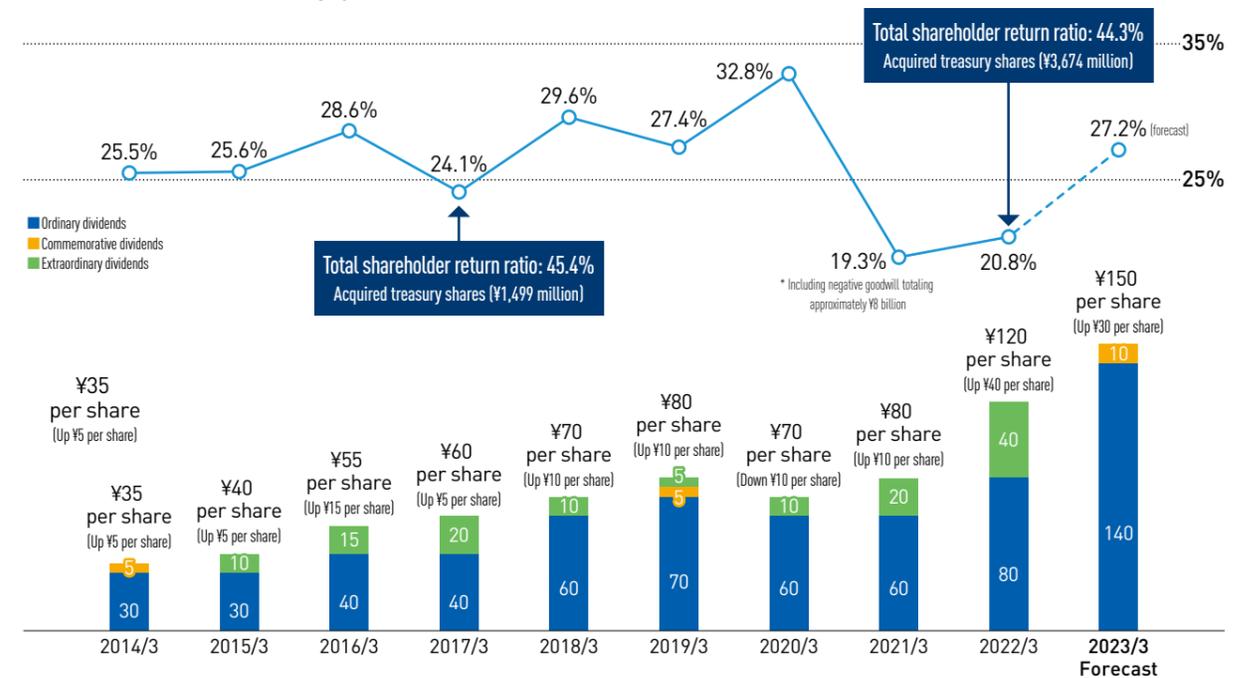
The Company's policy is to deliver two types of dividends: ordinary dividends and extraordinary dividends. We have made it our custom to deliver extraordinary dividends when profit exceeds the initial annual plan during the fiscal year or when profit at the end of fiscal year has surpassed the latest forecast. At the beginning of the fiscal year ended March 31, 2022, we had initially set our interim and year-end dividend forecasts at ¥40 per share each, and full-year dividend forecast at ¥80 per share. However, we have subsequently revised these forecasts upwardly on three occasions. Eventually, we decided to pay a full-year dividend of ¥120 per share, an increase of ¥40 per share from our initial forecast. This also includes extraordinary dividends. We will thus deliver extraordinary dividends for the eighth consecutive year since the fiscal year ended March 31, 2015.

In September 2022, we celebrated the 55th anniversary of our founding. With regard to the upcoming round of dividends, plans call for additionally paying commemorative dividends of ¥10 per share at the end of the fiscal year ending March 31, 2023, with forecasts for full-year dividends for said year amounting to ¥150 per share, up ¥30 per share year on year (interim dividends: ¥70 per share; year-end dividends: ¥80 per share).

New Medium-Term Management Plan 2024 (April 2022 to March 2025)



Dividends (yen) / Consolidated payout ratio



Outlook for the fiscal year ending March 31, 2023

In the electronics industry, although it will likely be some time before the tightness of the global supply-demand situation for semiconductors and other products is resolved, our projections premised on growth in electronic parts demand remain unchanged. Factors supporting this scenario include, in the ICT field, the popularization of high-performance smartphones compatible with high-speed communications offered via, for example, 5G mobile communications systems, along with growing investment in DX. Among other positive factors are the widespread use of EVs and the advancement of CASE (Connected, Autonomous, Shared & Services, Electric) in the automobile-related field. Taking advantage of this management environment, the Group will continue to focus on markets with high potential for growth and profitability, thereby securing even greater earnings power.

In August 2022, we upwardly revised our initial forecasts for full-year operating results for the fiscal year ending March 31, 2023. Specifically, forecasts for net sales were revised from ¥510.0 billion to ¥540.0 billion. Moreover, forecasts for operating income and profit attributable to owners of the parent, which had previously amounted to ¥21.2 billion and ¥14.5 billion, respectively, were raised to ¥24.0 billion and ¥16.0 billion.

About the Medium- to Long-Term Sustainability Management Plan

In line with its corporate philosophy, "Everything we do is for our customers," the Kaga Electronics Group is striving for both the realization of a sustainable society and its own sustainable

growth. In the course of these pursuits, we honor input gleaned via dialogue with customers, business partners, shareholders, investors, employees, and all other stakeholders. In this way, we seek to proactively play our part in realizing a sustainable society even as we endeavor to raise our corporate value.

As such, we consider the promotion of sustainability an important management issue. Accordingly, we established the SDGs Committee, on which I serve as the chair, while maintaining Environmental, Social, and Governance Issue Working Groups (WGs) under said committee. This is how we have secured a robust management structure supporting the promotion of sustainability via cross-organizational initiatives encompassing the Group. Under the leadership of a top management committed to sustainability, these bodies act in collaboration with business divisions, with each WG engaged in the formulation of policies, measures, and targets associated with ESG issues and the management of progress in addressing such issues. In these and other ways, we rally the Group's entire strength to promote sustainability. The "Medium- to Long-Term Sustainability Management Plan," which was completed in conjunction with the formulation of the Medium-Term Management Plan 2024, is just one of the products of these WGs.

Identifying priority issues (materiality)

The Kaga Electronics Group is committed to seriously addressing a variety of issues relevant not only to itself but also communities around the world and thereby living up to the expectations of society. In line with this commitment, the Group has identified priority issues that are deemed to exert significant impact on its business operations. These priority issues encompass four categories—Environmental (E), Social (S), Governance (G) and Business (B).

Our definitions of materiality for each category are as follows:



E: Create a clean global environment, S: Create an inclusive company as well as an affluent society, G: Create a sustainable management base, and B: Realize sustainable business growth. Addressing these priority issues, we will practice corporate activities aimed at contributing to the realization of a sustainable society and thereby push ahead with the further enhancement of our corporate value.

KPIs for the Medium- to Long-Term Sustainability Management Plan and progress in main activities

For the Medium- to Long-Term Sustainability Management Plan, we have set E, S, and G category themes and determined medium-term and long-term targets based on KPIs.

In the E category, we will take on the 100% switchover to renewable energy in terms of energy consumption attributable to our business activities. Although the ratio of renewable energy used at our domestic sales bases currently amounts to only around 1%, we will strive to raise this ratio to 40% over the course of three years leading up to 2024 and 100% in 2030. Moreover, we have formulated long-term targets with regard to the ratio of renewable energy used by our own domestic and overseas production bases in the EMS business, aiming to raise this ratio to between 30% and 50% in 2030 and 100% in 2050.

To achieve these targets, we began by conducting surveys to determine energy consumption at our sales and manufacturing bases in Japan. We also launched discussions regarding the timing of the introduction of renewable energy at sales bases. Furthermore, deliberations are now under way with regard to the introduction of solar panels and onsite/offsite Power Purchase Agreements (PPA) at manufacturing bases. We intend to base our policies for initiatives upon the results of information gathering and analysis to be undertaken over the course of the next three years. While we will promote the use of renewable energy through these initiatives, we will also consider issuing a "Re100" declaration.

In the S category, we will tackle "diversity promotion & human resource management" and "work-life management & productivity improvement."

In particular, we will focus on diversifying our portfolio of core human resources, including by raising the ratio of female managers from around the current 13% level to 15% in 2024. As part of these efforts, we have formulated an Action Plan in accordance with the Act on Promotion of Women's Participation and Advancement in the Workplace, with the aim of raising the ratio of women among new graduates hired as career-track employees. We have also launched recruitment activities in line with this plan.

Lastly, our initiatives in the G category include a number designed to serve two purposes: (1) Restructuring the governance structure in response to the revision of the Corporate Governance (CG) Code and the reorganization of Tokyo Stock Exchange and (2) Further strengthening the supervisory and oversight functions of top management over business execution.

Regarding the first purpose, in June 2021 we increased the representation of independent directors on the Board of Directors to more than one third of its membership and established the Nomination and Compensation Committee. To diversify the composition of the Board of Directors, we are working toward appointing a female director in June 2023.

Regarding the second purpose, we introduced a commissioned executive officer system in April 2022. Currently, we are discussing a transition to a "company with committees, etc." system and intend to determine our policy on this matter by March 2023.

Based on its corporate philosophy "everything we do is for our customers," KAGA ELECTRONICS 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.

Sustainability Promotion Structure



Medium- to Long-Term Sustainability Management Plan

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 CO₂ 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.

Identifying priority issues (materiality)

	Priority issues	Relevant SDGs	Changes in the socio-economic environment	Issues to be tackled
E	Create a clean global environment	7 AFFORDABLE AND CLEAN ENERGY, 13 CLIMATE ACTION	<ul style="list-style-type: none"> Growing seriousness of global warming and other environmental problems Urgent call for carbon neutrality 	<ul style="list-style-type: none"> Provide products and services designed to help resolve environmental and energy issues Continue initiatives to reduce the environmental burden
S	Create an inclusive company as well as an affluent society	5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 10 REDUCED INEQUALITIES	<ul style="list-style-type: none"> Changes in social structure as we move toward the popularization of the new normal Human resource shortages attributable to a low birthrate and an aging population 	<ul style="list-style-type: none"> Promote workforce diversity and innovative work styles to better adapt to the new normal Develop human resources by passing down and updating KAGA-ism
G	Create a sustainable management base	16 PEACE, JUSTICE AND STRONG INSTITUTIONS, 17 PARTNERSHIPS FOR DEVELOPMENT	<ul style="list-style-type: none"> Public calls for more robust corporate governance Growing need for business resilience against changes in the operating environment 	<ul style="list-style-type: none"> Further strengthen corporate governance and compliance Thoroughly practice a profit-focused management approach
B	Realize sustainable business growth	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 17 PARTNERSHIPS FOR DEVELOPMENT	<ul style="list-style-type: none"> Progress in digital transformation Coming of a "super-smart" society due to the popularization of ICT, such as IoT and AI Intensification of global competition 	<ul style="list-style-type: none"> Provide products and services that contribute to the transition to a digital-driven society Create new businesses aimed at helping resolve issues society is confronting Further promote global expansion

	Main themes	Issues to be tackled or discussed	Medium-term targets*	Long-term targets	Main activities and progress in FY2022/3
E	Aiming to raise the ratio of renewable energy to total energy consumption to 100%	<ul style="list-style-type: none"> Introducing renewable energy at domestic sales bases Introducing renewable energy at domestic manufacturing bases Introducing renewable energy at overseas manufacturing bases 	2024: 40% [1%]	2030: 100%	<ul style="list-style-type: none"> Surveyed our energy consumption (approximately 4.42 million kWh) Began considering the timing of renewable energy procurement
	Switchover of company-owned vehicles to EVs	<ul style="list-style-type: none"> Switchover of vehicles used by domestic sales departments to EVs (including HVs, PHVs, and FCVs) 	2024: 85% [78.5%]	2030: 100%	<ul style="list-style-type: none"> Ratio of EVs stood at 80.8% (March 31, 2022)
S	Diversity promotion and human resource management	<ul style="list-style-type: none"> Securing diversity in core human resources (Women, foreign nationals, and mid-career hires) Hiring elderly citizens and people with disabilities 	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%	<ul style="list-style-type: none"> Addressing the ratio of women among new graduates hired as career-track employees, we formulated an Action Plan in accordance with Act on Promotion of Women's Participation and Advancement in the Workplace and initiated recruitment activities to achieve said plan. We have informed all Group members of our goal of raising the ratio of women among managers. In response, each Group company has initiated target formulation with respect to the number of female managers. Fully achieved statutory employment ratio for people with disabilities (March 31, 2022)
	An optimal balance between work-life management and productivity improvement	<ul style="list-style-type: none"> Enhancing the content of various programs supporting employees engaged in child rearing, nursing care, and teleworking, etc. Aim to be selected as an outstanding organization under the Certified Health & Productivity Management Organization Recognition Program 	2022: Enhance various programs 2023: Be chosen as an outstanding organization under the Certified Health & Productivity Management Organization Recognition Program	2024- Maintain our status as an outstanding organization 2025: Obtain external certification	<ul style="list-style-type: none"> Revisions to in-house regulations and rules are now under way, with an eye to utilizing teleworking as a permanent working system Completed the updating of information disclosed via our website in preparation for obtaining certification
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"> Increase the number of independent outside directors so that they account for one third or more of the Board membership Establish a Nominating and Compensation Committee Diversify the composition of the Board of Directors Thoroughly comply with the revised CG Code and other requirements accompanying the Company's listing on the Prime Market 	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	<ul style="list-style-type: none"> Done in June 2021 Initiatives are now under way to appoint a female director in June 2023 Plans call for initiating information disclosure in accordance with the TCFD recommendations and other standards in June 2022
	Further strengthening the supervisory and oversight functions of top management over business execution	<ul style="list-style-type: none"> Introduce a commissioned executive officer system Transition to a company with committees, etc., system 	April 2022: Enforced March 2023: Determine policies		<ul style="list-style-type: none"> Done in April 2022 Determine policies by the end of FY2023/3

Hitting Yet Another Record High as We Achieve Significant Growth in Both Sales and Profit Thanks to the Robust Performance of the Mainstay Electronic Components Business

Eiji Kawamura

Director, Managing Executive Officer,
Head of Administration Headquarters



Review of the fiscal year ended March 31, 2022

In the fiscal year ended March 31, 2022, net sales rose a significant 17.4% year on year to ¥495,827 million, hitting an all-time best for the first time in two fiscal years due to the robust performance of the mainstay electronic components business. This was attributable to ongoing and robust demand for semiconductors and electronic parts thanks to recovery in production activities undertaken by the manufacturing sector at home and abroad. Operating income grew 82.4% to ¥20,915 million, representing a substantial increase in profit. Furthermore, gross profit expanded due to the increased sales and improved profitability. We have thus achieved a record-high profit for a third straight year. This is a testament to the success of our ongoing work style reform amid the COVID-19 pandemic along with persistent cost reductions.

Profit attributable to owners of the parent increased 35.1% to ¥15,401 million, similarly hitting a record high for the second consecutive year despite the absence of the extraordinary income posted in the previous fiscal year due to a gain on negative goodwill (¥7,963 million), thanks to profit expansion achieved via our main business.

Moreover, ROE improved by 2.2 percentage points from 13.5% at the end of the previous fiscal year to 15.7%. Factors contributing to this improvement are as follows: the total asset turnover ratio, which rose from 1.8 to 1.9; the financial leverage ratio, which remained virtually unchanged at 2.6; and profit attributable to owners of the parent margin, which improved from 2.7 to 3.1 year on year.

Earnings in the fiscal year ended March 31, 2022 are broken down by company as follows. In the below, KAGA ELECTRONICS includes all Group companies except for KAGA FEI Co., Ltd. and EXCEL CO., LTD.

In terms of net sales, all three companies achieved significant sales growth backed by the robust performance of the electronic components business. Net sales at KAGA ELECTRONICS increased ¥37,177 million to ¥281,075 million. Net sales at KAGA FEI Co., Ltd. and EXCEL CO., LTD. increased ¥17,523 million and ¥18,760 million, respectively, to ¥149,455 million, and ¥65,296 million.

The gross profit margin for the Group totaled 12.2%, a year-on-year improvement of 0.9 of a percentage point. Each company

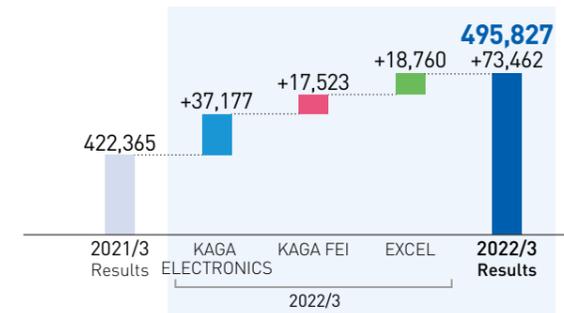
enjoyed a major rise in its gross profit margin, with the margin at KAGA ELECTRONICS, KAGA FEI Co., Ltd., and EXCEL CO., LTD. increasing from 14.5% to 14.9%, from 7.8% to 9.8%, and from 5.1% to 6.5%, respectively. The improvement achieved by KAGA FEI is attributable to its initiatives to raise profit awareness among employees in the course of the post-merger integration (PMI) and the resulting strengthening of its business structure, along with the proactive implementation of spot sales, through which, in response to customer requests, it delivered products that would have otherwise been counted as inventories. EXCEL CO., LTD. has similarly striven to raise employee awareness of profitability, succeeding in eliminating all its dead inventory after reviewing and eliminating multiple redundancies from its inventory management methods. These initiatives, in turn, got the two companies on a profitable track earlier than expected.

Although SG&A expenses grew 8.7% year on year to ¥39,632 million as expenses rose along with the sales increase, the SG&A expense ratio for the Group fell from 8.6% to 8.0%, with this metric at KAGA ELECTRONICS, KAGA FEI Co., Ltd., and EXCEL CO., LTD. improving from 10.0% to 9.5%, from 7.5% to 7.2%, and from 4.8% to 3.3%, respectively.

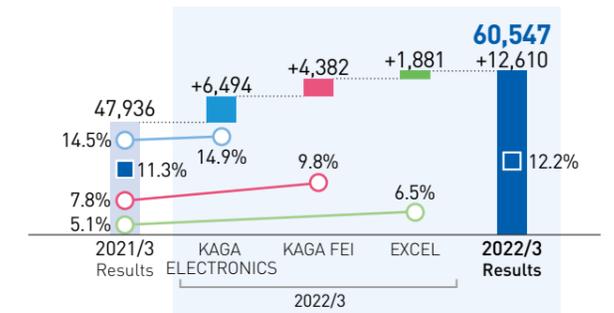
Turning to operating income, the entire Group's operating income margin rose significantly from 2.7% to 4.2%. This was due to the increase in gross profit, which has outpaced growth in expenses and thereby contributed to the rise in profit. The operating income margin at KAGA ELECTRONICS, KAGA FEI Co., Ltd., and EXCEL CO., LTD. improved from 4.5% to 5.5%, from 0.3% to 2.4%, and from virtually zero to 3.0%, respectively.

Looking at the financial condition of the Group, inventory increased ¥24,658 million year on year to ¥62,607 million due to the deliberate expansion of inventories for the EMS business in order to secure our responsiveness to customer requests amid ongoing semiconductor shortages. This has also resulted in the worsening of the inventory turnover period from 32.8 days to 46.1 days. On the other hand, the receivables turnover period and the payables turnover period decreased from 93.7 days to 89.0 days and from 79.8 days to 68.6 days, respectively. Although both of these turnover periods had been lengthened by the consolidation of EXCEL CO., LTD. in the previous fiscal year, these periods are now being reinstated to the pre-acquisition levels.

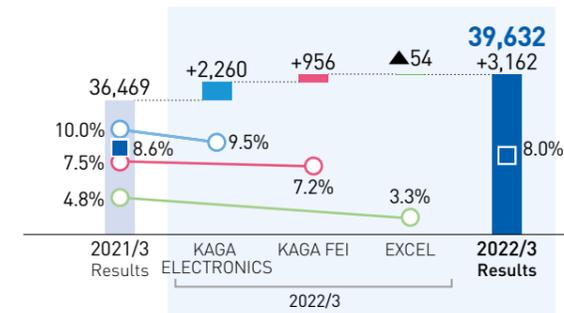
Net sales (millions of yen)



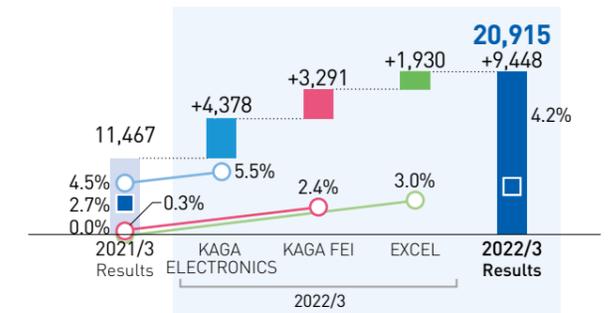
Gross profit (millions of yen) / Gross profit margin



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

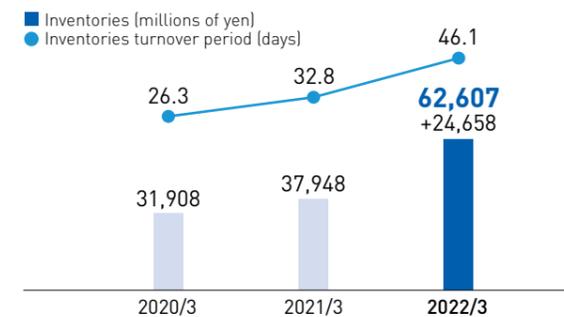


Operating income (millions of yen) / Operating income margin



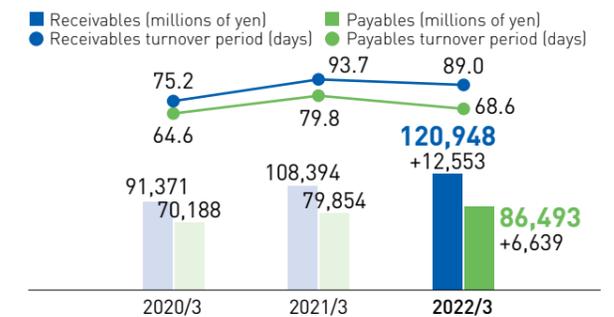
Note: Gross profit and operating income figures are shown before consolidated adjustments among the three companies. Consolidated adjustments are -¥157 million for gross profit and +¥137 million for operating income.

Inventories



Note: Inventory turnover period (days) = Inventories / Net Sales x 365 (days)

Receivables and payables



Note: Notes and accounts receivable—trade include electronically recorded monetary claims. Notes and accounts payable—trade include electronically recorded monetary obligations. Payables turnover period (days) = Notes and accounts payable—trade / Total purchase of goods x 365 (days). Receivables turnover period (days) = Notes and accounts receivable—trade / Net sales x 365 (days)

Results of the Medium-Term Management Plan by segment

Lastly, I will discuss operating results in line with the business segmentation as defined at the announcement of the Medium-Term Management Plan. Net sales increased by 24.2% year on year to ¥325,830 million in the electronic components business, with segment profit growing 274.6% to ¥11,094 million.

Net sales in the EMS business rose 18.3% year on year to ¥117,828 million. Segment profit increased 32.8% from the previous fiscal year to ¥7,356 million.

On the other hand, net sales in the CSI* business decreased by 18.1% to ¥39,616 million, with segment profit falling 16.0% year on year to ¥2,085 million. The Other segment saw net sales grow by 4.1% year on year to ¥12,552 million, while segment profit declined 34.0% to ¥255 million.

*Consumer & System Integrator

The Kaga Electronics Group's Growth Drivers

Accelerating the EMS Business

The pace of technological innovation has an enormous influence on the electronics industry, and the Kaga Electronics Group has maintained sustainable growth by leveraging its abilities to quickly identify changes in each era. In addition, the thorough practice of "Everything we do is for our customers" has resulted in a business involving the "kitting" of multiple products for delivery to customers, which is one step beyond transactions involving individual products. In another business addressing customer needs, we have evolved a value-added EMS*1 business for the mounting of electronic components onto printed circuit boards for customers.

The EMS business flexibly addresses needs for high-mix, low-volume production, from the design and development of products to the SMT*2 mounting of electronic components on printed circuit boards and assembly of final products. Closely aligning its business approach with customer circumstances, the Company has built a supply chain that is the opposite of mega-EMS firms that maintain large-scale facilities for supplying high volumes of undifferentiated products for exports.

Over the course of the more than 20 years since the launch of its first factory in Shenzhen, China, in 1999, the Group has also developed a global EMS production structure.

Strengths of the EMS business ① "Convenience store-type" EMS

The Kaga Electronics Group's EMS business approach is premised on a smaller initial investment via the use of leased land and buildings as well as the standardization of interiors. We have thus realized high-mix, low-volume production, handling 3,000 models per month with a minimum order volume for a single model set at only 100 units.

Our production system also enables a local production, local consumption business model supported by multiple bases tasked with procurement, manufacturing, or logistics. This, in turn, lends us distinctive uniqueness and strength. Our "convenience store-type" EMS business model is underpinned by the "We act as a close partner for our customers" concept and has proven effective despite supply chain disruption and parts shortages amid the COVID-19 pandemic, thereby contributing to the Group's operating results.

Furthermore, we take full advantage of the benefit of the "convenience store-type" business model to quickly launch supply lines for customers engaged in manufacturing and confronted by prolonged transportation periods, surges in logistics costs,



New factory in Turkey scheduled for completion in November 2022

looming financial burdens, decreasing flexibility, and growing risks arising from supply disruption through the use of long-distance exports. This is yet another strength of our EMS business.

Our new factory in Turkey (see the preceding page for a picture), which is scheduled for completion in November 2022, is specifically designed to swiftly address issues customers are facing and is expected to contribute to business expansion. Going forward, our plans call for positioning this production base as the main factory serving the European market.

Strengths of the EMS business ②

Circuit board mounting is the mainstay operation

While Taiwanese and other Asian mega-EMS firms are focused on the assembly of finished products, our mainstay operation in the EMS business is circuit board mounting, which requires high reliability. Our expertise positions us to meet stable demand over the long term.

Primary items we handle include electric compressor units and AC inverter units as well as headlamps, taillamps, and other lighting units in the automotive field. Also, auxiliary battery packs for powering communications devices in emergencies, such as in the aftermath of a traffic accident, malfunction or theft, have seen growing demand.

We also handle air conditioner-related units. In this field, we

undertake a range of processes from circuit board mounting for electronic components used in exterior units to aluminum plating and unit assembly. Moreover, we produce toilet-related products, such as control and remote-control units, for use in sanitary appliance units. We also manufacture control boards for power tools.

Aiming to achieve net sales of ¥150 billion for FY2025/3 in the EMS business

Despite fallout from the COVID-19 pandemic, the Kaga Electronics Group's EMS business achieved net sales of ¥117.8 billion, up approximately ¥18.2 billion compared with the previous fiscal year and surpassing the ¥100 billion milestone.

Now, we are planning to raise net sales to ¥150 billion, approximately 1.3 times the current level. In particular, we will focus on automotive, industrial, and medical equipment applications while executing three priority strategies explained on the next page, namely, "Strengthening and expanding our customer base," "Shifting our value chain to high-value-added fields," and "Enhancing our business foundations."

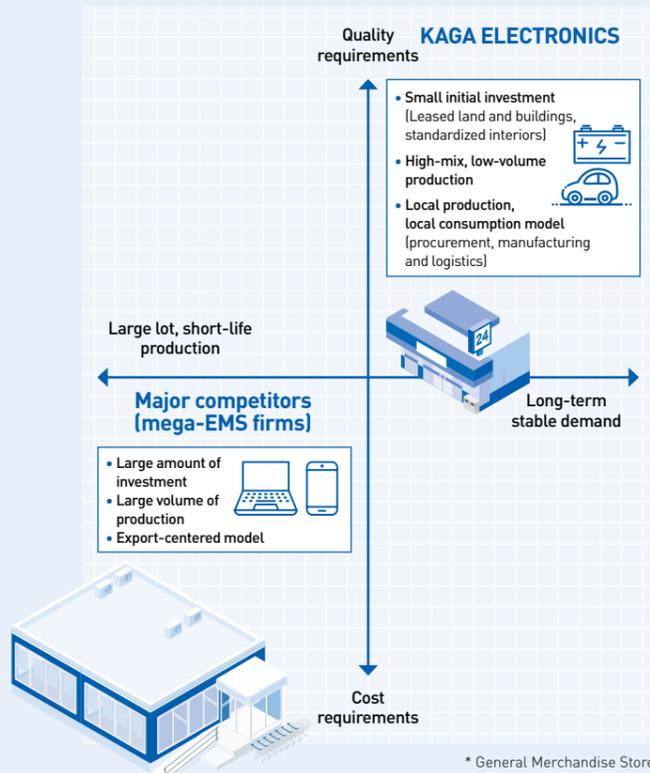
*1 Electronics Manufacturing Services

Provision of product development and manufacturing services on a contract basis

*2 Surface Mount Technology

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

Convenience store-type EMS vs GMS* type-EMS

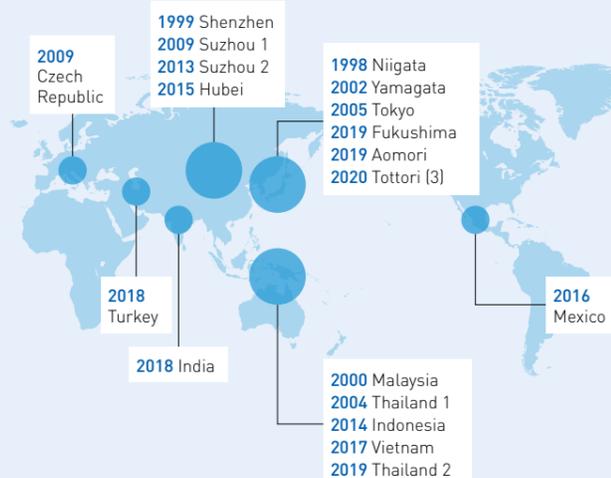


Global expansion

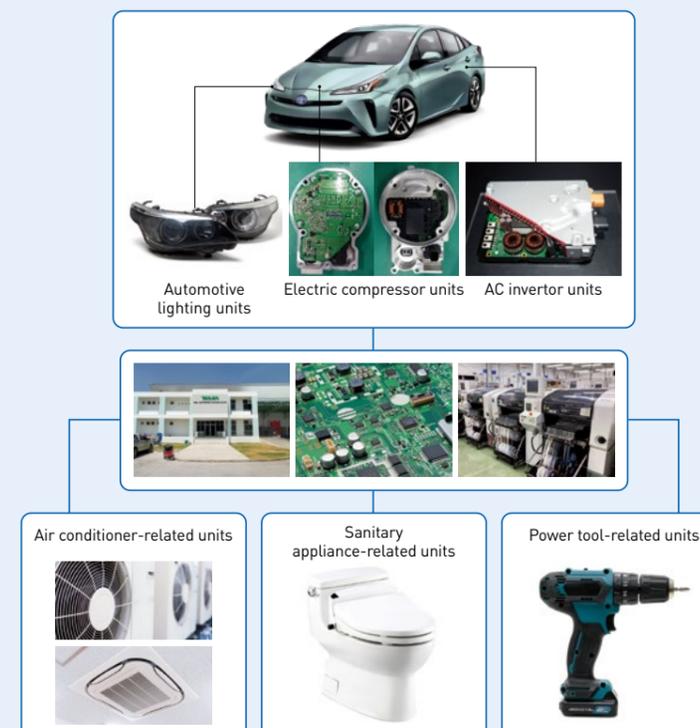
Maintaining 21 production bases in 10 countries "We act as a close partner for our customers"

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

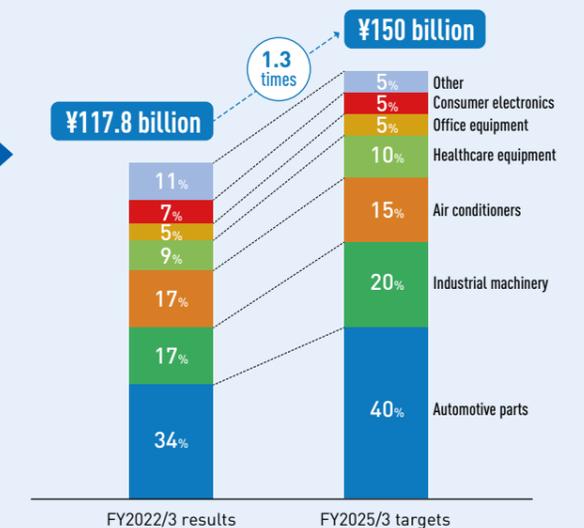


Main manufacturing items



EMS business growth targets by industrial portfolio

In line with the priority strategies of "Strengthening and expanding our customer base," "Shifting our value chain to high-value-added fields," and "Enhancing our business foundations," we will raise net sales to 1.3 times of the level recorded in FY2022/3, achieving significant growth.



Priority strategy ①

Strengthening and expanding our customer base

With the aim of strengthening and expanding our customer base, we will strive to secure manufacturing subcontracting orders from a growing range of customers, including in Europe and the United States, while continuing to serve existing and new customers in Japan. In doing so, we will remain focused on taking a quality-centered approach and seizing long-term stable demand.

KAGA FEI, which joined the Group in 2020, is expected to play a central role in the above endeavors. As an electronic parts trading company, KAGA FEI has developed a solid customer base in the Americas and Europe. With this in mind, we will take full advantage of, and combine our EMS business with, KAGA FEI's sales channel. To further advance marketing in these regions, we will also pass on our sales know-how accumulated through the EMS business to local staff at overseas sales companies.

Priority strategy ②

Shifting our value chain to high-value-added fields

To date, our EMS business has focused on procurement, manufacturing and inspections. Employing KAGA FEI's know-how, we will expand the functions we offer via the EMS business to encompass such upstream processes as development, design and verification, as well as downstream processes, including analysis and maintenance. In this way, we will expand our value chain to cover a growing scope of fields. This will enable us to not only be involved in mass-production but also engage in business development from early stages of cost planning and cost improvement, thereby enhancing value added in our EMS business.

Shifting our value chain to high-value-added fields also involves the utilization of production facilities and IT systems that have been developed in-house.

The Kaga Electronics Group has developed production facilities bearing its own brand name, "HATTEN." Among these, local soldering baths, inspection machines, and vertical high-temperature

furnaces have already been commercialized. Currently, we have surface mounting machines undergoing verification testing. We aim to enhance the competitive edge of our production process by establishing a product lineup comprising these four types of machine.

In addition, we are developing a smart factory. Specifically, we have created a system that makes it easier to visualize the status of production and inventories in a timely manner based on data on quality and production management obtained directly from the manufacturing line. Going forward, while transitioning our system, which currently uses dedicated PCs, to cloud computing, we will establish the coordination of business and manufacturing data. Our plans thus entail seamlessly connecting customers and suppliers with the system in addition to upgrading it so that it can be used via smartphones and other mobile devices.

Priority strategy ③ Enhancing our business foundations

In terms of enhancing our business foundations, we consider KAGA EMS TOWADA's human resources, who specialize in production

and boast robust technical capabilities, to be our principal driving force. Employing these human resources, we have established the Production Center, tasking it with managing 21 production bases in 10 countries and standardizing their manufacturing practices via the use of a cross-functional approach. In this way, we will horizontally roll out the manufacturing know-how we have nurtured over the course of more than 20 years, with the aim of ensuring identical standards, quality levels, and customer service for customers in Japan, China, ASEAN, the Americas, and Europe. To lay the groundwork for the above endeavors, we have also established the KAGA Production Method (KPM) and TAXAN Technical Standard (TTS).

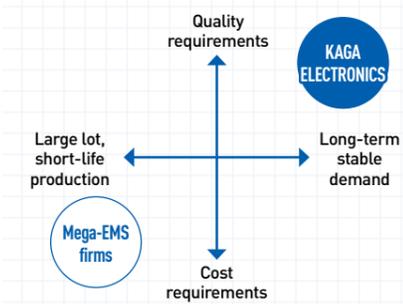
To that end, our Towada Factory will serve as a mother plant and be tasked with primary roles in introducing automated and labor-saving solutions and IT technologies as well as in assisting in the launch of overseas production bases. As a mother plant, the facility will also roll out production technologies throughout the Group while serving as a hub for human resource rotation encompassing overseas bases.

Priority strategies for the EMS business

Strengthening and expanding our customer base in market segments involving stringent quality requirements while aiming for a shift to high-value-added fields

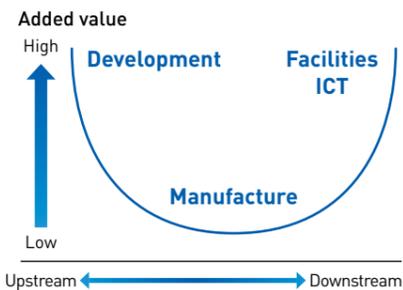
Strengthening and expanding our customer base

- Expand our involvement in business fields that require high quality and entail long-term stable demand
- Expand our customer base in Europe, the United States, and Asia



Shifting our value chain to high-value-added fields

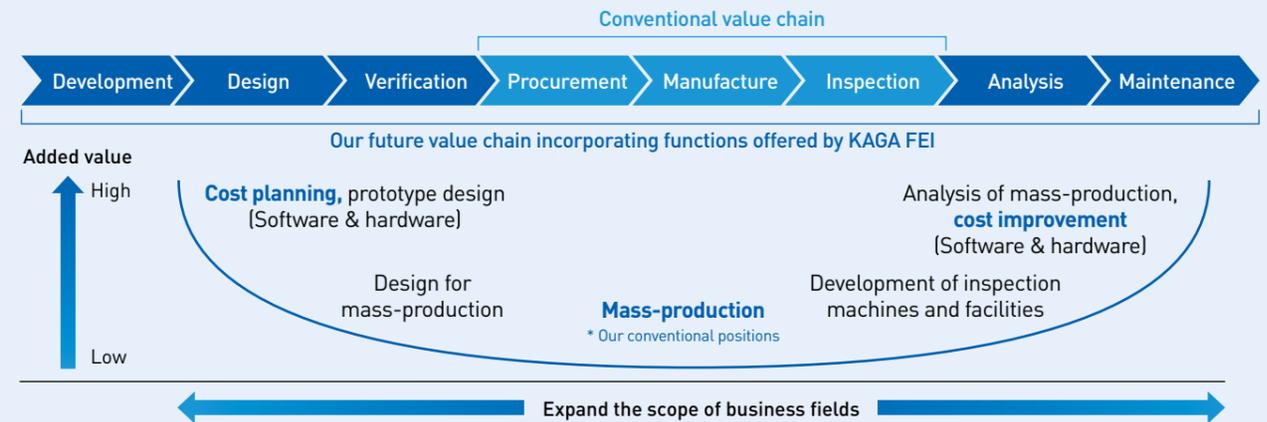
- Development / design + EMS services
- Assistance to software/hardware development and design
- In-house development of production facilities and IT systems



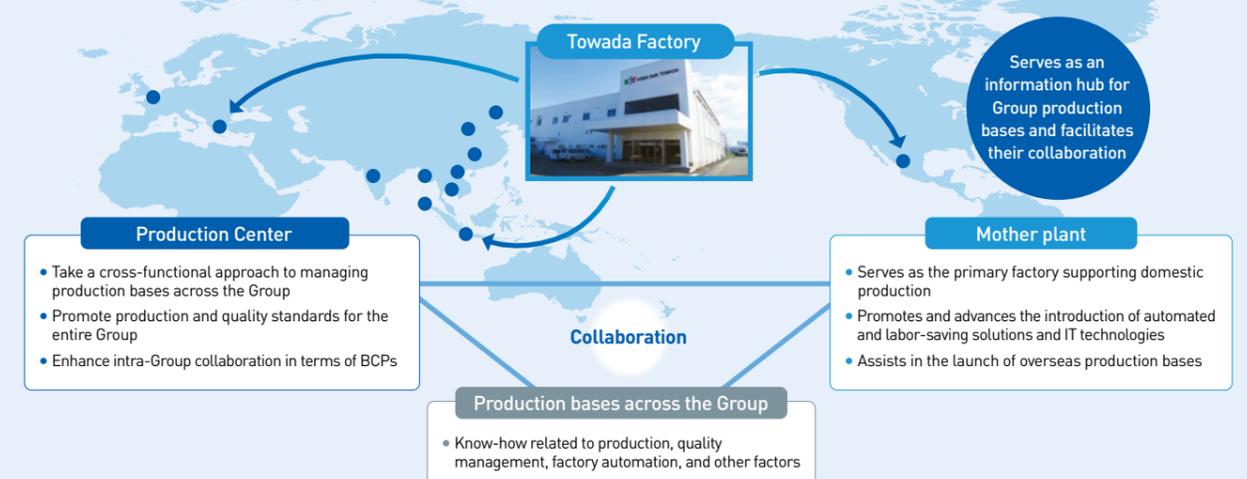
Enhancing our business foundations

- 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
- Launch new production bases in a swift and flexible manner requiring low initial investment (a "Convenience Store-type EMS" approach)
- Promote smart factory development via automation and visualization
- Enhance BCPs (via flexible intra-Group collaboration aimed at countering procurement, production and logistics risks)

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



Utilization of Core Human Resources and Progress in PMI

How do we best utilize our people, our greatest asset since our founding, to sustainably enhance our corporate value in the future? Here, two of the people responsible for our human resource strategy discuss this issue.



Executive Officer, Deputy Head of
Administration Headquarters
Yasuhiro Ishihara



General Manager, Administration Headquarters
Personnel Department
Ken Ishizaki

Basic Approach and Vision for Human Resources

Ishihara Since its founding, the Kaga Electronics Group has believed that people are its greatest asset, and we have trained them with the goal of nurturing independent, autonomous, and self-motivated individuals with a strong spirit. Outside perceptions of KAGA ELECTRONICS often cast it as a wild, wandering samurai. We are recognized for our vital, independent, and self-reliant spirit, the kind of spirit that survives in the toughest of environments.

Mr. Tsukamoto, the Company's Founder & CEO, often says that each one of us is a manager. Because from the moment of its establishment KAGA ELECTRONICS has encouraged every employee to develop an independent mindset and act as a purchaser and seller of its products, we have not only naturally learned to stand on our own two feet but as a matter of course have nurtured human resources who are self-reliant. To paraphrase Mr. Tsukamoto, a company is more than a place where employees come to earn wages, it is a place where they can grow. I encourage our employees to be as active as possible, as they are in charge of their own lives.

Human resource development is essentially on-the-job training. The Company serves as a place where everyone can play an active role, and it is the experience gained in doing so

that nurtures human resources. Instead of so-called "classroom learning," early in their careers our employees begin to amass a variety of experiences and enhance their capabilities with the knowledge and know-how they gain from these experiences. At the same time, we acknowledge the importance of praise and consequences. I praise and reward those who perform well, and give proper instruction to those who fail. The spirit of supporting the underdog is also deeply rooted in the Company. Our greatest fear is that everyone will be so afraid of failure that they will not challenge themselves, will not do anything, and will fall into thinking that the status quo is fine. An environment that allows employees to once more take on challenges after failure is an environment that fosters peace of mind.

Our human resource management is premised on a belief that people are innately good, and, above all else, we want our employees to think and stretch themselves, rather than asking their superiors for everything.

Ishizaki We emphasize character in the hiring process. Rather than hearing a candidate recite well-thought-out and prepared answers, the interviewer wants to see if the candidate can converse on the spot and engage in a dialogue that makes one want to ask more questions. Candidates who are able to engage in conversation, rather than going through rounds of asking and answering questions, have good communication

skills. Although it is difficult to come to a judgment in the short time available, we put a lot of value on individual character. The Company places a firm emphasis on KAGA-ism, our philosophy, so it is important that their character is a good fit and that they are able to embrace our corporate culture.

The switch to remote recruitment with the COVID-19 pandemic has made it possible to attract candidates from a wide range of regions and areas. Until now, we have visited major cities such as Tokyo, Osaka, and Nagoya to hold information sessions and meet candidates. It has been a great change to be able to welcome participants from anywhere in the country with ease. Even though our information sessions are held remotely, the final decision will be made in person, as the selection process is focused on assessing personal character.

Smooth Adoption of Remote Work, Taking the Lead in Reforming Work Styles

Ishihara Remote work has been part of our work style reform since 2017, two years before the COVID-19 pandemic. Compared with companies forced to hurriedly implement remote work during the pandemic, the Company has been able to adopt this work style quite smoothly and is currently operating without problems.

Ishizaki The Finance & Accounting Department, which Ishihara was the general manager of, introduced remote work on a voluntary basis. Later, the enactment of the Work Style Reform Bill prompted us to gear up work style reforms at the Company and launch the Kaga Smart Project. In addition to introducing remote work, we have been reforming various systems to provide more flexibility in the way we work, such as lengthening the period in which employees are allowed to adopt shorter hours in order to provide childcare. The fact that management approved the launch of the project itself was also a major step forward.

The Finance & Accounting Department voluntarily started remote work on a trial basis, and when it proved to be successful, it was expanded to the Administration Department as a whole. Finally, when the COVID-19 pandemic hit, we were already about to expand it from business units in charge of administration to sales units.

Ishihara Employees returning from parental leave have shorter office hours and often have to leave early to pick up their children. We tried remote work in order to help balance work with childcare so that employees could perform properly even



in this environment. After about six months, we realized that we could do more than we had expected if we eliminated bottlenecks due to paper-intensive work, and tackled them one by one. We then began to spread the concept throughout the Administration Headquarters. Perhaps it worked so quickly because we approached it proactively rather than reactively. KAGA ELECTRONICS has few departmental barriers strictly limiting what each business unit can or cannot do, neither does it have sectionalism. The free and open atmosphere of the Company also makes it easy for us to take on new challenges.

Ishizaki COVID-19 first became an important topic around the December 2019–February 2020 period. Prior to that, from October to November, the sales department established a trial procedure and held briefings in Nagoya and Osaka. Of course, there was some negative feedback, but little by little trials began, and as the year drew to a close while opinions were being heard, the COVID-19 pandemic began. Then, the sales department started working from home, and it quickly spread.

Strengthening Sustainability Initiatives

Ishihara The Kaga Electronics Group has believed for over 50 years that human resources are its most important assets, so the importance of respecting human rights and developing human resources is already deeply rooted in the Company. In the future, we intend to improve on current shortfalls and match them well with the times to ensure the sustainable growth of the Kaga Electronics Group.

For example, KAGA ELECTRONICS has long had a reputation in the industry for employing a great number of talented women. In the future, we intend to encourage female employees to earn success in an even wider scope of business fields and expand their representation in a visible way, such as by actively promoting them to management positions.

Ishizaki To further expand opportunities for women in sales and engineering, we have set and are working to achieve a target to increase the ratio of female new graduates hired to 30% by 2023 and to 40% by 2028. In terms of post-employment training, we not only focus on gender, but also consider the kind of human resources KAGA ELECTRONICS as a whole should nurture.

To help women succeed, it is necessary to create role models in each work category. Once role models are established, recognition within the Company will increase and recruitment will be more effective. We will thus visualize the flow of careers.

Ishihara The SDGs Committee, established in April 2021, has a Social Issue Working Group working on diversity and human resource management. At KAGA ELECTRONICS, mid-career hires are promoted to management positions without separating them from employees who entered the Company as new graduates. Meanwhile, overseas Kaga Electronics Group companies promote a number of local human resources to management positions.

Our primary focus is on the ratio of female managers, and we are working to raise the current ratio of 13.3% to 15% by 2024, and to 17% by 2029.

In addition to this, we are considering system reforms that will create an environment in which employees can work comfortably while spontaneously achieving work-life balance

as well as higher quality of life and greater productivity. To this end, we are identifying systems that will be needed in the future.

Post-Acquisition Management (PMI) Progressing Well

Ishihara Companies that join the Kaga Electronics Group always have their good points in terms of corporate culture, systems, or the sales and technical capabilities of their human resources. While respecting, maintaining, and passing on their good points, we will combine and integrate the Kaga Electronics Group's strengths, corporate culture, and basic concepts to create synergies under KAGA-ism. We are also working on PMI with the hope that these companies will become even stronger as members of the Kaga Electronics Group.

Ishizaki The first step of PMI is to launch personnel exchanges and ensure that KAGA-ism and our "FYT" (FLEXIBILITY, YOUNG and TRY) action guideline are well understood. We have a corporate culture in which communication is frequent and open among Group companies. Our commitment to a high level of communication skills is also demonstrated when welcoming outside companies into the Group.

Ishihara KAGA ELECTRONICS Board members always sit on the boards of directors of companies that have joined the Group, providing advice on various management issues at the meetings and deepening their understanding of its corporate culture through discussions. We also send people who have mastered KAGA-ism to work together with new Group members to help them directly experience the spirit of KAGA ELECTRONICS in the field.

Ishizaki The incorporation of KAGA-ism into personnel evaluations helps new Group companies build up their corporate culture while reviewing all aspects of their evaluation systems.



Ishihara The new companies in the Group bring with them special skills, expertise, or work experience in fields that are new to KAGA ELECTRONICS, and I believe these additions will be very beneficial in further expanding the diversity of the Kaga Electronics Group. I believe that human resources whose attributes differ from those of KAGA ELECTRONICS employees in terms of culture, ways of thinking, personalities, and experience, will definitely come in handy when we undertake new projects in the future.

For the Kaga Electronics Group to become a company with net sales of ¥1 trillion, it is essential to produce and nurture a large number of core human resources who will one day become its management. We therefore need human resources with a proper understanding of the basic spirit of KAGA-ism and the awareness and actions that accompany it. To achieve this, we believe it is first necessary to have a well-balanced combination of three mindsets, namely, a management mindset, a sales mindset, and the foundational mindset of one who is a working member of an organization.

column

Post Merger Integration (PMI) at Kaga FEI

In January 2019, the Kaga Electronics Group acquired Fujitsu Electronics (now KAGA FEI), a company of similar size in terms of net sales and number of employees at the time, forming an industry-leading electronic components trading company with net sales of ¥500 billion. How this PMI was carried out is described by Executive Officer Ishihara, who was on secondment at KAGA FEI at the time.

At the time, there was a strong sense of anxiety among KAGA FEI employees as to what would happen to us if they left Fujitsu Group and joined the Kaga Electronics Group.

Therefore, Founder & CEO, Mr. Tsukamoto joined KAGA FEI's Board of Directors as its representative director and also attended Management Meetings once a week, where he carefully explained what KAGA ELECTRONICS thinks and values. Not only did Tsukamoto address KAGA FEI's executives, he strove to directly engage with its employees on a number of occasions.

The turning point was KAGA FEI's loss of a principal distributor right (a factor that resulted in the ¥68,651 million revenue decline). With such a major crisis hitting, if the company were to stay alive, it had to earn revenue by handling products new to it, as well as take on commercial rights and

commercial materials that KAGA ELECTRONICS owned. I think that all of employees worked hard during this time to address these issues and this led to the rebirth of KAGA FEI. As a result, it was able to bounce back from difficulties, earn record revenues that could contribute to the Group, and grow into an even stronger company.

Also, the largest contributor to the success of the PMI was that we did not try to completely assimilate everything from the get-go, but respected and maintained what was good about the company, while helping our peers at KAGA FEI understand the good aspects of KAGA ELECTRONICS and combining and integrating them. The management team at the Kaga Electronics Group also gained confidence in their ability to complete a large M&A and subsequent PMI in a short period of time.

Roundtable Discussion of Outside Directors

How We Help the Kaga Electronics Group Realize Sustainable Growth

KAGA ELECTRONICS's Board of Directors boasts four outside directors. Mr. Susumu Miyoshi, Mr. Akira Tamura, and Mr. Noritomo Hashimoto are seasoned corporate managers. Moreover, the recent inclusion of Mr. Hirokazu Nishiyama, who brings extensive knowledge of cutting-edge technologies to the table, further enriched the Board's discussions. Here, we present a summary of a roundtable talk among these outside directors regarding the Kaga Electronics Group's pursuit of sustainable growth.



Outside Director
Susumu Miyoshi



Outside Director
Akira Tamura



Outside Director
Noritomo Hashimoto



Outside Director
Hirokazu Nishiyama

Contributing Opinions as Outside Directors in the Course of Formulating the Medium-Term Management Plan

Miyoshi In the course of discussing the Medium-Term Management Plan, I have offered my opinions on several issues. Specifically, I believe that R&D and human resource development, the latter of which includes employee education, constitute two key points supporting growth. And, although the Kaga Electronics Group maintains a workforce of approximately 8,000 employees, I still consider the number of engineers it has insufficient. Currently, engineers capable of addressing future-oriented R&D themes mainly serve in the Engineering Department. They account for less than 5% of the consolidated headcount. Unless the Group strives to secure and develop its pool of such human resources, it could possibly end up facing a major obstacle in the course of product commercialization and other undertakings.

Secondly, external circumstances surrounding the Group are rapidly evolving at home and abroad. Nobody is sure about what will happen going forward. Therefore, I have stated at Board meetings that the Group needs to enhance its awareness of crisis

management and strengthen its crisis control structure.

Hashimoto To date, the Company has been able to expand the size of operations thanks to the dedication of individual sales units, with each striving to stand out in friendly competition. However, the achievement of a net sales target of ¥750 billion requires an additional ¥250 billion in business revenues. With this in mind, we must discuss how to enable the Company to exert a comprehensive lineup of capabilities backed by overall organizational strength. In April 2022, the Sales Planning Unit was launched within the Corporate Planning Department. I expect this move to help KAGA ELECTRONICS, in one way or the other, embrace a new mode of operations.

Tamura It was Mr. Miyoshi and I who have urged the Company to launch the Sales Planning Unit. Although the Company has long been on a steady growth track in terms of sales, its sales units have often lacked the capability for horizontal collaboration due to the silo structure. However, we believe that they could naturally grow into more cost-effective, high-performance sales teams and be able to achieve further growth in both sales and profit should they promote the sharing of information and management resources among themselves while eliminating overlaps in priority



Director Miyoshi

fields and employing multilateral strategies. I admire the Company's executive team for its great flexibility as our proposals on establishing the new unit were immediately put into practice.

Miyoshi Additionally, I have striven to bring a Group governance perspective into the Board's discussions. Sales from subsidiaries and affiliates now account for more than 80% of consolidated net sales. If the Company is to build an even stronger corporate group, it needs to robustly manage, instruct and support these Group entities. That is why I advocated for the launch of a new unit tasked with consolidating these matters.

Tamura I expect KAGA ELECTRONICS to rally the Group's entire workforce to serve as "one team" via the active rotation of human resources.

Nishiyama As a first-time participant in the discussions regarding the formulation of a Medium-Term Management Plan, since taking office as an outside director at the Company, I have personally striven to draw Board members' attention to "corporate transformation." Based on "Everything we do is for our customers," the unchanging corporate philosophy upheld by the Company since its founding, the Board of Directors identified digital transformation (DX) as the key term defining corporate transformation. When it comes to DX, I spent a considerable amount of time explaining the necessity of employing it as a means to realizing structural reforms, including productivity improvement, cost reductions and work style reform, rather than merely introducing IT and digital technologies or otherwise effecting superficial changes in the mode of operations. Moreover, I personally believe that the Medium-Term Management Plan should include ambitious visions that get employees excited.

What Our Medium-to Long-Term Sustainability Management Plan Should Look Like

Miyoshi I believe that before all else a corporation must cherish its fundamental philosophy. In this light, the Company has maintained KAGA-ism. However, like any philosophy, it could lose its impact over the passage of time. Accordingly, management should keep disseminating it, day in and day out, just like a street preacher.

I would also like to emphasize the importance of the notion that corporations exist for the public good. In other words, businesses are being called upon to be conscious of how they contribute to society. Looking ahead, the Company is expected to strive to realize the satisfaction of customers, employees, shareholders

and other members of society in a simultaneous and balanced manner. This will be a major goal for KAGA ELECTRONICS.

So, what issues should we prioritize? I think we should particularly focus on addressing the low birthrate, the aging population and carbon neutrality. Unless the issues of the low birthrate and aging population are tackled, Japan will see both the business sector and society as a whole eventually lose viability. We should take a serious approach to utilizing older workers and helping them realize their full potential with an eye to resolving these issues through business operations. With regard to carbon neutrality, KAGA ELECTRONICS can play its part through business in the area of energy-saving technologies.

Tamura "Everything we do is for our customers," the corporate philosophy, represents the Company's determination to contribute to society through its business. This necessitates the Company serving as an instrument for the public good.

Nowadays, you often hear that unless corporations effectively respond to public calls for the realization of the United Nations Sustainable Development Goals (SDGs), the world's largely capitalist economy, not to mention the foundations supporting businesses like KAGA ELECTRONICS, will one day become no longer viable. To put it another way, the Company can benefit from a growing scope of business opportunities by responding to such calls. It is also important that the Board of Directors monitors the executive team via the use of its governance framework, which is essential to ensuring lasting business continuity, so that the Company can pursue sustainable growth.



Director Tamura

Hashimoto In terms of formulating a medium-to long-term sustainability management plan, we have been engaged in especially intensive discussion to determine the areas in society we need to focus on in order to secure the continuity of our business operations into the future. Because sustainability is positioned as our starting point, our initiatives going forward might not be limited to the issues named earlier. Rather, the Company may well identify a growing number of issues to be tackled. On the other hand, some of the issues may one day be resolved and considered no longer requiring attention. As such, our approach to sustainability will not stay unchanged. It will evolve in many ways due to changes in prevailing ideas, viewpoints and social trends. In this context, I suppose that one of the expected roles of outside directors is offering insights regarding how to change that approach.

Nishiyama Sustainability will never be achieved through a one-off



Director Hashimoto

campaign. It requires ongoing effort. Accordingly, a corporation must assess what it should do for sustainability and steadfastly play its part in the realization of a sustainable society. When discussions regarding the formulation of the medium- to long-term sustainability plan came to the finalization stage, I stated that we should not be too ambitious at the beginning as I believe that we should maintain the plan and cannot choose to irresponsibly revoke our commitment to it.

In addition, "purpose" is a keyword when promoting sustainability. For businesses, purpose means the shared awareness of a variety of issues and problems society is now confronting. When a corporation has a clearly defined purpose, it can be considered to possess a robust concept of shared value. Furthermore, such a purpose will better position the corporation to work together with external partners to build ecosystems and otherwise form alliances. This will, in turn, result in the updating of its business model, enabling it to pursue sustainability in a form outside conventional social contribution activities. I think that businesses tackling SDGs are now expected to take an approach of this kind.

Tamura Indeed, private corporations are now being urged to create business solutions capable of proactively meeting the ever-changing expectations of society. The creation of such solutions must be at a center of management discussions.

Future Issues to Be Tackled in Terms of Corporate Governance

Miyoshi The foremost issue we must tackle going forward is crisis management, which typically requires enabling top management to assess the overall status of the business organization, detect problems and swiftly implement countermeasures. Currently, initiatives are under way to establish a management information system supporting these endeavors. I think that developing an organization tasked with managing, instructing and supporting Group companies is a matter of the utmost importance. In the future, the Company might have to consider adopting a holding company system under which each Group company under the umbrella of KAGA ELECTRONICS will focus on their respective operations.

Tamura The Kaga Electronics Group has long nurtured a spirit of proactive and self-reliant salespersons. As society evolves rapidly, salespersons are expected to take proactive action to collect a variety of intelligence and assess social needs. The Company, on

the other hand, is expected to delegate authority to the executives and enable them to boldly make decisions based on input from the front lines even as it ensures robust discipline. For the Company to realize robust corporate governance in this manner, building respectful and trusting relationships between individuals charged with execution and supervision is extremely important. I will help facilitate robust interactions between these individuals at Board meetings so that executives share detailed information and directors in charge of supervision contribute various suggestions by drawing on such information.

Hashimoto I suspect that it is about time that we start developing a structure for consolidating the undertakings of individual units and subsidiaries in order to empower the Group to do business as one organization. This will require the Company to switch from its conventional mindset. This is one issue that must be overcome.

However, this of course doesn't mean abolishing the unique modes of business operation developed by each business unit. Rather, this means that we should be working from a perspective of utilizing the Group's overall resources and thereby achieving greater organizational strength. I believe that, by doing so, the Kaga Electronics Group will be able to upgrade itself into an even better company and thus blaze a path into the next era.



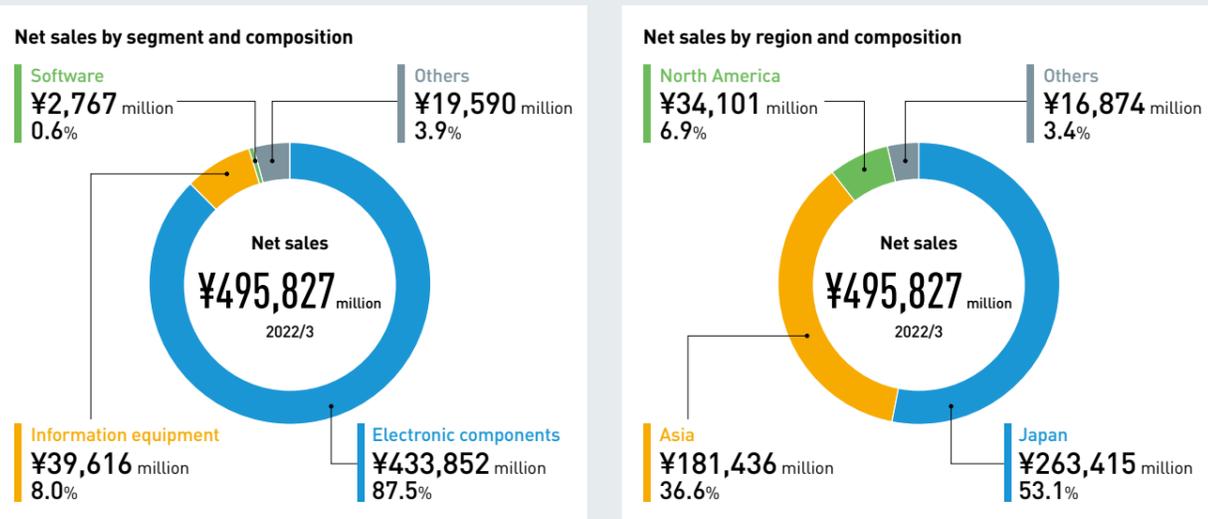
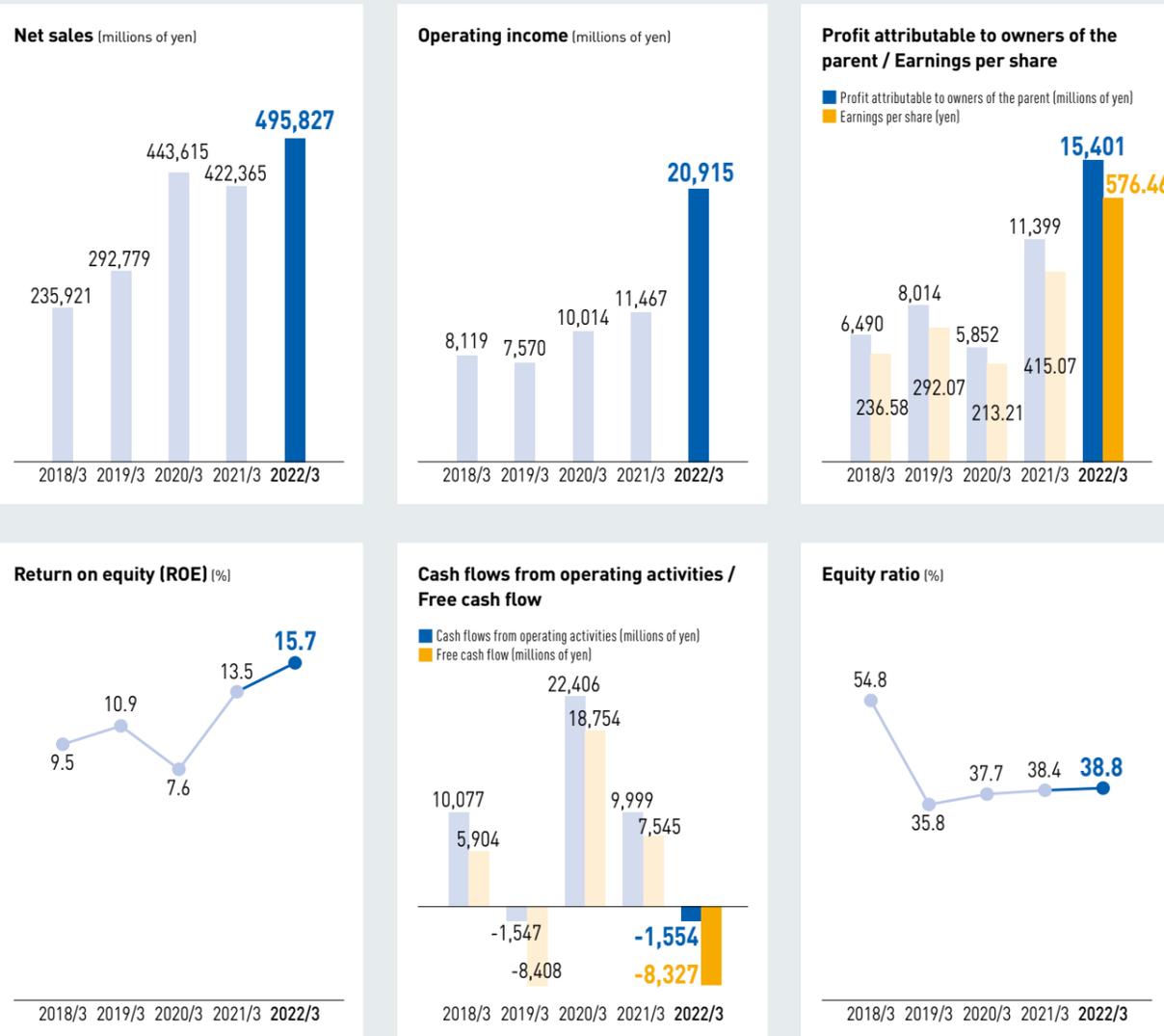
Director Nishiyama

Nishiyama I believe that corporations must align their governance structures with the times and prevailing social circumstances. Specifically, the Company currently needs to assess and determine what should be incorporated into and how to restructure its governance systems.

To ensure robust governance in the digital era, I would suggest applying the "Society 5.0" concept the Japanese government has been advocating as our basis for discussions. For us to realize an ideal society in 2030 as envisioned by the SDGs, we should develop a variety of technologies and create new value.

That being said, adopting a new mode of corporate governance in the digital era doesn't mean that what we have been doing for governance is no longer relevant. While we continue implementing conventional governance practices, we need to additionally develop a structure for promoting digital-driven initiatives on various fronts. In sum, we are now being called to develop a management foundation supporting ongoing innovation by taking full advantage of the power of digital technologies, an area of particular focus for the Kaga Electronics Group.

Financial Highlights



Outline of Business Segments

Electronic components

Proportion of consolidated net sales: **87.5%**

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

Review of FY2022/3 performance
In the parts sales business, amid prolonged tight supply and demand conditions for semiconductors and electronic components, the Company placed the highest priority on securing the inventories needed to meet strong demand from a wide range of industries, and, as a result, earnings increased considerably. In addition, the post-merger integration (PMI) of acquired companies, including KAGA FEI and EXCEL, progressed smoothly, contributing to earnings growth. In the EMS business, sales were strong, particularly for products for automotive, industrial equipment, and medical applications. As a result, net sales were ¥433,852 million (up 22.7% year on year) and segment income was ¥18,107 million (up 122.1% year on year).

Year	2021/3	2022/3
Net sales (millions of yen)	353,454	433,852
Segment income (millions of yen)	8,151	18,107

Net sales: **Up 22.7%**
Segment income: **Up 122.1%**

Business overview and opportunities / risks

	Business overview	Opportunities	Risks
Electronic parts business	In the parts sales business, strong sales continued throughout the fiscal year as the Company took a forward-looking approach to accommodate customer demand in a wide range of industries. Amid shortages in the supply of some parts and materials, we were able to leverage our procurement capabilities as an independent trading company, utilizing multiple sources to secure sufficient goods to maintain our sales volume, boosting our performance. The successful PMI of acquired companies such as KAGA FEI and EXCEL also contributed to earnings growth.	<ul style="list-style-type: none"> Increasingly high performance of smartphones with the full introduction of 5G and the expansion of the data center market Growth of new business combining IoT and AI Progress in the application of electronic components and AI in cars in line with the trend toward CASE (Connected, Autonomous, Shared & Services, Electric) 	<ul style="list-style-type: none"> Fears of inflation triggered by soaring prices of crude oil and other resources Prolonged Russian invasion of Ukraine Loss of sales opportunities due to parts shortages Loss of commercial rights due to changes in commercial distribution by customers and suppliers
EMS business	The EMS business performed well, particularly in the automotive, medical, and industrial equipment sectors. We worked to minimize the impact of the prolonged lockdown and parts shortages caused by the ongoing COVID-19 pandemic and, to this end, thoroughly managed manufacturing process by working in close collaboration with our customers.	<ul style="list-style-type: none"> Increase in the number of fabless companies and rising demand for outsourcing Growing need for further automation and efficiency 	<ul style="list-style-type: none"> Shortage of human resources both in Japan and overseas An earthquake, flooding or other natural disaster, or the spread of infectious diseases Suspension of factory operations due to other external political and economic factors

Information equipment



Proportion of consolidated net sales

8.0%

Business description

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

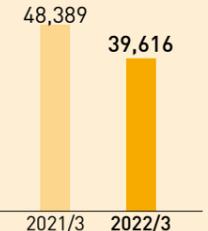
Review of FY2022/3 performance

Sales of PCs for educational institutions as well as PC peripherals, including security software, remained strong, but sales of other PC products and the LED installation business remained sluggish, affected by difficulties in procuring materials and equipment and the extension of construction periods due to delayed deliveries. As a result, net sales were ¥39,616 million (down 18.1% year on year) and segment income was ¥2,085 million (down 16.0% year on year).

Net sales

Down 18.1% ↓

(millions of yen)



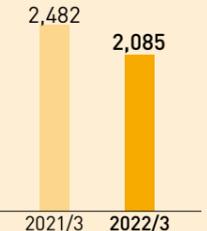
48,389 39,616

2021/3 2022/3

Segment income

Down 16.0% ↓

(millions of yen)



2,482 2,085

2021/3 2022/3

Software business



Proportion of consolidated net sales

0.6%

Business description

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

Review of FY2022/3 performance

Although demand for computer graphics (CG) content for smartphone games was strong, backed by stay-home demand during the COVID-19 pandemic, costs increased due to expenses incurred in meeting delivery deadlines and other factors. As a result, net sales were ¥2,767 million (down 5.6% year on year) and segment loss was ¥26 million (compared with segment income of ¥263 million in the previous fiscal year).

Net sales

Down 5.6% ↓

(millions of yen)



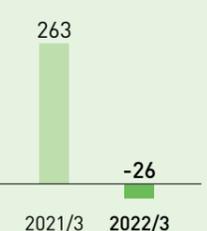
2,932 2,767

2021/3 2022/3

Segment income

Down 110% ↓

(millions of yen)



263 -26

2021/3 2022/3

Business overview and opportunities / risks

	Business overview	Opportunities	Risks
Information equipment	Sales of PCs for educational institutions and such PC peripherals as security software remained strong, but sales of PCs to corporate customers were weak due to the fading of remote work-related demand and product supply difficulties. The LED equipment installation business was also weak, affected by difficulties in procuring materials and equipment and the extension of construction periods due to delays in deliveries.	<ul style="list-style-type: none"> Robust expansion of needs for information-related devices on the back of advances in ICT Growing needs for security-related solutions among higher education institutions 	<ul style="list-style-type: none"> Loss of sales opportunities due to parts shortages Loss of commercial rights and product procurement routes due to changes in the distribution policy of buyers and suppliers Intensifying competition due to lower prices and more new entrants

TOPICS

LED Lighting with Disinfection and Deodorization Functions Based on Photocatalytic Technology to Further Combat Infectious Diseases

We have developed "LED lighting with sterilization and deodorization functions," lighting fixtures coated with a photocatalyst that is effective in absorbing and inactivating various organic substances such as fine particulate matter (PM2.5), viruses, and bacteria as well as at countering unpleasant airborne odors in enclosed spaces.

The apatite titanium dioxide used in the photocatalyst produces OH radicals, which exert a stronger oxidizing power than chlorine or ozone. It can safely decompose and inactivate harmful organic substances, and in studies conducted in cooperation with the Japan Food Research Laboratories and the Faculty of Agriculture at Kagoshima University, it has been confirmed that it is 99.99% effective in inactivating bacteria and some envelope viruses. This lighting has been adopted for store lighting fixtures produced exclusively for the Yodobashi Camera chain, and is being installed at 23 locations throughout Japan with preliminary installation at some stores beginning in December 2020.

We will continue our efforts to prevent the spread of infectious diseases through our photocatalyst-based disinfection and deodorization equipment and application services.



Other business



Proportion of consolidated net sales

3.9%

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 FY2022/3 performance

In the PC and PC peripheral recycling business, demand for reused and recycled products was strong as the supply of new PCs and other products remained tight due to a shortage of electronic components. As a result, net sales were ¥19,590 million (up 11.4% year on year) and segment income was ¥626 million (up 32.0% year on year).

Net sales

Up 11.4% ↑

(millions of yen)



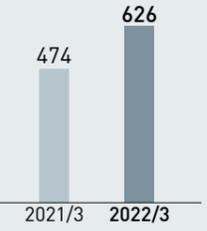
17,589 19,590

2021/3 2022/3

Segment income

Up 32.0% ↑

(millions of yen)



474 626

2021/3 2022/3

Directors and Auditors

As of June 28, 2022

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
Shinsuke Takahashi

1980 Joined KAGA ELECTRONICS CO., LTD.
1991 General Manager of Specific Industry Sales Department
1995 Director
2002 Managing Director
2005 Senior Managing Director
2022 Director, Senior Managing Executive Officer



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



Director, Managing Executive Officer
Head of Administration Headquarters
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



Director, Executive Officer
Division Manager of EMS Business Division
Motonori Toshinari

1982 Joined KAGA ELECTRONICS CO., LTD.
1992 President of KAGA (H.K.) ELECTRONICS LIMITED
1998 President of TAXAN USA CORP.
2004 General Manager of Overseas Sales Division, Overseas Business Division, Electronics Sales Headquarters
2010 President of KAGA (H.K.) ELECTRONICS LIMITED
2012 Executive Officer, Division Director of EMS Business and President of KAGA (H.K.) ELECTRONICS LIMITED
2015 Director, Division Manager of EMS Business Division
2022 Director, Executive Officer, Division Manager of EMS Business Division



Director, Executive Officer
Mitsuhiro Nohara

1982 Joined KAGA ELECTRONICS CO., LTD.
1997 General Manager of Domestic Sales Department No. 1, Sales Headquarters
2003 President of KAGA (SHANGHAI) ELECTRONICS CO., LTD.
2004 President of KAGA ELECTRONICS (USA) INC.
2011 Division Director of Electronics Sales Division, Components Business Unit
2012 Executive Officer
Division Director of Electronics Sales Division, and Division Director of Special Sales Department
2015 Director, Division Manager of Electronics Sales Division
2022 Director, 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)
2011 Advisor to Okigin Economic Research Institute (present position)
2012 Advisor to Niigata Sohgo Security Services Co., Ltd. (ALSOK) (present position)
2015 Director of the Company
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)



Outside Director
Hirokazu Nishiyama

1973 Joined Japan Broadcasting Corporation (Nippon Hoso Kyokai (NHK))
1989 General Broadcasting Administration, NHK and Executive Vice President of NHK Enterprises America, Inc.
2003 Responsible for Engineering, Programming Department, NHK
2004 Head of Engineering Department, NHK
2005 Executive Board Member, NHK (Chief Engineering Officer)
2009 Representative Director and President of NHK Media Technology, Inc.
2017 Director and Head of 8K Ecosystem Business Strategy Office, Sharp Corporation
2021 Director of the Company

Auditors



Auditor (Full-time)
Kazunori Kameda

1985 Joined The Tokai Bank, Ltd. (currently MUFG Bank, Ltd.)
2005 Temporarily transferred to Mitsubishi UFJ Securities Co., Ltd. (currently Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.), Division Manager of Corporate Sales Support Division
2010 Manager of Tsu Branch Office, The Bank of Tokyo-Mitsubishi UFJ, Ltd. (currently MUFG Bank, Ltd.)
2012 Manager of Tsu Branch
2015 Joined KAGA ELECTRONICS CO., LTD. as Advisor
2015 Auditor (Full-time)



Auditor (Full-time)
Takahiro Ishii

1978 Joined The Fuji Bank, Limited (currently Mizuho Bank, Ltd.)
1994 Deputy Manager of Singapore Branch
2002 Manager of Senzokucho-Higashi Branch
2015 Joined KAGA ELECTRONICS CO., LTD. as Advisor
2015 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.

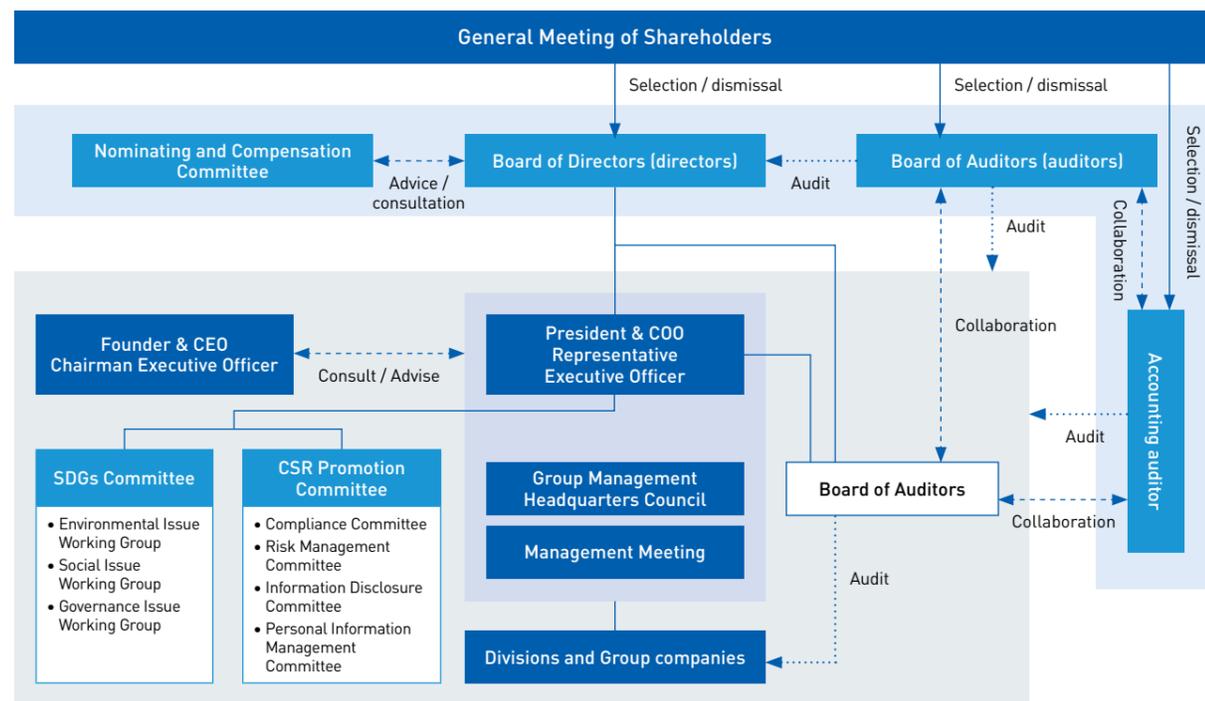
Corporate Governance

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 Nominating 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 11 directors, including four 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 two outside auditors. Auditors regularly attend Board of Directors meetings while proactively participating in other important internal meetings as part of their duties.



Nominating and Compensation Committee

The Company has established the Nominating 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. This body is thus tasked with strengthening supervisory functions offered by the Board of Directors, with the aim of enhancing the Company's corporate governance structure.

Audit Office

The Company has established an Audit Office to handle internal audits in conjunction with the auditors. The Audit Office discusses audit plans with the auditors in advance and regularly reports audit findings to the auditors. The Office also cooperates with the auditors as required, such as when reports are requested. Moreover, pursuant to the Financial Instruments and Exchange Act, the Audit Office conducts evaluations of internal control systems.

SDGs Committee

Chaired by the President & COO, the SDGs Committee is tasked with upgrading CSR initiatives and other endeavors addressing ESG issues. To this end, the committee is taking a cross-organizational approach to the promotion of sustainability-oriented management that encompasses all Group companies. Under this body, three working groups (the Environmental Issue Working Group, Social Issue Working Group, and Governance Issue Working Group) are engaged in such activities as the formulation of policies, measures, and targets associated with ESG issues and the monitoring of the status of progress in addressing these issues.

CSR Promotion Committee

The Company has established a CSR Promotion Committee chaired by the President & COO that promotes corporate social responsibility (CSR) alongside efforts to enhance corporate value. The Compliance Committee, Risk Management Committee, Information Disclosure Committee, and Personal Information Management Committee have been established under the CSR Promotion Committee. These committees are playing their part in making decisions regarding business operations undertaken by the Group as a whole and optimizing their execution status.

Outside officers

The Company has appointed four outside directors and two outside auditors. Based on the Tokyo Stock Exchange standards on independence, we appoint outside officers who do not have any special interests 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, 2022		Committee membership		
		Attendance (times)	Attendance rate (%)	Nominating and Compensation Committee	CSR Promotion Committee	SDGs Committee
Isao Tsukamoto	Representative Director, Founder & CEO	19/19	100.0	●		
Ryoichi Kado	Representative Director, President & COO	19/19	100.0	●	●	●
Shinsuke Takahashi	Director, Senior Managing Executive Officer	19/19	100.0			●
Shintaro Kakei	Director, Senior Managing Executive Officer	19/19	100.0			●
Eiji Kawamura	Director, Managing Executive Officer Head of Administration Headquarters	19/19	100.0	●	●	●
Motonori Toshinari	Director, Executive Officer Division Manager of EMS Business Division	19/19	100.0			●
Mitsuhiro Nohara	Director, Executive Officer	19/19	100.0			●
Susumu Miyoshi	Outside Director	18/19	94.7	●		
Akira Tamura	Outside Director	19/19	100.0	●		
Noritomo Hashimoto	Outside Director	19/19	100.0	●		
Hirokazu Nishiyama	Outside Director	14/14*	100.0	●		

* Mr. Hirokazu Nishiyama assumed office on June 29, 2021. Accordingly, information on his attendance to Board of Directors meetings is based on the number of meetings held since that day.

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
Isao Tsukamoto		●	●	●		●			
Ryoichi Kado		●	●	●			●		
Shinsuke Takahashi			●	●				●	
Shintaro Kakei			●	●				●	●
Eiji Kawamura			●			●	●		●
Motonori Toshinari			●	●				●	
Mitsuhiro Nohara			●	●				●	
Susumu Miyoshi	Outside Independent	●		●	●	●			
Akira Tamura	Outside Independent	●		●	●				●
Noritomo Hashimoto	Outside Independent	●			●		●	●	
Hirokazu Nishiyama	Outside Independent	●	●					●	●
Kazunori Kameda				●	●	●			
Takahiro Ishii			●		●	●			
Susumu Kitsunai	Outside Independent	●	●			●			
Yoichi Sato	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, 2022

	Total remuneration, etc. (millions of yen)	Number of recipients
Directors (Of which, outside directors)	728(38)	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. 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 rates, country risks, price competition, product procurement capabilities, internal brand risks, legal regulation, market risks, major litigation, severance pay obligations, personal information, accidents, the environment, and information management. 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.

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

In addition, the Company maintains the Risk Management Committee placed under the CSR Promotion Committee in order to ensure that risks foreseen by the Group are responded to promptly and appropriately.

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.

Together with Our Employees

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

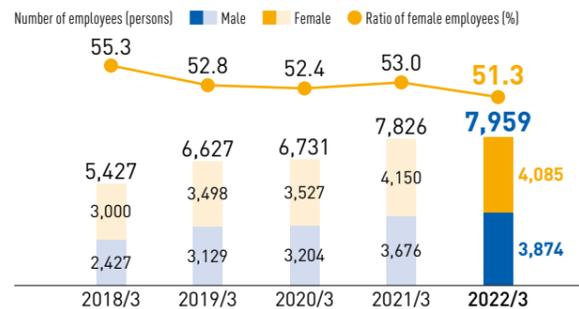
Implementing the idea that "everyone is a corporate manager"

Human resource strategy / Diversity management

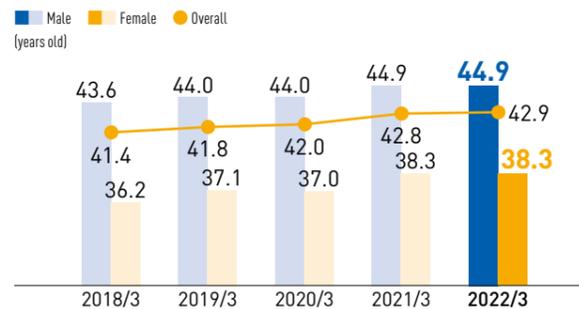
As our business activities become more global and the market environment undergoes abrupt change, diversity and taking on challenges are keys to driving sustainable growth. This is because diversity enables us to look at risk as an opportunity, and when we take on challenges we can take full advantage of these opportunities. To make this a reality, the Kaga Electronics Group promotes diversity management in terms of

making effective use of diversity in human resources and in work style. At the same time, we respect our human resources who continue to take on challenges and see each person as a corporate manager. With this in mind, we will keep protecting our corporate culture of tolerating failure as a consequence of tackling challenges.

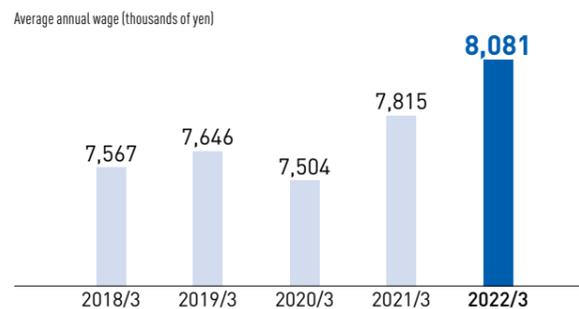
Number of employees / Ratio of female employees (consolidated)



Average age of employees



Average annual wage (including bonus)



Note: The average annual wage for the fiscal year ending March 31, 2022 includes special stock incentives.

Pursuing a comfortable working environment

Employee education, training and income compensation programs

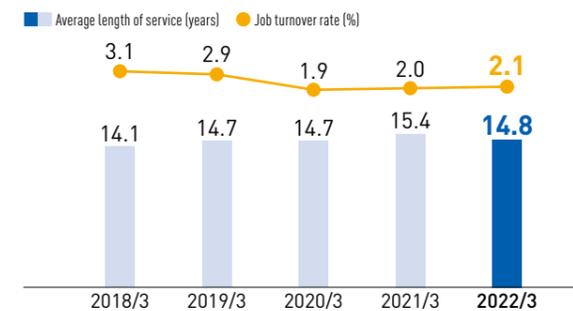
At the Kaga Electronics Group, we support the career development of employees through training for new recruits, annual training, rank-based training and other forms of education, as well as by providing assistance with correspondence courses.

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.

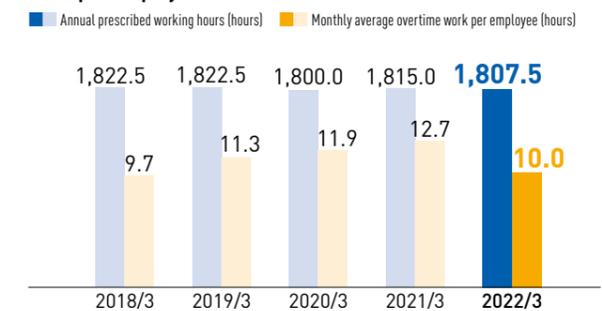
Also, in the course of responding to the COVID-19 pandemic, we placed the utmost priority on ensuring safety and security for our employees at home and abroad.

Average length of service / Job turnover rate

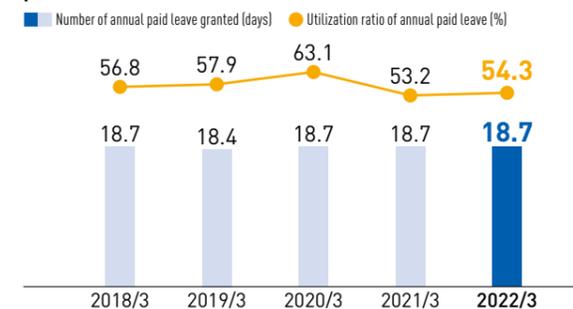


Note: The job turnover rate represents figures for KAGA ELECTRONICS on a non-consolidated basis and is calculated by dividing the number of permanent employees who have resigned over the course of each fiscal year by the number of permanent employees at the beginning of said year.

Annual prescribed working hours / Monthly average overtime work per employee

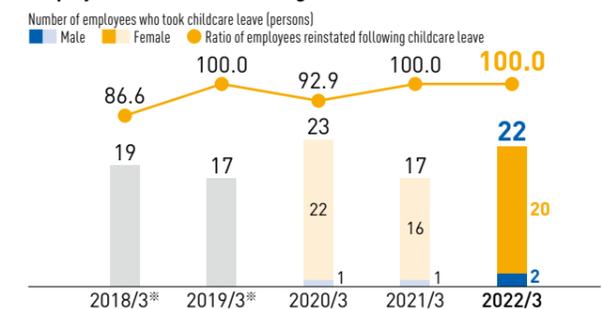


Number of annual paid leave granted / Utilization ratio of annual paid leave



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.

Utilization of welfare facilities

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. These include company villas in Hakone, Karuizawa, Atami and Miyazu (Kyoto). Moreover, the Company owns two cruiser boats (Yokohama and Kyoto). In addition, the Company provides employees with access to resorts in Japan and abroad, contract golf courses and other facilities. The company villa utilization rate is currently 56.7%,* suggesting that they are used by a broad range of employees. Going forward, we will continuously strive to create a comfortable working environment by enhancing the content of Company-assisted options for recreational destinations.

* Utilization rate reflecting frequency of facility occupancy on days preceding Sundays or national holidays from April 2021 to March 2022.



A Company-owned cruiser boat

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 boasts 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.

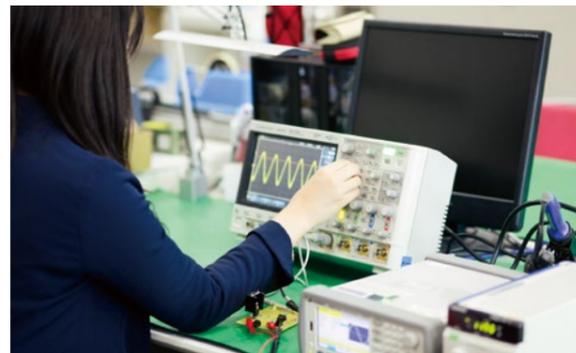


The remote verification of inspection machines involving an active exchange of ideas among attendees

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 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 ELEKTRONIK 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.

Sports promotion

The Kaga Electronics Group contributes to the promotion of golf, primarily through the sponsorship of golf tournaments. This includes special sponsorship of The Ladies Professional Golfers' Association of Japan (JLPGA)'s "JLPGA ROOKIES CHAMPIONSHIP KAGA ELECTRONICS CUP" since 1996. This tournament has proven a great gateway to success for young female professional golfers.

Six professional golfers, both male and female, are on the books at KAGA ELECTRONICS, playing their part in its PR strategy in the course of participating in tournaments around the world.

In addition, the Group company KAGA SPORTS CO., LTD. is engaged in such businesses as the direct sale of golf supplies at its own stores and selling wholesale to retailers while running golf driving ranges, golf schools, and batting centers, thereby contributing to the development of the sports industry.



One of the Company's golf schools GOLF PLAZA ACTIVE Akiba Golf Studio



JLPGA ROOKIES CHAMPIONSHIP KAGA ELECTRONICS CUP 2021



Professional golfers sponsored by KAGA ELECTRONICS

Contributing to the local community

Kanazawa City in Ishikawa Prefecture is the place that the Founder and CEO of KAGA ELECTRONICS Isao Tsukamoto was born and raised. As part of our efforts to contribute to this community, we have been supporting the Kanazawa Marathon, an open to the public event, since its inception in 2015, with employee volunteers helping organize the race.

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. Our production subsidiary in Mexico is engaged in "Dr. Smile" activities, which involve donating toys to children who have been hospitalized for cancer treatment. Meanwhile, employees at production subsidiaries in Japan take part in periodic cleanup campaigns encompassing neighboring sightseeing spots and other areas around factories. In these and other ways, we take a locally rooted approach to contributing to communities in which we operate.



Supporting the Kanazawa Marathon



"Dr. Smile" activities (TAXAN MEXICO), S.A. DE C.V.

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. (In 2020, these lectures were conducted remotely or at the Company's facilities with a limited number of attendees.) In addition, Tsukamoto speaks at such events as study sessions for young corporate managers who run SMEs.

We also contribute to society in a wide range of fields related to education and welfare support, including cooperating with the Japan Cancer Society and offering assistance to cancer patients and their families.



A lecture held at KAGA ELECTRONICS Head Office for a small group of students

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 CO₂ and other greenhouse gases and verifying the environmental load of the products and services it handles.

Environmental Policy

The Kaga Electronics Group looks to the future of electronics at all times, striving to meet customer needs as well as 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 environmental 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 20 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

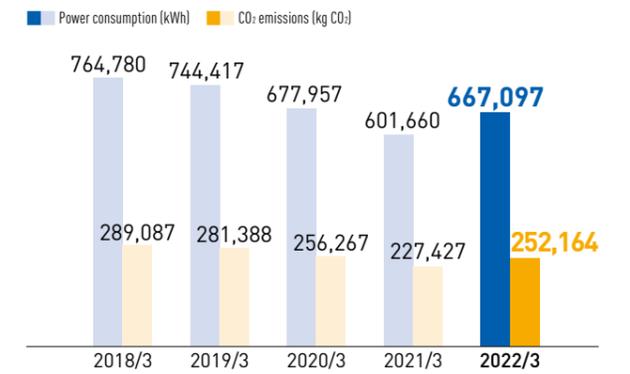
Reduction of CO₂ emissions

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

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

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

Power consumption and CO₂ emissions at the 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 CO₂ 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.



Repair work at KAGA MICRO SOLUTION

Number of PC products reused



11-Year Financial Summary

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

	2012/3	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3	2021/3	2022/3
Fiscal year											
Net sales (millions of yen)	229,856	216,405	257,852	255,143	245,387	227,209	235,921	292,779	443,615	422,365	495,827
Gross profit (millions of yen)	28,506	27,462	32,522	32,738	33,648	31,225	32,498	35,546	47,016	47,936	60,547
Selling, general and administrative (SG&A) expenses (millions of yen)	26,438	26,202	27,416	26,376	25,859	24,346	24,379	27,976	37,001	36,469	39,632
Operating income (millions of yen)	2,067	1,260	5,106	6,362	7,788	6,879	8,119	7,570	10,014	11,467	20,915
Ordinary income (millions of yen)	2,569	1,931	5,847	7,664	7,908	7,343	8,740	7,859	10,137	11,241	21,456
Profit attributable to owners of the parent (millions of yen)	914	444	3,877	4,416	5,437	6,975	6,490	8,014	5,852	11,399	15,401
Cash flows from operating activities (millions of yen)	958	7,041	3,334	9,127	9,546	10,746	10,077	(1,547)	22,406	9,999	(1,554)
Cash flows from investing activities (millions of yen)	(2,645)	(4,910)	(3,339)	(1,465)	(1,263)	(258)	(4,173)	(6,860)	(3,651)	(2,453)	(6,772)
Free cash flow (millions of yen)	(1,686)	2,131	(5)	7,661	8,283	10,487	5,904	(8,408)	18,754	7,545	(8,327)
Cash flows from financing activities (millions of yen)	(242)	(403)	1,024	(4,431)	(3,067)	(6,118)	(2,811)	11,684	(7,544)	(6,851)	1,155
Depreciation (millions of yen)	2,181	2,303	2,418	1,907	1,604	1,452	1,481	1,740	2,754	3,167	3,738
Capital expenditures/Investment and loans (millions of yen)*1	2,999	3,748	4,087	2,660	2,166	1,464	4,520	6,712	6,133	2,906	5,739
Fiscal year end											
Total assets (millions of yen)	114,714	111,888	126,028	127,948	124,281	125,751	128,755	213,761	207,638	237,004	272,139
Net assets (millions of yen)	47,936	48,806	52,825	59,603	61,808	65,932	70,631	84,259	86,250	95,062	105,800
Equity (millions of yen)	46,410	48,656	52,786	59,564	61,764	65,872	70,556	76,604	78,284	90,967	105,680
Interest bearing debt (millions of yen)	14,349	15,089	17,244	14,573	12,739	9,805	8,900	32,851	28,736	38,261	51,171
Cash and deposits (millions of yen)	9,775	12,258	14,192	18,130	22,516	26,423	30,803	35,003	43,384	45,636	41,051
Inventories (millions of yen)	21,554	18,779	21,219	22,703	19,175	19,325	19,455	40,026	31,908	37,948	62,607
Per share data											
EPS (yen)	33.13	16.09	137.22	156.28	192.43	249.43	236.58	292.07	213.21	415.07	576.46
Annual dividend (yen)	30.00	30.00	35.00	40.00	55.00	60.00	70.00	80.00	70.00	80.00	120.00
Payout ratio (%)	90.5	186.5	25.5	25.6	28.6	24.1	29.6	27.4	32.8	19.3	20.8
BPS (yen)	1,681.73	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
Major indicators											
Gross profit margin (%)*2	12.4	12.7	12.6	12.8	13.7	13.7	13.8	12.1	10.6	11.3	12.2
Ratio of SG&A expenses to net sales (%)	11.5	12.1	10.6	10.3	10.5	10.7	10.3	9.6	8.3	8.6	8.0
Operating income margin (%)*3	0.9	0.6	2.0	2.5	3.2	3.0	3.4	2.6	2.3	2.7	4.2
Ordinary income margin (%)*4	1.1	0.9	2.3	3.0	3.2	3.2	3.7	2.7	2.3	2.7	4.3
Profit attributable to owners of the parent margin (%)	0.4	0.2	1.5	1.7	2.2	3.1	2.8	2.7	1.3	2.7	3.1
ROE (%)*5	2.0	0.9	7.6	7.8	9.0	10.9	9.5	10.9	7.6	13.5	15.7
ROIC (%)	1.1	0.2	5.0	5.2	7.5	8.1	7.2	5.8	6.3	6.9	10.4
ROA (%)*6	0.8	0.4	3.3	3.5	4.3	5.6	5.1	4.7	2.8	5.1	6.1
Equity ratio (%)	40.5	43.5	41.9	46.6	49.7	52.4	54.8	35.8	37.7	38.4	38.8
Debt equity ratio (times)*7	0.31	0.31	0.33	0.24	0.21	0.15	0.13	0.43	0.37	0.42	0.48
CCC (days)*8	52.6	51.4	49.7	49.8	45.9	44.7	40.0	47.1	34.4	46.7	66.6
Receivables turnover period (days)*9	88.9	92.1	85.9	83.2	81.5	83.6	77.1	77.0	75.2	93.7	89.0
Inventory turnover period (days)*10	34.2	31.7	30.0	32.5	28.5	31.0	30.1	35.1	26.3	32.8	46.1
Payables turnover period (days)*11	70.5	72.4	66.2	65.9	64.2	69.9	67.3	65.0	67.0	79.8	68.6
Number of employees (persons)	5,239	5,048	4,752	5,092	5,243	5,216	5,427	6,627	6,731	7,826	7,959

*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, 2022

Analysis of business performance

During the fiscal year ended March 31, 2022, the economic environment remained harsh in Japan and overseas, reflecting such factors as global shortages of semiconductors and other electronic parts as well as the disruption of international logistics networks along with the emergence of new COVID-19 variants and resulting resurgence of the pandemic. However, on the back of progress in vaccinations, the relaxation of movement restrictions got economies on a recovery track, leading to signs of improvement in personal consumption as well as in capital expenditure and production activities in the manufacturing sector as a whole.

In the electronics industry, to which the Kaga Electronics Group belongs, demand for semiconductors and other electronic parts grew stronger in a broad range of fields, including automotive, medical, and industrial equipment. On the other hand, production failed to keep up with the rise in demand in some areas, resulting in the prolongation of supply shortages and the progression of price hikes.

Against this backdrop, the Kaga Electronics Group placed the utmost priority on securing sales volumes for the electronic components business—its core business. To this end, the Group adopted a forward-looking approach to accommodating requests from customers in a variety of sectors while taking full advantage of its unique strength as an independent trading company in marketing activities. As a result, consolidated net sales for the fiscal year ended March 31, 2022, increased 17.4% year on year to ¥495,827 billion.

On the earnings front, gross profit expanded due to the increased sales and the improved gross profit margins. Moreover, we have continuously pushed ahead with work style reform like teleworking amid the COVID-19 pandemic, even as we pursued ongoing cost reductions. Thanks to these efforts, operating income increased 82.4% year on year to ¥20,915 million while ordinary income grew 90.9% to ¥21,456 million. Profit attributable to owners of parent rose 35.1% year on year to ¥15,401 million. This is attributable to significant growth in ordinary income, despite the absence of the extraordinary income posted in the previous fiscal year due to a gain on negative goodwill (¥7,963 million) in connection with business acquisition.

Thus, net sales hit an all-time best for the first time in two fiscal years since the fiscal year ended March 31, 2020. Moreover, we achieved a third consecutive year of record highs in both operating income and ordinary income in addition to hitting a new high in profit attributable to owners of the parent for the second year in a row.

Analysis of financial condition

Total assets as of March 31, 2022 were up ¥35,135 million from the previous fiscal year-end, amounting to ¥272,139 million. The main items are as follows.

Current assets

Current assets increased ¥33,805 million to ¥233,984 million. This is primarily due to an increase of ¥16,503 million in merchandise and finished goods as well as an increase of ¥7,072 million in raw materials and supplies.

Non-current assets

Non-current assets increased ¥1,329 million to ¥38,155 million. This was primarily because of an increase of ¥1,406 million in machinery, equipment and vehicles.

Total liabilities

Liabilities increased ¥24,397 million from March 31, 2021, to ¥166,339 million. This was primarily due to a ¥13,028 million increase in borrowings and a ¥6,639 million increase in notes and accounts payable—trade.

Total net assets

Net assets increased ¥10,737 million from March 31, 2021, to ¥105,800 million. This was primarily thanks to a ¥12,854 million increase in retained earnings due to ¥15,401 million in profit attributable to owners of the parent and other factors.

Cash flows

Cash and cash equivalents as of March 31, 2022 decreased ¥5,092 million from March 31, 2021 to ¥39,240 million.

The status and factors thereof for each cash flow category in the fiscal year ended March 31, 2022 are as follows.

Cash flow from operating activities

Net cash and cash equivalents used in operating activities totaled ¥1,554 million, compared with ¥9,999 million provided by operating activities in the previous fiscal year. This was mainly due to an increase in inventories.

Cash flow from investing activities

Net cash and cash equivalents used in investing activities totaled ¥6,772 million, compared with ¥2,453 million used in the previous fiscal year. This was mainly due to purchases of property, plant and equipment.

Cash flow from financing activities

Net cash and cash equivalents provided by financing activities totaled ¥1,155 million, compared with ¥6,851 million used in the previous fiscal year. This was due mainly to proceeds from borrowings, despite the additional acquisition of shares in KAGA FEI, the acquisition of treasury shares 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

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.

Financial policy

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, 2021 and 2022

ASSETS	2021	Thousands of U.S. Dollars (Note)	
		Millions of Yen	2022
CURRENT ASSETS:			
Cash and bank deposits	¥ 45,636	¥ 41,051	\$ 355,415
Notes and accounts receivable-trade	103,773	—	—
Notes receivable—trade		1,449	11,843
Electronically recorded monetary claims	4,621	9,258	75,643
Accounts receivable—trade		110,240	900,735
Short-term investment securities	302	264	2,159
Merchandise and finished goods	29,727	46,230	377,734
Work in process	1,280	2,363	19,308
Raw materials and supplies	6,940	14,013	114,496
Others	9,921	9,388	76,712
Allowance for doubtful accounts	(2,024)	(275)	(2,252)
Total CURRENT ASSETS	200,179	233,984	1,911,797
NONCURRENT ASSETS:			
PROPERTY, PLANT AND EQUIPMENT			
Buildings and structures	14,327	15,033	122,835
Accumulated depreciation	(7,305)	(8,108)	(66,250)
Buildings and structures, net	7,021	6,925	56,584
Machinery, equipment and vehicles	11,496	14,181	115,868
Accumulated depreciation	(6,853)	(8,132)	(66,445)
Machinery, equipment and vehicles, net	4,642	6,048	49,423
Tools, furniture and fixtures	5,632	5,697	46,553
Accumulated depreciation	(4,254)	(4,667)	(38,133)
Tools, furniture and fixtures, net	1,378	1,030	8,420
Land	5,074	5,074	41,462
Construction in progress	107	313	2,563
Total PROPERTY, PLANT AND EQUIPMENT	18,225	19,393	158,454
INTANGIBLE ASSETS			
Goodwill	209	98	807
Software	2,338	3,021	24,686
Others	62	42	349
Total INTANGIBLE ASSETS	2,609	3,163	25,843
INVESTMENTS AND OTHER ASSETS:			
Investment securities	10,771	10,313	84,268
Deferred tax assets	2,252	2,189	17,890
Guarantee deposits	931	1,068	8,732
Insurance funds	910	915	7,478
Others	1,629	3,466	28,325
Allowance for doubtful accounts	(504)	(2,355)	(19,244)
Total INVESTMENTS AND OTHER ASSETS	15,990	15,598	127,450
Total NONCURRENT ASSETS	36,825	38,155	311,749
Total ASSETS	¥ 237,004	¥ 272,139	\$ 2,223,547

LIABILITIES	2021	Thousands of U.S. Dollars (Note)	
		Millions of Yen	2022
CURRENT LIABILITIES:			
Notes and accounts payable—trade	¥ 79,854	¥ 86,493	\$ 706,707
Short-term loans payable	10,800	23,858	194,939
Accrued expenses	5,957	7,138	58,324
Income taxes payable	2,136	2,834	23,162
Provision for directors' bonuses	126	301	2,464
Others	9,642	12,291	100,425
Total CURRENT LIABILITIES	108,517	132,918	1,086,023
NONCURRENT LIABILITIES:			
Long-term loans payable	25,166	25,136	205,382
Deferred tax liabilities	1,685	2,046	16,722
Provision for directors' retirement benefits	106	123	1,006
Net defined benefit liabilities	2,272	2,095	17,117
Asset retirement obligations	343	572	4,678
Others	3,850	3,446	28,164
Total NONCURRENT LIABILITIES	33,424	33,421	273,071
Total LIABILITIES	141,942	166,339	1,359,094
NET ASSETS:			
SHAREHOLDERS' EQUITY			
Capital stock	12,133	12,133	99,138
Capital surplus	14,327	14,818	121,072
Retained earnings	64,568	77,423	632,597
Treasury stock	(1,984)	(5,643)	(46,107)
Total SHAREHOLDERS' EQUITY	89,045	98,732	806,700
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Changes in the fair value of available-for-sale securities	1,378	1,299	10,618
Deferred gains or losses on hedges	50	(2)	(20)
Foreign currency translation adjustment	470	5,439	44,447
Remeasurements of defined benefit obligations	21	210	1,723
Total ACCUMULATED OTHER COMPREHENSIVE INCOME	1,921	6,948	56,769
Non-controlling interests	4,095	120	981
Total NET ASSETS	95,062	105,800	864,452
Total LIABILITIES AND NET ASSETS	¥ 237,004	¥ 272,139	\$ 2,223,547

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 ¥122.39 to \$1, the rate of exchange at March 31, 2022.

Consolidated Statement of Income and Comprehensive Income

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2021 and 2022

	2021	Millions of Yen 2022	Thousands of U.S. Dollars (Note) 2022
Net sales	¥ 422,365	¥ 495,827	\$ 4,051,210
Cost of sales	374,428	435,280	3,556,500
Gross profit	47,936	60,547	494,710
Selling, general and administrative expenses	36,469	39,632	323,817
Operating income	11,467	20,915	170,893
NON-OPERATING INCOME			
Interest income	135	135	1,105
Dividend income	197	195	1,594
Commission fee	168	183	1,502
Foreign exchange gains	—	252	2,063
House rent income	116	104	851
Others	539	572	4,678
Total NON-OPERATING INCOME	1,158	1,443	11,795
NON-OPERATING EXPENSES			
Interest expenses	317	315	2,580
Share of loss of entities accounted for using equity method	627	472	3,864
Foreign exchange losses	359	—	—
Others	80	114	932
Total NON-OPERATING EXPENSES	1,384	902	7,377
Ordinary income	11,241	21,456	175,311
EXTRAORDINARY INCOME			
Gain on sales of property, plant and equipment	2	15	123
Gain on sales of investment securities	128	363	2,967
Gain on bargain purchase	7,963	—	—
Gain on transfer of business	7	7	57
Gain on reversal of estimated loss of funds from U.S. subsidiary	—	176	1,443
Others	20	34	285
Total EXTRAORDINARY INCOME	8,122	596	4,877
EXTRAORDINARY LOSS			
Impairment loss	1,893	93	761
Loss on disposal of property, plant and equipment	101	13	113
Loss on sales of investment securities	36	2	20
Loss on valuation of investment securities	525	260	2,130
Loss on liquidation of subsidiaries and associates	—	175	1,430
Special retirement expenses	24	—	—
Provision of allowance for doubtful accounts	1,750	129	1,060
Estimated loss of funds from U.S. subsidiary	480	—	—
Others	78	29	244
Total EXTRAORDINARY LOSS	¥ 4,892	¥ 705	\$ 5,761

	2021	Millions of Yen 2022	Thousands of U.S. Dollars (Note) 2022
Income before income taxes	¥ 14,472	¥ 21,348	\$ 174,427
Income taxes—current	3,207	5,071	41,438
Income taxes—deferred	(51)	606	4,956
Total income taxes	3,156	5,678	46,395
Net income	11,315	15,669	128,031
Profit attributable to owners of the parent	11,399	15,401	125,841
Profit attributable to non-controlling interests	(84)	268	2,190
OTHER COMPREHENSIVE INCOME			
Changes in the fair value of available-for-sale securities	1,376	(78)	(640)
Deferred gains or losses on hedges	22	(52)	(432)
Foreign currency translation adjustment	1,218	4,922	40,220
Remeasurements of defined benefit obligations, net of tax	138	188	1,541
Share of other comprehensive income of entities accounted for using equity method	42	95	780
Total OTHER COMPREHENSIVE INCOME	2,799	5,075	41,470
Comprehensive income	¥ 14,114	¥ 20,745	\$ 169,502
Comprehensive income attributable to:			
Owners of the parent	¥ 14,101	¥ 20,428	\$ 166,912
Non-controlling interests	13	316	2,589

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 ¥122.39 to \$1, the rate of exchange at March 31, 2022.

Consolidated Statement of Cash Flows

Kaga Electronics Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2021 and 2022

		Millions of Yen	Thousands of U.S. Dollars (Note)
	2021	2022	2022
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income before income taxes	¥ 14,472	¥ 21,348	\$ 174,427
Depreciation and amortization	3,167	3,738	30,547
Impairment loss	1,893	93	761
Amortization of goodwill	114	110	901
(Decrease) Increase in net defined benefit liability	(5)	16	134
(Decrease) Increase in provision for directors' retirement benefits	11	16	137
(Decrease) Increase in provision for directors' bonuses	25	175	1,432
Increase in allowance for doubtful accounts	1,607	92	756
Interest and dividend income	(413)	(403)	(3,299)
Interest expenses	317	315	2,580
Share of profit of entities accounted for using equity method	627	472	3,864
Gain on sales of property, plant and equipment	(0)	(14)	(117)
Loss on retirement of property, plant and equipment	101	13	113
Gain on sales of investment securities	(92)	(360)	(2,946)
Loss on valuation of investment securities	525	260	2,130
Gain on negative goodwill	(7,963)	—	—
Gain on reversal of estimated loss of funds from U.S. subsidiary	—	(187)	(1,534)
Estimated loss of funds from U.S. subsidiary	480	—	—
(Increase) Decrease in notes and accounts receivable-trade	(4,303)	(7,889)	(64,462)
(Increase) Decrease in inventories	2,997	(22,088)	(180,479)
Decrease in notes and accounts payable-trade	1,495	2,451	20,033
Increase in accounts receivable-other	842	583	4,769
Increase in accrued expenses	(162)	887	7,254
Decrease (Increase) in advance payments	(349)	1,349	11,023
(Increase) Decrease in consumption taxes refund receivable	(164)	(822)	(6,720)
(Increase) Decrease in other current assets	(397)	(264)	(2,161)
Increase in other current liabilities	(1,206)	2,030	16,592
Others, net	130	797	6,515
Subtotal	13,754	2,723	22,252
Interest and dividend income received	342	124	1,019
Interest expenses paid	(322)	(315)	(2,578)
Income taxes paid	(3,295)	(4,263)	(34,834)
Estimated loss of funds from U.S. subsidiary	(480)	—	—
Others, net	—	175	1,435
Net cash provided by (used in) operating activities	¥ 9,999	¥ (1,554)	\$ (12,705)

		Millions of Yen	Thousands of U.S. Dollars (Note)
	2021	2022	2022
NET CASH USED IN INVESTING ACTIVITIES			
Payments for time deposits	¥ (905)	¥ (856)	\$ (6,999)
Proceeds from withdrawal of time deposits	753	474	3,873
Purchase of property, plant and equipment	(2,514)	(3,276)	(26,774)
Proceeds from sales of property, plant and equipment	28	32	265
Purchase of intangible assets	(1,059)	(1,377)	(11,253)
Purchase of investment securities	(2,180)	(1,085)	(8,865)
Proceeds from sales of investment securities	723	834	6,814
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(351)	—	—
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	2,707	—	—
Payments of short-term loans receivable	—	(388)	(3,175)
Collection of short-term loans receivable	(0)	—	—
Payments of long-term loans receivable	(166)	(1,180)	(9,642)
Purchase of insurance funds	(11)	(4)	(36)
Proceeds from cancellation of insurance funds	58	—	—
Payments for guarantee deposits	(77)	(28)	(234)
Proceeds from collection of guarantee deposits	63	65	531
Other payments	(100)	(174)	(1,425)
Other proceeds	87	194	1,590
Net cash used in investing activities	(2,453)	(6,772)	(55,332)
NET CASH USED IN FINANCING ACTIVITIES			
Increase in short-term loans payable	(4,608)	7,636	62,393
Proceeds from long-term loans payable	5,000	5,000	40,853
Repayment of long-term loans payable	(1,279)	(668)	(5,463)
Purchase of treasury stock	(1)	(3,681)	(30,076)
Cash dividends paid	(1,922)	(2,551)	(20,850)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(3,441)	(3,811)	(31,145)
Others, net	(597)	(767)	(6,269)
Net cash (used in) provided by financing activities	(6,851)	1,155	9,440
Effect of exchange rate change on cash and cash equivalents	945	2,079	16,989
Net increase in cash and cash equivalents	1,639	(5,092)	(41,608)
Cash and cash equivalents-beginning balance	42,693	44,333	362,228
Cash and cash equivalents-ending balance	¥ 44,333	¥ 39,240	\$ 320,620

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 ¥122.39 to \$1, the rate of exchange at March 31, 2022.

Corporate Information

As of March 31, 2022

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	63 (23 in Japan, 40 overseas and three accounted for by the equity method)
Number of employees (consolidated)	7,959
Stock Listing	Tokyo Stock Exchange (Prime Market)
Securities code	8154
Fiscal year-end	March 31



KAGA ELECTRONICS Head Office

Board members / Executive Officers (As of June 28, 2022)

Representative Director, Founder & CEO	Isao Tsukamoto	Senior Executive Officer	Mitsuhiro Ikeda President of EXCEL CO., LTD.
Representative Director, President & COO	Ryoichi Kado	Executive Officer	Shoji Seki President of KAGA SPORTS CO., LTD.
Director, Senior Managing Executive Officer	Shinsuke Takahashi	Executive Officer	Hiroki Suzuki President of DIGITAL MEDIA LAB., INC.
Director, Senior Managing Executive Officer	Shintaro Kakei	Executive Officer	Takeshi Tsukamoto Director and Senior Executive Officer of KAGA FEI Co., Ltd.
Director, Managing Executive Officer, Head of Administration Headquarters	Eiji Kawamura	Executive Officer	Takao Okabe Deputy Division Manager of EMS Business Division, in Charge of China and ASEAN
Director, Senior Executive Officer, Division Manager of EMS Business Division	Motonori Toshinari	Executive Officer	Hiroaki Maruyama Director and Managing Executive Officer of KAGA FEI Co., Ltd.
Director, Senior Executive Officer	Mitsuhiro Nohara	Executive Officer	Kazuhira Watanabe Division Director of Communication Network Sales Division
Outside Director	Susumu Miyoshi	Executive Officer	Hironaga Nagasaka Deputy Division Manager of EMS Business Division
Outside Director	Akira Tamura	Executive Officer	Takahiro Urazawa Division Director of Specific Industry Sales Division
Outside Director	Noritomo Hashimoto	Executive Officer	Yasuhiro Ishihara Deputy Head of Administration Headquarters
Outside Director	Hirokazu Nishiyama	Executive Officer	Katsutoshi Suzuki Division Director of Sales Promotion Division
Auditor (Full-time)	Kazunori Kameda	Executive Officer	Satoshi Eguchi President of KAGA MICRO SOLUTION CO., LTD.
Auditor (Full-time)	Takahiro Ishii	Executive Officer	Mitsuhiro Kumabe President of KAGA SOLUTION NETWORK CO., LTD.
Outside Auditor	Susumu Kitsunai	Executive Officer	Hitoshi Koujitani General Manager of Corporate Strategy Office
Outside Auditor	Yoichi Sato	Executive Officer	Kenji Shimazaki Managing Director of KAGA SOLUTION NETWORK CO., LTD.

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.

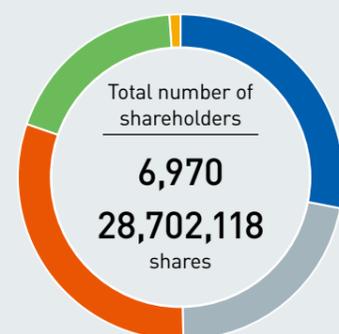
Major affiliates overseas

<p>▼ China</p>  <p>KAGA (SHENZHEN) ELECTRONICS LTD.</p>  <p>KAGA TAXAN (SUZHOU) ELECTRONICS CO., LTD.</p>  <p>KAGA (SHANGHAI) ELECTRONICS CO., LTD.</p>  <p>KAGA (H.K.) ELECTRONICS LIMITED</p>	<p>▼ Asia</p>  <p>KAGA ELECTRONICS (THAILAND) COMPANY, LIMITED</p>  <p>KAGA COMPONENTS (MALAYSIA) SDN.BHD.</p>	<p>▼ North America</p>  <p>KAGA FEI AMERICA, Inc.</p>  <p>TAXAN MEXICO S.A. de C.V.</p>	<p>▼ Europe</p>  <p>KD TEC s.r.o.</p>  <p>KAGA FEI EUROPE GmbH</p>
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Stock information

Total number of shares authorized	80,000,000 shares
Total number of shares outstanding	28,702,118 shares
Number of shares constituting one unit	100 shares
Number of shareholders	6,970

Breakdown by type of shareholder



Individuals	8,093,245 shares (6,601)	28.20%
Other Japanese corporations	6,226,250 shares (107)	21.69%
Financial institutions	8,734,379 shares (30)	30.43%
Foreign corporations	5,401,946 shares (200)	18.82%
Financial instruments business operators	246,298 shares (32)	0.86%

Principal shareholders*1, 2

Name	Number of shares held (thousand shares)	Percentage of total shares issued	Name	Number of shares held (thousand shares)	Percentage of total shares issued
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,144	11.98	MUFG Bank, Ltd.	1,137	4.33
SANKYO CO., LTD.	2,420	9.22	Mizuho Bank, Ltd.	950	3.62
OKOZE CO., LTD.	1,840	7.01	Isao Tsukamoto	730	2.78
Custody Bank of Japan, Ltd. (Trust Account)	1,513	5.76	Mitsubishi Electric Corporation	500	1.91
Kaga Electronics Employee Shareowners Association	1,220	4.65	Nippon Life Insurance Company	459	1.75

*1. In addition to the above, there are 2,451 thousand shares of treasury stock.
*2. Percentage of total shares issued is calculated after excluding treasury stock.