

Summary of Consolidated Financial Results

For the First Half Ended September 30, 2014 [Japan GAAP]

Name of Company:	KAGA ELECTRONICS CO., LTD.
Stock Code:	8154
Stock Exchange Listing:	Tokyo Stock Exchange, First Section
URL:	http://www.taxan.co.jp/
Representative	Title: President & COO
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Date of quarterly securities report (tentative):	November 13, 2014
Date of commencement of dividend payment (tentative):	December 5, 2014
Quarterly earnings supplementary explanatory documents:	Yes
Quarterly earnings presentation:	Yes (for institutional investors)

(Yen in millions, rounded down)

1. Financial results for the first half of the fiscal year ending March 2015 (April 1, 2014 – September 30, 2014)

(1) Result of operations (Consolidated, year-to-date) (Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First half ended September 2014	120,318	(1.4)	3,067	39.8	3,636	49.2	2,157	59.4
First half ended September 2013	122,077	17.6	2,194	-	2,437	-	1,352	-

Note: Comprehensive income: First half of FY3/2015: 3,073 million yen (46.3%), First half of FY3/2014: 2,100 million yen (-%)

	Net income per share	Net income per share fully diluted
	Yen	Yen
First half ended September 2014	76.34	-
First half ended September 2013	47.88	-

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2014	122,132	55,509	45.4
As of March 31, 2014	126,028	52,825	41.9

Notes: Shareholders' equity

As of September 30, 2014: 55,475 million yen

As of March 31, 2014

52,786 million yen

2. Dividends

	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2014	-	15.00	-	20.00	35.00
Fiscal year ending March 2015	-	15.00			
Fiscal year ending March 2015 (est.)			-	15.00	30.00

Note: Change in the estimation of dividend from the latest announcement: None

Yearend dividend of FY3/14 includes ordinary dividend of 15.00 yen and commemorative dividend of 5 yen (completion of new headquarter building)

3. Forecast for the fiscal year ending March 2015 (Consolidated, April 1, 2014 to March 31, 2015)

(Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	260,000	0.8	5,300	3.8	6,000	2.6	4,000	3.2	141.56

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

* Notes

(1) Changes in significant subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None

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

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

(a) Changes due to revision of accounting standards: Yes

(b) Changes other than in (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

Note: Please refer (3) Changes in accounting principles and estimates, and retrospective restatement in 2. Other Information on page 3

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury stock)

As of September 30, 2014: 28,702,118 As of March 31, 2014: 28,702,118

(b) Treasury stock

As of September 30, 2014: 445,345 As of March 31, 2014: 445,002

(c) Average number of shares (quarterly consolidated cumulative period)

Period ended September 30, 2014: 28,256,963 Period ended September 30, 2013: 28,258,039

* Description of quarterly review procedure implementation status

The rule mandating a review of quarterly financial statements (under the Financial Instruments and Exchange Act) does not apply to this Summary of Financial Results. It is under the quarterly review procedure process based upon the Financial Instruments and Exchange Act at the time of disclosure of this report.

* Cautionary statement regarding forecasts of operating results and special notes

Forward-looking statements in these materials are based on information available to management at the time this report was prepared and assumptions that management believes are reasonable. Actual results may differ significantly from these statements for a number of reasons.

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1. Results of Operations

(1) Overview on consolidated business performance

In the first half of the fiscal year, the Japanese economy staged a gentle recovery despite a temporary decline in consumer spending in reaction to the hike in the consumption tax rates as positive factors including economic measures by the Japanese government and the Bank of Japan's monetary easing.

In the electronics industry, demand for consumer electronics remained weak, but demand in the markets for tablets and for devices installed in automobiles continued to expand, in addition to strong growth in sales of electronics in the environmental, energy, and health-care sectors.

In this environment, the KAGA ELECTRONICS Group reinforced collaboration among group companies, worked on increasing sales to major current customers, developed additional new products and expanded its network of overseas facilities, as well as engaging in cost-cutting measures such as moving its headquarters to lower its rental expenses.

Consequently, consolidated net sales in the first half decreased 1.4% from one year earlier to 120,318 million yen, operating income increased 39.8% to 3,067 million yen, ordinary income increased 49.2% to 3,636 million yen, and net income increased 59.4% to 2,157 million yen.

Business segment performance was as follows.

(a) Electronic components (Development, manufacture and sale of semiconductors, general electronic components and other products, EMS*, and other activities)

In Electronic Components, there were declines in demand for electronic components, semiconductors, EMS and other items used in amusement equipment in Japan. Overseas, however, profit increased as demand for EMS for electronic devices and other products was strong. The result was a 1.1% decrease in segment sales to 93,519 million yen and a 65.4% increase in segment (operating) income to 2,648 million yen.

* Electronics manufacturing service is a term used for the provision of product development and manufacturing services on an outsourcing basis.

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

In Information Equipment, sales of PCs and other consumer products in the information equipment category increased due to replacement demand for Windows XP computers. Moreover, sales of housing-related products and environmental-related items were strong, although there was some impact on profits from sluggish demand for digital electrical household goods. As a result, segment sales increased 0.3% to 19,828 million yen and there was an operating profit for the segment of 162 million yen (down 12.0% from the same quarter one year earlier).

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

In Software, activities in this segment focused mostly on the production of computer graphics for animation applications and on the development and sales of game software. Orders for the development of electronic games declined however. Segment sales decreased 32.3% to 1,047 million yen and there was an operating profit for the segment of 122 million yen (down 47.0% from the same quarter one year earlier).

(d) Others (Electronic device repairs and support, sales of sporting goods, and other activities)

In Others, the manufacture and sale of amusement machines to arcades in Japan peaked out and sales declined. Moreover, increased costs and other factors resulting from replacement of items carried in the golf products sales business resulted in earnings falling in this segment. Consequently, segment sales decreased 3.9% to 5,922 million yen and there was an operating profit for the segment of 51 million yen (down 70.5% from the same quarter one year earlier).

(2) Overview of financial condition

(a) Assets, liabilities and net assets

Total assets as of September 30, 2014 were 122,132 million yen, down 3,896 million yen from March 31, 2014. This was mainly due to a decline in sales receivables.

Total liabilities were 66,623 million yen, down 6,579 million yen from March 31, 2014. This was mainly due to a decline in (inventory) purchasing/stocking is payables.

As a result, net assets totaled 55,509 million, up 2,683 million yen from March 31, 2014. This was mainly due to net income being recorded for the quarter.

(b) Cash flows

There was a net increase of 1,003 million yen in cash and cash equivalents from the end of the previous fiscal year to 14,365 million yen at the end of the first half.

(Operating activities)

Net cash provided by operating activities was 4,940 million yen compared with 3,772 million yen one year earlier. The main source of cash was income before income taxes and minority interests.

(Investing activities)

Net cash used in investing activities decreased from 1,033 million yen to 730 million yen. The primary use of cash was payments for the purchase of property, plant and equipment.

(Financing activities)

Net cash used in financing activities increased from 708 million yen to 3,409 million yen. Repayments of short-term loans payable were the primary use of cash.

(3) Forecast

There are no revisions to the forecast for the fiscal year ending on March 31, 2015 that was announced on May 9, 2014 in “Summary of Consolidated Financial Results For the Year Ended March 2014 [Japan GAAP].”

2. Other Information

(1) Changes in significant subsidiaries:

None

(2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements:

None

(3) Changes in accounting principles and estimates, and retrospective restatement:

Changes in accounting policy

(Application of accounting standard for retirement benefits)

Beginning at the start of the first quarter of the fiscal year ending on March 31, 2015, the Company is using Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012) as prescribed in paragraph 35 of this accounting standard and paragraph 67 of this guidance. The method for setting the discount rate has been changed from a method based on determining a base value for the number of years approximating to employees' average remaining service period to a method using a simple weighted average discount rate that reflects the anticipated payment period for accrued retirement benefits and the amounts to be paid in for each period.

For the application of the accounting standard for retirement benefits, in accordance with the transitional handling prescribed in paragraph 37 of this standard, the effect of the change in the method for calculating retirement benefit liabilities and service cost as of the beginning of the first half is included in retained earnings.

As a result, at the beginning of the first half, retirement benefit liabilities decreased 292 million yen and retained earnings increased 188 million yen. However, effects on first half operating income, ordinary income and income before income taxes and minority interests were negligible.

3. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal year ended March 2014 (As of March 31, 2014)	First half ended September 2014 (As of September 30, 2014)
ASSETS		
Current assets		
Cash and deposits	14,192	14,967
Notes and accounts receivable-trade	60,667	56,449
Short-term investment securities	114	114
Merchandise and finished goods	16,378	16,699
Work in process	848	910
Raw materials and supplies	3,991	4,651
Deferred tax assets	993	853
Other	5,836	4,599
Allowance for doubtful accounts	(93)	(47)
Total current assets	102,930	99,199
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	5,737	5,573
Machinery, equipment and vehicles, net	1,711	1,853
Tools, furniture and fixtures, net	1,004	885
Land	4,038	4,039
Construction in progress	133	2
Total property, plant and equipment	12,625	12,354
Intangible assets		
Goodwill	715	654
Software	486	472
Other	332	137
Total intangible assets	1,533	1,264
Investments and other assets		
Investment securities	5,377	5,848
Deferred tax assets	562	466
Other	4,015	3,952
Allowance for doubtful accounts	(1,017)	(952)
Total investments and other assets	8,938	9,314
Total noncurrent assets	23,098	22,933
Total assets	126,028	122,132

(Million yen)

	Fiscal year ended March 2014 (As of March 31, 2014)	First half ended September 2014 (As of September 30, 2014)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	41,695	39,190
Short-term loans payable	12,172	10,406
Income taxes payable	1,525	1,095
Other	8,016	6,877
Total current liabilities	63,410	57,569
Noncurrent liabilities		
Long-term loans payable	4,681	3,967
Provision for retirement benefits	1,437	1,457
Provision for directors' retirement benefits	1,954	1,656
Other	1,719	1,973
Total noncurrent liabilities	9,792	9,054
Total liabilities	73,202	66,623
NET ASSETS		
Shareholder's equity		
Capital stock	12,133	12,133
Capital surplus	13,912	13,912
Retained earnings	27,414	29,194
Treasury stock	(536)	(536)
Total shareholder's equity	52,923	54,703
Accumulated other comprehensive income		
Valuation differences on available-for-sales securities	161	375
Deferred gains or losses on hedges	0	40
Foreign currency translation adjustments	5	626
Remeasurements of defined benefit plans	(304)	(271)
Total accumulated other comprehensive income	(137)	771
Minority interests	39	33
Total net assets	52,825	55,509
Total liabilities and net assets	126,028	122,132

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income

For the first half (April 1, 2014 – September 30, 2014)

(Million yen)

	First half ended September 2013 (April 1, 2013 – September 30, 2013)	First half ended September 2014 (April 1, 2014 – September 30, 2014)
Net sales	122,077	120,318
Cost of sales	106,348	104,521
Gross profit	15,728	15,796
Selling, general and administrative expenses	13,534	12,729
Operating income (loss)	2,194	3,067
Non-operating income		
Interest income	26	78
Dividends income	56	65
Commission fee	103	170
Foreign exchange gains	15	161
Other	193	197
Total non-operating income	396	674
Non-operating expenses		
Interest expenses	64	58
Loss on investments in partnership	54	3
Other	34	43
Total non-operating expenses	153	105
Ordinary income (loss)	2,437	3,636
Extraordinary income		
Gain on sales of noncurrent assets	1	7
Gain on sales of investment securities	5	3
Other	-	1
Total extraordinary income	6	12
Extraordinary loss		
Loss on retirement of noncurrent assets	15	4
Loss on valuation of investment securities	34	166
Impairment loss	-	8
Office transfer expenses	26	4
Settlement package	-	64
Other	12	1
Total extraordinary loss	90	249
Income (loss) before income taxes and minority interests	2,354	3,400
Income, inhabitants and enterprise taxes	757	998
Income tax adjustment	236	237
Total income taxes	994	1,236
Income (loss) before minority interests	1,360	2,164
Minority interests in income (loss)	7	7
Net income (loss)	1,352	2,157

(Million yen)

	First half ended September 2013 (April 1, 2013 – September 30, 2013)	First half ended September 2014 (April 1, 2014 – September 30, 2014)
Minority interests in income (loss)	7	7
Income (loss) before minority interests	1,360	2,164
Other comprehensive income		
Valuation difference on available-for-sale securities	219	214
Deferred gains or losses on hedges	6	40
Foreign currency translation adjustment	514	620
Remeasurements of defined benefit plans, net of tax	-	33
Total other comprehensive income	740	909
Comprehensive income	2,100	3,073
Comprehensive income attributable to owners of the parent	2,094	3,066
Comprehensive income attributable to minority interests	5	7

(3) Quarterly consolidated statements of cash flows

(Million yen)

	First half ended September 2013 (April 1, 2013 – September 30, 2013)	First half ended September 2014 (April 1, 2014 – September 30, 2014)
Operating activities		
Income (loss) before income taxes	2,354	3,400
Depreciation and amortization	1,006	968
Amortization of goodwill	57	61
Increase (decrease) in allowance for doubtful accounts	(26)	(130)
Interest and dividends income	(83)	(144)
Interest expenses	64	58
Loss (gain) on valuation of investment securities	34	166
Decrease (increase) in notes and accounts receivable-trade	806	4,693
Decrease (increase) in inventories	(1,284)	(546)
Decrease (increase) in accounts receivable-other	46	(40)
Decrease (increase) in advance payments	(791)	(192)
Increase (decrease) in notes and accounts payable-trade	1,209	(3,147)
Increase (decrease) in accounts payable-other and accrued expenses	27	47
Decrease (increase) in consumption taxes refund receivable	31	369
Decrease (increase) in other current assets	(1)	1,276
Increase (decrease) in other current liabilities	1,323	(657)
Other, net	(117)	114
Sub-total	4,658	6,297
Interest and dividends income received	82	142
Interest expenses paid	(65)	(58)
Income taxes paid	(905)	(1,439)
Other, net	2	(1)
Net cash provided by (used in) operating activities	3,772	4,940
Investing activities		
Purchase of property, plant and equipment	(940)	(646)
Purchase of intangible assets	(50)	(119)
Purchase of investment securities	(351)	(527)
Proceeds from sales of investment securities	497	243
Purchase of investments in subsidiaries	(184)	(11)
Payments of short-term loans receivable	(2)	(13)
Payments for guarantee deposits	(51)	(8)
Proceeds from collection of guarantee deposits	68	12
Other payments	(177)	(195)
Other proceeds	158	533
Net cash provided by (used in) investing activities	(1,033)	(730)
Financing activities		
Net increase (decrease) in short-term loans payable	1,204	(2,061)
Repayment of long-term loans payable	(1,425)	(714)
Cash dividends paid	(423)	(563)
Other, net	(64)	(70)
Net cash provided by (used in) financing activities	(708)	(3,409)
Effect of exchange rate change on cash and cash equivalents	186	202
Net increase (decrease) in cash and cash equivalents	2,217	1,003
Cash and cash equivalents, beginning of period	11,878	13,361
Cash and cash equivalents, end of period	14,096	14,365

(4) Notes to quarterly consolidated financial statement

(Notes to going concern assumptions)

None

(Significant change in shareholders' equity)

None

(Segment information)

I. For the first half ended September 2013 (April 1, 2013 – September 30, 2013)

1. Information about sales and income (loss) by reporting segments

(Million yen)

	Reporting segments					Adjustments (Note 1)	Amount on the quarterly consolidated statements of income and consolidated statements of comprehensive income (Note 2)
	Electronic components	Information equipment	Software	Others	Total		
Net sales (of which to outside customers)	94,595	19,767	1,548	6,165	122,077	-	122,077
(of which inter- segment)	793	310	2,600	1,038	4,742	(4,742)	-
Total	95,388	20,077	4,149	7,204	126,819	(4,742)	122,077
Segment income (loss)	1,601	184	231	175	2,193	0	2,194

- Notes:
1. Adjustment in segment income of 0 million yen includes 17 million yen for elimination of inter-segment trade and -16 million yen for amortization of goodwill.
 2. Segment income (loss) is adjusted for operating income (loss) on the quarterly consolidated statements of income and consolidated statements of comprehensive income.

2. Reportable segment information concerning impairment losses or goodwill amortization

(Significant impairment losses for noncurrent assets)

There were no significant impairment loss or goodwill amortization.

(Significant changes in goodwill)

Omitted because insufficiently significant

II. For the first half ended September 2014 (April 1, 2014 – September 30, 2014)

1. Information about sales and income (loss) by reporting segments

(Million yen)

	Reporting segments					Adjustments (Note 1)	Amount on the quarterly consolidated statements of income and consolidated statements of comprehensive income (Note 2)
	Electronic components	Information equipment	Software	Others	Total		
Net sales (of which to outside customers)	93,519	19,828	1,047	5,922	120,318	-	120,318
(of which inter- segment)	584	325	2,022	879	3,811	(3,811)	-
Total	94,103	20,154	3,070	6,802	124,130	(3,811)	120,318
Segment income (loss)	2,648	162	122	51	2,985	81	3,067

- Notes:
1. Adjustment in segment income of 81 million yen includes 81 million yen for elimination of inter-segment trade.
 2. Segment income (loss) is adjusted for operating income (loss) on the quarterly consolidated statements of income and consolidated statements of comprehensive income.

2. Reportable segment information concerning impairment losses or goodwill amortization

(Significant impairment losses for noncurrent assets)

Omitted because insufficiently significant.

(Significant changes in goodwill)

There were no significant change in goodwill.

(Significant changes in gain on bargain purchase)

Omitted because insufficiently significant