# Notice of the 56th Ordinary General Meeting of Shareholders

# Other Items for Which Measures for Providing Information in Electronic Format Will Be Taken
# (Items Excluded From Delivered Paper-Based Documents)

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(From April 1, 2023 to March 31, 2024)

**KAGA ELECTRONICS CO., LTD.**

## Business Report

### 1. Principal lines of business (as of March 31, 2024)

The Company's principal business is the planning, development, manufacture, and purchase and sale of electronic components for electronic equipment, the purchase, sale, import and export of computers and peripheral equipment, related parts, accessories, software as well as other related business.

Our main products and business activities are as follows:

| Business segment | Principal products and lines of business |
|---|---|
| Electronic Components | LCD modules, processed substrates, products for office automation equipment and communications equipment, integrated circuits such as custom LSIs and one-chip microcomputers, general-purpose integrated circuits such as memory ICs, semiconductor devices such as CMOS image sensors and light emitting diodes and others |
| Information Equipment | Personal computers, printers and other peripheral equipment, SD cards, digital audio and video equipment, optical equipment and others |
| Software | Copyright business, production of computer graphics, image systems and software, planning and development of amusement products and others |
| Others | Repair and support for electronics equipment, manufacture and sales of amusement equipment, event planning and operation, sales of sports goods, golf shop operations and others |

### 2. Operating results by business segment

Net sales by business segment are as follows.

(Million yen)

| Period and category / Business segment | The 55th fiscal year (From April 1, 2022 to March 31, 2023) | | The 56th fiscal year (From April 1, 2023 to March 31, 2024) | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| Electronic Components | 539,342 | 88.7% | 472,583 | 87.1% |
| Information Equipment | 43,680 | 7.2% | 44,305 | 8.1% |
| Software | 2,998 | 0.5% | 2,567 | 0.5% |
| Others | 22,044 | 3.6% | 23,241 | 4.3% |
| Total | 608,064 | 100.0% | 542,697 | 100.0% |

## 3. Employees (as of March 31, 2024)

(i) Employees of the Corporate Group

| Business segment | Number of employees | Increase/Decrease from the end of the previous fiscal year |
|---|---|---|
| Electronic Components | 6,291 | Decrease of 85 |
| Information Equipment | 277 | Increase of 12 |
| Software | 427 | Increase of 11 |
| Others | 299 | Decrease of 50 |
| Corporate (Common) | 727 | Increase of 41 |
| Total | 8,021 | Decrease of 71 |

(Notes) 1. The number of employees indicates the number of persons employed (including workers loaned to the Group from outside the Group, contract workers, part-time employees, and non-regular employees).

2. The number of employees listed as "Corporate (Common)" indicates those belonging to the management divisions that cannot be classified under a specific business.

(ii) Employees of the Company

| Number of employees | Increase/Decrease from the end of the previous fiscal year | Average age | Average service years |
|---|---|---|---|
| 549 | Increase of 3 | 43.3 years old | 14.5 years |

(Note) The number of employees indicates the number of persons employed (including workers loaned to the Company from outside the Company, contract workers, part-time employees, and non-regular employees).

## 4. Major Creditors (as of March 31, 2024)

(Million yen)

| Creditor | Balance of loans payable |
|---|---|
| MUFG Bank, Ltd. | 7,523 |
| Mizuho Bank, Ltd. | 5,901 |
| Sumitomo Mitsui Banking Corporation | 1,401 |
| The Hokuriku Bank, Ltd. | 939 |
| Nippon Life Insurance Company | 1,900 |
| Meiji Yasuda Life Insurance Company | 400 |

## 5. Other Significant Information Concerning the Current State of the Corporate Group

Not applicable

## 6. Accounting Auditor

### (1) Name PricewaterhouseCoopers Japan LLC

Note: PricewaterhouseCoopers Aarata LLC merged with PricewaterhouseCoopers Kyoto on December 1, 2023, and changed its name to PricewaterhouseCoopers Japan LLC.

### (2) Audit Fees

| | Amount (Million yen) |
|---|---|
| Audit fees for the current fiscal year | 84 |
| Total of amount of cash and other financial benefits payable by the Company and its subsidiaries to the accounting auditor | 112 |

(Notes) 1. The audit agreement between the Company and the accounting auditors does not explicitly distinguish between accounting remuneration, etc. for accounting under the Companies Act and accounting under the Financial Instruments and Exchange Act, and is substantially unable to do so; accordingly, the total amount of the two is given as the amount of accounting remuneration, etc. of the accounting auditors for the fiscal year under review.

2. Of the significant subsidiaries of the Company, overseas subsidiaries are audited by accounting companies other than the Company's accounting auditors (including persons with equivalent qualifications in foreign countries).

3. The Board of Auditors has decided to agree to the amount of remuneration, etc. for accounting auditors after carrying out necessary verification of the appropriateness of matters such as the contents of the accounting auditors' audit plans, the status of the execution of accounting audit duties, and the basis for calculation of remunerations estimates.

### (3) Description of Non-Audit Services

Not applicable

### (4) Policy on Decisions of Dismissal or Non-reappointment of Accounting Auditor

In the event of any obstacles to the execution of the accounting auditors' duties, etc., the Board of Auditors will determine the contents of a proposal regarding the dismissal or non-reappointment of the accounting auditors.
In the event that any of the matters provided for by Article 340, paragraph (1) of the Companies Act are applicable to the accounting auditors, the Board of Auditors will dismiss the accounting auditors by unanimous agreement of the auditors. In the event that this occurs, an auditor selected by the Board of Auditors will report the fact of the accounting auditor's dismissal and the reasons for that dismissal to the first General Meeting of Shareholders held after the dismissal.

### (5) Overview of Limited Liability Agreement

Not applicable

## 7. Company Structure and Policies

### (1) System to ensure the properness of operations

The following is an overview of decisions regarding the system for ensuring that the directors of the Company and the Group execute their duties in accordance with laws, regulations, and the Articles of Incorporation, and the system for otherwise ensuring the appropriateness of business operations by the Company.

#### (i) Systems for ensuring compliance by Company and Group Company Directors with laws and regulations and the Articles of Incorporation in the performance of their duties

The Company and the Group are cognizant that enhancing corporate governance is a key management issue and make it their fundamental policies to ensure total compliance with corporate ethics and laws and regulations, and to reinforce internal control systems while ensuring the soundness, efficiency, and transparency of business operations and raising corporate value.

To achieve such compliance, the Company has established Rules on Officers applicable to directors and the Board of Directors Rules applicable to the Board of Directors. To ensure appropriate management, the directors monitor each other's status of execution of duties at regularly-held Board of Directors meetings and at extraordinary meetings held on a dynamic basis as necessary. The Company has also established Organization Rules, Rules on the Allocation of Work Duties, Rules on Work Authority, and Rules on Internal Approval, clarifying the scope of authority of each director and ensuring that mutual supervision by directors is effective.

In addition, the Company established an Audit Office under the direct authority of the Representative Director, President & COO. The Audit Office works in collaboration with the Business Administration Department—the Company's legal affairs division—to monitor the status of compliance with laws and regulations, the Articles of Incorporation, and other internal rules.

The Company also has a board of auditors, and the auditors, including outside auditors conduct detailed audits regarding the execution of duties by the directors.

The Company also established a CSR Promotion Committee (now the Sustainability Committee) chaired by the Representative Director, President & COO and established the Compliance Committee, Risk Management Committee, Information Disclosure Committee, Environmental Management Promotion Committee, Diversity Promotion Committee, and Governance Committee as subordinate organizations. These organizations work to normalize decision-making and the execution of business operations throughout the Group.

#### (ii) The systems for the preservation and control of information relating to the execution of duties by directors

Information relating to the execution of duties by directors is appropriately and accurately controlled and preserved according to the qualities of the recording media in accordance with the Document Control Rules, which set forth the standards on the preparation and retention of documents, and the Document Control in Handling Manual, which sets forth detailed provisions on document retention procedures and periods.

#### (iii) Rules and other systems relating to control of the risk of loss

Potential risks that the Group faces include matters 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. Responding divisions have been set for each risk and necessary and appropriate systems have been established to control risks under the authority of risk control officers and managers in each division.

If any of the risks mentioned above should occur, the corresponding responding divisions will immediately take necessary and appropriate responsive measures to minimize the occurrence of damage under the direction of the risk control officers and managers.

In addition, with the establishment of the Risk Management Committee as a subordinate organization to the Sustainability Committee, the Company established a system to respond promptly and appropriately to risks foreseen by the Group.

**(iv) Systems for ensuring the efficient execution of duties by the directors of the Company and Group companies**

The foundations of systems for ensuring the efficient execution of duties by the directors of the Company and Group companies are periodic meetings of the Board of Directors and extraordinary meetings of the Board held when necessary. Meetings of the Management Meeting are held prior to meetings of the Board of Directors with regard to important matters that are within the scope of duties of the directors to conduct prior deliberations so that the Board can engage in enhanced deliberations and make prompt decisions.

The Company also introduced delegation-based and employment-based executive officer systems to separate management decision-making and supervisory functions from business execution functions and to clarify each role, and has established structures that enable timely responses while enhancing the functions of Board of Directors and business execution functions. In addition, having an appropriate number of directors allows for adequate deliberation and appropriate and timely decision-making.

With regard to specific execution of duties, the Board of Directors sets company-wide targets, formulates medium-term management plans to achieve those targets, and establishes necessary and appropriate systems for the execution of duties so that each executive officer responsible for business divisions can carry out those plans.

In addition, the Company has also established Organization Rules, Rules on the Allocation of Work Duties, Rules on Work Authority, and Rules on Management of Affiliated Companies regarding the allocation of work duties, authority, and so on to the directors of the Company and Group companies. These rules provide for the efficient execution of work duties.

**(v) Systems for ensuring compliance by Company and Group Company employees with laws and regulations and the Articles of Incorporation in the performance of their duties**

The Basic Compliance Rules were established as a code of conduct to ensure compliance with laws and regulations and the Articles of Incorporation by employees of the Company and Group companies when executing their duties. To ensure the effectiveness of these rules, the Company also established the Compliance Committee as a subordinate organization of the Sustainability Committee, establishing a system that can make appropriate group-wide responses.

In addition, the Company established an Audit Office under the direct authority of the Representative Director, President & COO. The Audit Office works in collaboration with the Business Administration Department—the Company's legal affairs division—to monitor the status of compliance with laws and regulations, the Articles of Incorporation, and other internal rules.

The Company has also established an internal reporting (whistleblowing) system that allows employees to directly and anonymously report conduct by the Company or Group companies in violation of laws and regulations or the Articles of Incorporation to the Representative Director, Founder & CEO; Representative Director, President & COO; Auditors; the Sustainability Committee; or the Sexual Harassment Investigation and Countermeasures Committee.

**(vi) System to ensure the appropriateness of business operations by the corporate group comprising the Company and its affiliated companies**

The Company established the Rules on Management of Affiliated Companies to ensure appropriate business operations by affiliated companies and conducts control in accordance with those rules. Also, coordination among Group companies and key decisions require deliberation and decisions by the Company's Group Management Headquarters Meeting and Board of Directors.

In addition, the Company's Audit Office works in collaboration with the Business Administration Department—the Company's legal affairs division—to achieve overall uniformity in Group business activities, conducts audits regarding the appropriateness of those business activities and compliance with laws and regulations and the Articles of Incorporation and so on, and indicates improvements to be made in business activities.

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

**(vii) Matters relating to employees supporting the work of auditors**

The Company's Rules on the Allocation of Work Duties include provisions relating to employees who assist auditors in the performance of their duties. Auditors cause employees, to support them in the performance of audit operations, focusing on work in the Audit Office, as necessary.

**(viii) Matters relating to the independence from the directors of employees supporting the work of auditors and matters relating to ensuring the effectiveness of indications by auditors to employees**

The Company's Rules on the Allocation of Work Duties provide that in cases where an employee is affiliated with the Audit Office and other departments that assist auditors in the performance of their duties, only auditors have the authority to issue instructions and orders relating to that work. In cases of transfer, evaluation, and disciplinary disposition of such employees, the consent of Auditors is required.

**(ix) Systems for directors and employees of the Company and Group companies to report to auditors and other systems for reporting to auditors**

If a Company director discovers facts that present a risk of causing substantial damage to the Company, such a director must immediately report those facts to the Board of Auditors pursuant to the Rules on Corporate Officers, and the Company has established systems for timely and accurate reporting to the Board of Auditors.

If an employee of the Company, director or employee of a Group company discovers facts in violation of laws and regulations or the Articles of Incorporation or discovers facts that present a risk of causing substantial damage to the Company or the respective Group company, such director or employee must immediately report to Auditors in accordance with the Rules on Work Authority, and the Company has established systems that enable employees to make reports directly to Auditors.

**(x) Systems for ensuring that the persons who make reports to Auditors are not subject to disadvantageous treatment as a result of making such reports**

Reports made via the internal whistleblowing system can be made anonymously and through the use of a post office box. Since reporting individuals cannot be identified, there is a system in place to prevent disadvantageous treatment of persons making reports.

**(xi) Matters relating to procedures for advance payment or reimbursement of expenses arising in the course of auditors performing their duties and policies regarding handling of expenses or obligations arising in the course of auditors performing their duties**

When requests are made by auditors for advance payment of expenses or for reimbursement of expenses paid or obligations incurred, except in cases where it can be established that those expenses and so on did not arise in the course of auditors performing their duties, the Company shall comply with such requests.

**(xii) Other systems for ensuring effective implementation of audits by auditors**

The Company's auditors are required to attend Board of Directors meetings and other important internal meetings and must express their opinions as necessary. Also, the Company established a board of auditors and operates that board appropriately in accordance with the Board of Auditors Rules. In addition, the Company established Auditor Audit Standards setting forth the optimal audit structure for each board member, audit standards, and conduct policies for auditors, ensuring the effectiveness of audits conducted by auditors.

Regarding items (i) through (xii) above, the Company will strive to establish a more appropriate system by revising the relevant rules as necessary.

### (2) Overview of operational status of system to ensure the properness of operations

The following is an overview of the status of operation of the system for ensuring the appropriateness of business operations by the Company and the Group.

(i) Compliance initiatives and compliance system

The Compliance Committee held meetings. Additionally, during the fiscal year ended March 31, 2024, the Company conducted four practical training sessions for officers and employees of the Group to ensure compliance with laws and regulations, including preventing accounting fraud, training about contracts and the Subcontract Act, dealing with antisocial forces, and more.

The Company is also making efforts to prevent compliance violations by establishing Compliance Rules and raising awareness about compliance and establishing an internal reporting (whistleblowing) system to allow people to directly and anonymously report violations.

(ii) Risk management system and risk management initiatives

The Risk Management Committee holds meetings at which they analyze and consider responses to various risks of the Group, and previously designated departments in charge of potential risks make efforts to reduce those risks.

In addition, the Company has established Risk Management Rules and strives to strengthen its risk management system by clearly stating methods of responding to operational risks.

(iii) Ensuring the appropriateness of business operations of the Group

The Company established a Group Management Headquarters to centrally manage data from Group companies and set out a system under which Rules on Management of Affiliated Companies are enforced, detailed information about authority commensurate with the size of Group companies is prepared, and other measures to ensure the appropriateness of the business operations of associated companies are taken.

Additionally, in accordance with Rules on Internal Audits, the Audit Office audited 25 divisions of the Company and 11 divisions of six Group companies during the fiscal year under review. While conducting scheduled internal audits and continuing to advise on improvements to be made in business activities, the Audit Office collaborates with auditor audits in an effort to more rigorously enforce compliance with laws, regulations, and the Articles of Incorporation as well as internal rules.

Group Company Administration Department Managers’ Meetings, Sales Meetings, Budget Meetings, and other meetings are also held and attended by Group companies in an effort to share information between Group companies and improve the functionality of internal control throughout the Group.

(iv) Ensuring the effectiveness of auditor audits and the auditor management system

During the fiscal year under review, the Board of Auditors held 17 meetings at which they examined the details of discussions at meetings of the Board of Directors.

The auditors met with the accounting auditors at scheduled quarterly meetings and ad-hoc meetings. The auditors strive to gather information from outside institutions, and the Company strives to ensure the effectiveness of business audits within the Group; for example, inside auditors serve concurrently as auditors at key Group companies.

**Reference Information**

## Consolidated Statement of Comprehensive Income

(From April 1, 2023 to March 31, 2024)

(Million yen)

| Account title | Amount | |
|---|---|---|
| **Profit** | | **20,323** |
| **Other comprehensive income** | | |
| Valuation difference on available-for-sale securities | 537 | |
| Deferred gains or losses on hedges | 40 | |
| Foreign currency translation adjustment | 6,329 | |
| Remeasurements of defined benefit plans, net of tax | 64 | |
| Share of other comprehensive income of associates accounted for using equity method | (82) | 6,889 |
| **Comprehensive income** | | **27,213** |
| Comprehensive income attributable to owners of parent | | 27,227 |
| Comprehensive income attributable to non-controlling interests | | (13) |

(Note) Figures are rounded down to the nearest million yen.

# Consolidated Statement of Changes in Equity

(From April 1, 2023 to March 31, 2024)

(Million yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at the beginning of current period | 12,133 | 14,820 | 95,945 | (5,614) | 117,285 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | (6,040) | | (6,040) |
| Profit attributable to owners of parent | | | 20,345 | | 20,345 |
| Purchase of treasury shares | | | | (6) | (6) |
| Disposal of treasury shares | | 28 | | 17 | 45 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | – | 28 | 14,304 | 10 | 14,344 |
| Balance at the end of current period | 12,133 | 14,849 | 110,250 | (5,603) | 131,629 |

| | Accumulated other comprehensive income | | | | | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remea-surements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at the beginning of current period | 2,534 | (18) | 9,568 | 239 | 12,322 | 129 | 129,737 |
| Changes of items during period | | | | | | | |
| Dividends of surplus | | | | | | | (6,040) |
| Profit attributable to owners of parent | | | | | | | 20,345 |
| Purchase of treasury shares | | | | | | | (6) |
| Disposal of treasury shares | | | | | | | 45 |
| Net changes of items other than shareholders' equity | 541 | 40 | 6,235 | 64 | 6,881 | 267 | 7,149 |
| Total changes of items during period | 541 | 40 | 6,235 | 64 | 6,881 | 267 | 21,493 |
| Balance at the end of current period | 3,075 | 21 | 15,803 | 303 | 19,204 | 396 | 151,231 |

(Note) Figures are rounded down to the nearest million yen.

# Notes to the Consolidated Financial Statements

**1. Basis of Preparation of Consolidated Financial Statements**

(1) Scope of consolidation

1) Number of consolidated subsidiaries and names of consolidated subsidiaries

a. Number of consolidated subsidiaries 60

b. Names of major consolidated subsidiaries

KAGA DEVICES CO., LTD.
KAGA SOLUTION NETWORK CO., LTD.
AD DEVICE CO., LTD.
KAGA FEI Co., Ltd.
EXCEL CO., LTD.
KAGA (SHANGHAI) ELECTRONICS CO., LTD.
KAGA (H.K.) ELECTRONICS LIMITED
KAGA ELECTRONICS (THAILAND) COMPANY LIMITED
KAGA DEVICES (H.K.) LIMITED
KAGA FEI ELECTRONICS PACIFIC ASIA LIMITED
EXCEL ELECTRONICS (HONG KONG) LTD.

2) Changes in scope of consolidation

As a result of stock acquisition following the new establishment of KAGA AMUSEMENT AMERICA, INC., the companies Candera GmbH, Candera America Inc., TAXAN SWE (H.K.) MANUFACTURING COMPANY LIMITED, and TAXAN-SWE MEXICO MANUFACTURING, S.DE R.L.DE C.V. are now included within the scope of consolidation. Because Advanced Display Solutions (HONG KONG) Ltd. completed liquidation and shares of SANKOH ENGINEERING CO., LTD. were transferred, they have been removed from the scope of consolidation.

(2) Application of equity method

1) Status of associates accounted for using equity method:

- Number of associates accounted for using equity method:
  4
- Name of major company
  OTAX CO., LTD.

2) Status of associates not accounted for using equity method:

- Name of major company
  Wireless City Planning Inc.
- Reason for not using the equity method
  The company was excluded from the scope of application of the equity method, because such exclusion has only an immaterial effect on the consolidated financial statements, and it has no significance.

(3) Fiscal year of consolidated subsidiaries

Of the consolidated subsidiaries, the account closing dates for KAGA (SHENZHEN) ELECTRONICS LTD., KAGA (SHANGHAI) ELECTRONICS CO., LTD., KAGA (SHENZHEN) TRADING LTD., N.Y. SALAD Production Committee, N.Y. SALAD II Production Committee, KAGA TAXAN (SUZHOU) ELECTRONICS CO., LTD., SUZHOU TAXAN KAGA TRADING CO., LTD., KAGA TECHNOLOGY (SUZHOU) ELECTRONICS CO., LTD., AD DEVICE (SHANGHAI) CO., LTD., HUBEI KAGA ELECTRONICS LIMITED, TAXAN MEXICO S.A. DE C.V., KAGA FEI ELECTRONICS (Dalian) Software Limited, KAGA FEI ELECTRONICS (Shanghai) Co., Ltd., EXCEL ASIAN TAIWAN CO., LTD., EXCEL ELECTRONICS (HONG KONG) LTD., EXCEL INTERNATIONAL TRADING (SHANGHAI) CO., LTD., EXCEL ELECTRONICS TRADING

(SHEN ZHEN) LTD., EXCEL ELECTRONICS TRADING (THAILAND) CO., LTD., Candera America Inc., and TAXAD-SWE MEXICO MANUFACTURING S.DE R.L.DE C.V. fall on December 31. In the preparation of the consolidated financial statements, financial statements of each of the consolidated subsidiaries as of their respective account closing dates are used. However, necessary adjustments are made for significant transactions that occurred between this date and the consolidated account closing date.

(4) Accounting policies

1) Valuation basis and methods for significant assets

a. Valuation basis and methods for securities

Trading securities
Stated at fair value (Costs of securities sold are determined based on the moving-average method)

Available-for-sale securities
Securities other than shares with no market value, etc.
Stated at fair value (valuation differences are booked directly in a separate component of net assets, and cost of securities sold is determined by the moving-average method)

Shares with no market value, etc.
Stated at cost determined by the moving-average method

Equity interest in investment partnerships (deemed to be securities under the provisions set forth in Article 2, paragraph (2) of the Financial Instruments and Exchange Act)
Recorded by using a method that treats the amount (net) equivalent to the equity ownership portion based on the latest available financial statements depending on the reporting date stipulated in the partnership agreement.

b. Valuation basis and methods for derivatives

Stated at fair market value.

c. Valuation basis and methods for inventories

Principally stated at cost determined by the specific identification method (for carrying amounts in the balance sheet, the method of reducing the carrying amount based on the decline in profitability), and at cost determined by the moving-average method (for carrying amounts in the balance sheet, the method of reducing the carrying amount based on the decline in profitability).

2) Accounting methods for depreciation of significant depreciable assets

a. Property, plant and equipment (excluding lease assets)

The Company and some of its consolidated subsidiaries in Japan apply the declining-balance method (however, the straight-line method is used for buildings (excluding facilities attached to buildings) acquired on and after April 1, 1998 and facilities attached to buildings and structures acquired on and after April 1, 2016), and other consolidated subsidiaries apply the straight-line method.

Major useful lives are as follows:

| | |
|---|---|
| Buildings and structures | 2 to 50 years |
| Machinery, equipment and vehicles | 2 to 12 years |
| Tools, furniture and fixtures | 2 to 20 years |

b. Intangible assets (excluding lease assets)

The Company and its consolidated subsidiaries in Japan apply the straight-line method.

c. Lease assets

Lease assets related to finance lease transactions that do not transfer ownership

The straight-line method is applied assuming the lease period as the useful life without residual value.

3) Accounting policy for significant provisions

a. Allowance for doubtful accounts

To prepare for credit losses on receivables, the Company and its consolidated subsidiaries in Japan recorded an estimated uncollectable amount calculated by either using the historical rate of credit loss for general receivables, or based on individual consideration of collectability for specific receivables such as highly doubtful receivables. Overseas consolidated subsidiaries record an estimated amount needed for receivables at the end of the fiscal year based on criteria predetermined by the company according to collectability for each business partner.

b. Provision for directors' bonuses

To provide for payments of bonuses to officers, the Company and its consolidated subsidiaries recorded the portion attributable to the fiscal year based on an estimated amount of payment.

c. Provision for directors' retirement benefits

To prepare for payment of retirement benefits for officers, some of its consolidated subsidiaries in Japan record an amount of payment required at the end of the fiscal year in accordance with internal rules.

4) Standard for conversion of significant foreign currency-denominated assets into Japanese currency

Monetary receivables and payables in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing as of the consolidated account closing date, and translation differences are accounted for as profit or loss. Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the spot exchange rate prevailing as of the consolidated account closing date, and their revenue and expenses are translated into Japanese yen at the average exchange rate during the period. Translation differences are included in foreign currency translation adjustment and non-controlling interests under net assets.

5) Accounting methods for significant hedging

a. Accounting methods for hedging

The deferral hedge accounting is applied.

The *furiate-shori* (designated exceptional hedge accounting under the Japanese GAAP) is applied to forward exchange contracts that qualify for *furiate-shori*, and designated exceptional accounting is applied to interest rate swaps that qualify for exceptional accounting.

b. Hedging instrument and hedged item

Forward exchange contracts and non-deliverable forward (NDF) contracts are entered into as a hedge against exchange rate fluctuation risk for foreign currency-denominated assets and liabilities and foreign currency-denominated forecast transactions. In addition, interest rate swap transactions are conducted for interest expenses on long-term loans payable.

c. Hedging policy

The Company determines its hedging policy based on internal rules. As for forward exchange contracts, exchange rate fluctuation risk is hedged. Furthermore, as for interest rate swap transactions, risk of increase in interest rate for interest expenses on long-term loans payable is hedged.

d. Method of assessing hedge effectiveness

In the period from inception of the hedge to assessment of the effectiveness, the Company compares foreign currency-denominated assets and liabilities and foreign currency-denominated forecast transactions with changes in cash flows of forward exchange contracts, which are hedging instruments, and judges the effectiveness based on the variable ratio, etc. between the two. However, for interest rate swaps that are accounted for using exceptional accounting, since the Company has confirmed that important conditions for hedging instruments and hedged items are identical, the assessment of effectiveness is omitted.

6) Accounting policy for significant revenues and expenses

The Group consists of Electronic Components, Information Equipment, Software, and Others. As for details of main performance obligations in major businesses regarding revenue from contracts with customers of the Company and its consolidated subsidiaries and the typical timing when these performance obligations are satisfied (typical timing of revenue recognition), because the Company and its consolidated subsidiaries consider that material risks and economic rewards associated with legal ownership of merchandise and finished goods and possession of merchandise and finished goods, etc. are transferred and the performance obligations are satisfied at the time when each of merchandise and finished goods, etc. is transferred to customers, revenue is recognized at that time. For sales of some merchandise and finished goods, the Company applies the alternative treatment stipulated in paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition," and for sales of merchandise and finished goods in Japan, revenue is recognized at the time of shipment if the period from the time of shipment to the time when control of the merchandise and finished goods in question is transferred to the customer is a typical period of time. Of sales of merchandise, those for which the Company and its consolidated subsidiaries consider that they act as an agent, the net amount calculated by deducting the amount paid to the other party from the amount received in exchange for merchandise that the other party provides is recognized as revenue. Furthermore, if variable consideration such as rebates is included in contracts with certain customers for Information Equipment, revenue is determined as an amount derived by deducting rebate and others from consideration promised with the customer, and the estimated amount of the rebate is determined based on past records. Consideration for transactions is received within one year from the satisfaction of the performance obligation, and does not contain any significant financial component.

7) Other significant matters for preparing consolidated financial statements

a. Accounting policy for net defined benefit liability

To prepare for retirement benefits for employees, net defined benefit liability is recorded in an amount calculated by deducting the amount of pension assets from retirement benefit obligations based on an expected amount at the end of the fiscal year. In the calculation of retirement benefit obligations, estimated retirement benefits are attributed to the period up to the end of the fiscal year on a benefit formula basis. Past service cost is amortized using the straight-line method over a certain number of years within the average remaining service years (10 years) of employees when incurred. Actuarial calculation differences are amortized using the straight-line method for a certain number of years (mainly 10 years) during the average remaining service period for employees in each fiscal year when they occur, and the amounts allocated are treated as expenses from the fiscal year following the year in which they occur. Unrecognized actuarial calculation differences and unrecognized past service liabilities are reported as remeasurements of defined benefit plans under accumulated other comprehensive income in the net assets section after considering tax effects.

b. Application of the group tax sharing system

The group tax sharing system is applied

(5) Amortization of goodwill

Goodwill is amortized in equal amounts over the period in which its effects will be realized (in principle, five years). However, if the quantitative materiality is insignificant, goodwill is fully amortized in the fiscal year during which it arises.

## 2. Changes in Presentation Method

(Consolidated Balance Sheet)

Because the monetary importance of "Guarantee deposits" (¥1,160 million in the fiscal year under review) and "Insurance funds" (¥876 million in the fiscal year under review), which had been provided in their own categories through the previous fiscal year, has diminished, they have been included in the "Other" under "Investments and other assets" from the fiscal year under review.

## 3. Accounting Estimates

Valuation of unlisted shares, etc. including investments in venture companies

1) Amount recorded in the consolidated financial statements for the fiscal year under review

| | |
|---|---|
| Investment securities | ¥830 million |
| Loss on valuation of investment securities | ¥238 million |

2) Other information that contributes to understanding of details of accounting estimates

As for unlisted shares, etc., the real value is calculated on the basis of the amount of net assets per share based on the latest financial statements that can be obtained from the investee, and the like. If the real value declines significantly, valuation loss is recorded. Particularly investments in venture companies may be acquired at a higher price compared with the amount of net assets. In the case where the excess earning power, etc. is no longer expected in view of the status of achievement of the medium- to long-term business plan obtained at the time of the acquisition and reasonableness of future forecast, valuation loss is recorded only if the real value reflecting the excess earning power, etc. has decreased significantly. The real value reflecting the excess earning power, etc. may be affected by changes in the uncertain corporate environment in the future and other factors. If it becomes necessary to review the real value reflecting the excess earning power, etc., additional losses may be incurred in and after the next fiscal year.

## 4. Notes to Consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment ¥26,817 million

(2) Contingent liabilities (Guarantee obligations)

| | |
|---|---|
| Contingent liabilities (guarantee obligations) for borrowings of the Company's employees from financial institutions under the loan facilitation system, etc. | ¥6 million |

## 5. Notes to Consolidated Statement of Changes in Equity

(1) Class and total number of issued shares, and class and number of treasury shares

| | Number of shares at beginning of the fiscal year | Increase (shares) | Decrease (Shares) | Number of shares at end of the fiscal year |
|---|---|---|---|---|
| Issued shares | | | | |
| Common shares | 28,702,118 | – | – | 28,702,118 |
| Total | 28,702,118 | – | – | 28,702,118 |
| Treasury shares | | | | |
| Common shares | 2,440,983 | 1,036 | 7,475 | 2,434,544 |
| Total | 2,440,983 | 1,036 | 7,475 | 2,434,544 |

(Note) The increase and decrease in treasury shares are due to an increase resulting from the purchase request of 1,036 shares less than one unit and a decrease resulting from the granting of 7,475 shares of restricted shares to directors. The number of treasury shares at the end of the fiscal year under review is 2,206 shares more than the number of treasury shares at the end of the fiscal year under review stated in the Notes to the Non-consolidated Financial Statements due to the Company's shares held by associates accounted for using equity method.

(2) Dividends of surplus

1) Dividends paid

| Resolved at | Classes of shares | Total dividends (Millions of yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Ordinary General Meeting of Shareholders on June 27, 2023 | Common shares | 3,151 | 120 | March 31, 2023 | June 28, 2023 |
| Board of Directors meeting held on November 8, 2023 | Common shares | 2,889 | 110 | September 30, 2023 | December 1, 2023 |

2) Dividends whose effective date falls in the fiscal year following the fiscal year of the record date

| To be resolved at | Classes of shares | Total dividends (Millions of yen) | Source of dividends | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Ordinary General Meeting of Shareholders on June 26, 2024 | Common shares | 2,889 | Retained earnings | 110 | March 31, 2024 | June 27, 2024 |

## 6. Financial Instruments

(1) Status of financial instruments

1) Policy on financial instruments

The Group procures the funds necessary for carrying out business strategies as prescribed in the Medium-Term Management Plan by means of borrowings from banks and other entities, and issue of bonds payable. A temporary surplus fund is invested in financial assets that are highly secure, and working capital is procured mainly by borrowing from financial institutions. Derivatives are used to avoid exchange rate fluctuation risk for foreign currency-denominated trade receivables and payables and loans payable, and the policy is that any speculative transactions are not conducted.

2) Description of financial instruments and their risks, and risk management system

Although notes receivable - trade, electronically recorded monetary claims - operating, and accounts receivable - trade, which are trade receivables, are exposed to credit risk of customers, the Company works to mitigate risks in accordance with the Receivables Management Rules. In addition, although foreign currency-denominated trade receivables arising from the global operational presence are exposed to exchange rate fluctuation risk, the Company uses forward exchange contracts to hedge this risk in principle.

Securities and investment securities are mainly shares related to business or capital alliances, etc. with business partners, and exposed to risk of fluctuations in market prices, but fair values obtained are periodically reported to the Board of Directors. Furthermore, the status of holding such securities is continuously reviewed based on relationships with the business partners.

Notes and accounts payable - trade, which are operating payables, are all due for payment within one year. In addition, some of them are denominated in foreign currencies like receivables, and forward exchange contracts are used to hedge exchange rate fluctuation risk.

Loans payable are principally aimed to raise funds for working capital and capital investment.

Bonds payable are principally aimed to raise funds for business acquisition.

3) Supplementary explanation regarding fair value, etc., of financial instruments

Fair values related to financial instruments include value based on market prices, and in addition, reasonably determined value when there is no market price. As the calculation of said fair values includes variable factors, these values may fluctuate if different assumptions are used, etc.

(2) Fair values of financial instruments

Carrying amounts in the consolidated balance sheet, fair values and the differences between them as of March 31, 2024 were as follows:

(Millions of yen)

| | Carrying amount | Fair value | Difference |
|---|---|---|---|
| Securities | 171 | 171 | – |
| Investment securities (*2) (*3) | 8,754 | 8,754 | – |
| Corporate bonds | (10,000) | (9,952) | 47 |
| Long-term loans payable | (10,500) | (10,402) | 97 |
| Derivatives (*5) | (29) | (29) | – |

(*1) Information on "cash and deposits," "notes receivable - trade," "electronically recorded monetary claims - operating," "accounts receivable - trade," "notes and accounts payable - trade," "short-term loans payable," and "income taxes payable" is omitted, since these accounts are settled or repaid in cash and in a short period of time, and therefore, their fair value approximates the carrying amount.

(*2) Shares with no market price, etc. are not included in "Investment securities." The carrying amounts of the financial instruments are as follows.

| | |
|---|---|
| Shares of associates | ¥822 million |
| Unlisted shares | ¥830 million |

(*3) Information on investments in partnerships and other equivalent entities in which the amount corresponding to equity interest is recorded on a net basis in the consolidated balance sheet is omitted. The carrying amount of these investments is 64 million yen.

(*4) The figures in brackets indicate those recorded in liabilities

(*5) Net receivables and payables arising from derivatives are presented on a net basis, and value of a net payable after totaling of receivables and payables is shown in brackets.

(3) Components of fair values of financial instruments by level, etc.

Fair values of financial instruments are classified into the following three levels, depending on observability and significance of inputs for determining fair values.

Fair values of Level 1: Fair value determined based on a quoted market price for the asset or liability whose fair value is measured, which is formed in an active market, out of observable inputs for fair value measurement

Fair values of Level 2: Fair value determined using inputs for fair value measurement other than Level 1 inputs, out of observable inputs for fair value measurement

Fair values of Level 3: Fair value determined using unobservable inputs for fair value measurement

If multiple inputs that have a significant influence on determination of fair value, the fair value is classified as the lowest priority level of fair value measurement of levels in which each input belongs.

1) Financial instruments recorded at fair value on the consolidated balance sheet

| Item | Fair value (Millions of yen) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Securities | | | | |
| Shares | 171 | – | – | 171 |
| Investment securities | | | | |
| Shares | 7,122 | – | – | 7,122 |
| Investment trusts | 1,581 | – | – | 1,581 |
| Corporate bonds | – | 49 | – | 49 |
| Total assets | 8,875 | 49 | – | 8,925 |
| Derivatives | | | | |
| Currency related | – | 29 | – | 29 |
| Total liabilities | – | 29 | – | 29 |

2) Financial instruments other than those recorded at fair value on the consolidated balance sheet

| Item | Fair value (Millions of yen) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Corporate bonds | – | 9,952 | – | 9,952 |
| Long-term loans payable | – | 10,402 | – | 10,402 |
| Total liabilities | – | 20,355 | – | 20,355 |

(Note) Explanation of valuation techniques used to determine fair values and inputs for fair value measurement

Securities and investment securities

Since listed shares are measured using the quoted market price and trust investments are measured using reference prices and they both are traded in an active market, their fair value is classified as Level 1 fair value. On the other hand, corporate bonds are measured based on reference values in trading statistics, and classified as Level 2 fair value.

Derivatives

Fair value of forward exchange contracts is determined by the discounted cash flow method, using observable inputs such as exchange rates, and classified as Level 2 fair value. The fair value of forward exchange contracts that are accounted for using the *furiate-shori*, is included in that of corresponding receivables and payables (accounts receivable - trade, notes payable - trade, and accounts payable - trade), since those forward exchange contracts are treated as an adjustment to the receivables and payables as hedged items. The fair value of interest rate swaps that are accounted for using exceptional accounting, is included in that of corresponding long-term borrowings, since those interest rate swaps are treated as an adjustment to the long-term borrowings as hedged items. (See “Long-term loans payable” below.)

Corporate bonds

Fair value of bonds issued by the Company is determined based on the total of principal and interest as well as the interest rate taking into account the remaining period and credit risk of the bonds, using the discounted cash flow method, and is classified as Level 2 fair value.

Long-term loans payable

Fair value of long-term loans payable is determined based on the total of principal and interest as well as the interest rate taking into account the remaining period and credit risk of the loans payable, using the discounted cash flow method, and is classified as Level 2 fair value. Certain long-term loans payable with variable interest rate are subject to exceptional accounting for interest rate swaps (refer to the above “Derivatives”), and calculated using the total amount of principal and interest that was treated as an adjustment to the interest rate swaps.

## 7. Revenue Recognition

(1) Information on disaggregation of revenue from contracts with customers

(Millions of yen)

| | Reportable segments | | | | Total |
|---|---|---|---|---|---|
| | Electronic Components | Information Equipment | Software | Others | |
| Net sales | | | | | |
| Japan | 252,505 | 44,281 | 2,567 | 20,183 | 319,537 |
| North America | 44,738 | – | – | 1,198 | 45,936 |
| Europe | 26,088 | – | – | 79 | 26,168 |
| Asia | 149,194 | – | – | 1,236 | 150,431 |
| Revenue from contracts with customers | 472,526 | 44,281 | 2,567 | 22,698 | 542,074 |
| Other revenue | 56 | 24 | – | 542 | 623 |
| Sales to external customers | 472,583 | 44,305 | 2,567 | 23,241 | 542,697 |

(2) Information forming the basis for understanding revenue

The information is stated in 6) Accounting policy for significant revenues and expenses in (4) Accounting policies of 1. Basis of Preparation of Consolidated Financial Statements.

(3) Information for understanding the amount of revenue in the fiscal year under review and the following fiscal years

1) Balance of receivables from contracts with customers and contract liabilities

| | Fiscal year ended March 31, 2024 (Millions of yen) |
|---|---|
| Receivables from contracts with customers (Balance at the beginning of current period) | 129,007 |
| Receivables from contracts with customers (Balance at the end of current period) | 111,967 |
| Contract liabilities (Balance at the beginning of current period) | 4,066 |
| Contract liabilities (Balance at the end of current period) | 2,903 |

Contract liabilities are principally consideration received from customers based on payment terms and conditions before delivery of merchandise, and reversed upon the recognition of revenue. They are included in “other current liabilities” on the consolidated financial statements. Of revenue recognized during the fiscal year under review, the amount included in the balance of contract liabilities as at the beginning of the year was 1,690 million yen.

2) Transaction price allocated to remaining performance obligations

The Company and its consolidated subsidiaries apply the practical expedient in providing a note on transaction prices allocated to remaining performance obligations, and include contracts with an initial expected contract period of one year or less in the scope of note disclosure. These performance obligations are related to manufacture and sale in all the businesses, and the total amount of transaction price allocated to remaining performance obligations and period in which revenue is expected to be recognized are as follows.

| | Fiscal year ended March 31, 2024 (Millions of yen) |
|---|---|
| Within 1 year | 846 |
| After 1 year through 2 years | 189 |
| After 2 years through 3 years | 168 |
| After 3 years | 291 |
| Total | 1,496 |

## 8. Per Share Information

(1) Net assets per share ¥5,742.22

(2) Earnings per share ¥774.61

## Statement of Changes in Equity

(From April 1, 2023 to March 31, 2024)

(Millions of yen)

| | Shareholders' equity | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital surplus | | | Retained earnings | | | | | | |
| | | | | | | Other retained earnings | | | | | |
| | Capital stock | Legal capital surplus | Other capital surplus | Total capital surplus | Legal retained earnings | General reserve | Open innovation promotion reserve | Retained earnings brought forward | Total retained earnings | Treasury shares | Total shareholders' equity |
| Balance at the beginning of current period | 12,133 | 13,912 | 52 | 13,965 | 618 | 7,000 | 25 | 19,924 | 27,568 | (5,609) | 48,057 |
| Changes of items during period | | | | | | | | | | | |
| Dividends of surplus | | | | | | | | (6,041) | (6,041) | | (6,041) |
| Profit | | | | | | | | 15,463 | 15,463 | | 15,463 |
| Purchase of treasury shares | | | | | | | | | | (6) | (6) |
| Disposal of treasury shares | | | 28 | 28 | | | | | | 17 | 45 |
| Net changes of items other than shareholders' equity | | | | | | | | | | | |
| Total changes of items during period | – | – | 28 | 28 | – | – | – | 9,422 | 9,422 | 10 | 9,461 |
| Balance at the end of current period | 12,133 | 13,912 | 81 | 13,993 | 618 | 7,000 | 25 | 29,346 | 36,990 | (5,598) | 57,519 |

| | Valuation and translation adjustments | | | Total net assets |
|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Total valuation and translation adjustments | |
| Balance at the beginning of current period | 2,380 | (6) | 2,373 | 50,431 |
| Changes of items during period | | | | |
| Dividends of surplus | | | | (6,041) |
| Profit | | | | 15,463 |
| Purchase of treasury shares | | | | (6) |
| Disposal of treasury shares | | | | 45 |
| Net changes of items other than shareholders' equity | 380 | 26 | 407 | 407 |
| Total changes of items during period | 380 | 26 | 407 | 9,869 |
| Balance at the end of current period | 2,760 | 19 | 2,780 | 60,300 |

(Note) Figures are rounded down to the nearest million yen.

## Notes to the Non-consolidated Financial Statements

**1. Significant Accounting Policies**

(1) Valuation basis and methods for assets

1) Valuation basis and methods for securities

a. Trading securities

Stated at fair value (Costs of securities sold are determined based on the moving-average method)

b. Shares of subsidiaries and associates

Stated at cost determined by the moving-average method

c. Available-for-sale securities

Securities other than shares with no market value, etc.

Stated at fair value (valuation differences are booked directly in a separate component of net assets, and cost of securities sold is determined by the moving-average method)

Shares with no market value, etc.

Stated at cost determined by the moving-average method

Equity interest in investment partnerships (deemed to be securities under the provisions set forth in Article 2, paragraph (2) of the Financial Instruments and Exchange Act)

Recorded by using a method that treats the amount (net) equivalent to the equity ownership portion based on the latest available financial statements depending on the reporting date stipulated in the partnership agreement.

2) Valuation basis and methods for derivatives

Stated at fair market value.

3) Valuation basis and methods for inventories

Inventories held for sale in the ordinary course of business are principally stated at cost determined by the specific identification method (for carrying amounts in the balance sheet, the method of reducing the carrying amount based on the decline in profitability), and at cost determined by the moving-average method (for carrying amounts in the balance sheet, the method of reducing the carrying amount based on the decline in profitability).

(2) Accounting methods for depreciation of non-current assets

1) Property, plant and equipment (excluding lease assets)

Declining-balance method is applied (however, the straight-line method is used for buildings (excluding facilities attached to buildings) acquired on and after April 1, 1998 and facilities attached to buildings and structures acquired on and after April 1, 2016). Major useful lives are from 3 to 50 years for buildings, and from 2 to 20 years for tools, furniture and fixtures.

2) Intangible assets (excluding lease assets)

Straight-line method is applied. Major useful life is 5 years for software for internal use.

3) Lease assets

Lease assets related to finance lease transactions that do not transfer ownership

The straight-line method is applied assuming the lease period as the useful life without residual value.

(3) Accounting policy for provisions

1) Allowance for doubtful accounts

To prepare for credit losses on receivables, the Company recorded an estimated uncollectable amount calculated by either using the historical rate of credit loss for general receivables, or based on individual consideration of collectability for specific receivables such as highly doubtful receivables.

2) Allowance for investment loss

An amount was recorded to prepare for losses expected to arise in the future from investment in subsidiaries and associates, using the amount required when considering the financial position and management results of the subsidiary, etc. in the case of under-performance in its operating results.

3) Provision for directors' bonuses

To provide for payments of bonuses to officers, the Company recorded the portion attributable to the fiscal year based on an estimated amount of payment.

4) Provision for retirement benefits

To prepare for payment of retirement benefits for employees, provisions are recorded based on the estimated amounts of retirement benefit obligations and plan assets at the final day of the fiscal year. Past service cost is amortized using the straight-line method over a certain number of years within the average remaining service years (10 years) of employees when incurred. Actuarial gains and losses are amortized using the straight-line method over a certain number of years within the average remaining service years (10 years) of employees when incurred, from the fiscal year following the accrual of gain or loss.

(4) Standard for conversion of foreign currency-denominated assets into Japanese currency

Receivables and payables in foreign currencies are translated into Japanese yen at the spot exchange rate, etc. prevailing as of the final day of the fiscal year, and translation differences are accounted for as profit or loss.

(5) Accounting policy for revenues and expenses

As for details of main performance obligations in major businesses and the normal time when these performance obligations are satisfied (typical timing of revenue recognition), because the Company considers that material risks and economic rewards associated with legal ownership of merchandise and possession of merchandise, etc. are transferred and the performance obligations are satisfied at the time when each merchandise is transferred to customers, revenue is recognized at that time. For sales of some merchandise, the Company applies the alternative treatment stipulated in paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition," and for sales of merchandise in Japan, revenue is recognized at the time of shipment if the period from the time of shipment to the time when control of the merchandise in question is transferred to the customer is a typical period of time. Of sales of merchandise, those for which the Company considers that they act as an agent, the net amount calculated by deducting the amount paid to the other party from the amount received in exchange for merchandise that the other party provides is recognized as revenue. Consideration for transactions is received within one year from the satisfaction of the performance obligation, and does not contain any significant financial component.

(6) Accounting methods for significant hedging

1) Accounting methods for hedging

The deferral hedge accounting is applied. The *furiate-shori* (designated exceptional hedge accounting under the Japanese GAAP) is applied to forward exchange contracts that qualify for *furiate-shori*, and designated exceptional accounting is applied to interest rate swaps that qualify for exceptional accounting.

2) Hedging instrument and hedged item

Forward exchange contracts and non-deliverable forward (NDF) contracts are entered into as a hedge against exchange rate fluctuation risk for foreign currency-denominated assets and liabilities and foreign currency-denominated forecast transactions. In addition, interest rate swap transactions are conducted for interest expenses on long-term loans payable.

3) Hedging policy

The Company determines its hedging policy based on internal rules. As for forward exchange contracts, exchange rate fluctuation risk is hedged. Furthermore, as for interest rate swap transactions, risk of increase in interest rate for interest expenses on long-term loans payable is hedged.

4) Method of assessing hedge effectiveness

In the period from inception of the hedge to assessment of the effectiveness, the Company compares foreign currency-denominated assets and liabilities and foreign currency-denominated forecast transactions with changes in cash flows of forward exchanges, which are hedging instruments, and judges the effectiveness based on the variable ratio, etc. between the two. However, for interest rate swaps that are accounted for using exceptional accounting, since the Company has confirmed that important conditions for hedging instruments and hedged items are identical, the assessment of effectiveness is omitted.

## 2. Accounting Estimates

(1) Valuation of unlisted shares, etc. including investments in venture companies

1) Amount recorded in the non-consolidated financial statements for the fiscal year under review

| | |
|---|---|
| Investment securities | ¥691 million |
| Loss on valuation of investment securities | ¥225 million |

2) Other information that contributes to understanding of details of accounting estimates

As for unlisted shares, etc., the real value is calculated on the basis of the amount of net assets per share based on the latest financial statements that can be obtained from the investee, and the like. If the real value declines significantly, valuation loss is recorded. Particularly investments in venture companies may be acquired at a higher price compared with the amount of net assets. In the case where the excess earning power, etc. is no longer expected in view of the status of achievement of the medium- to long-term business plan obtained at the time of the acquisition and reasonableness of future forecast, valuation loss is recorded only if the real value reflecting the excess earning power, etc. has decreased significantly. The real value reflecting the excess earning power, etc. may be affected by changes in the uncertain corporate environment in the future and other factors. If it becomes necessary to review the real value reflecting the excess earning power, etc., additional losses may be incurred in and after the next fiscal year.

(2) Estimate of allowance for highly doubtful accounts for receivables

1) Amount recorded in the non-consolidated financial statements for the fiscal year under review

| | |
|---|---|
| Total receivables | ¥3,563 million |
| Allowance for doubtful accounts | ¥1,630 million |

2) Other information that contributes to understanding of details of accounting estimates

Regarding receivables from subsidiaries categorized as highly doubtful receivables, the Company examines the collectability of receivables individually using the financial content evaluation method, and the estimated amount of bad debt is calculated based on an overall assessment of the subsidiary's solvency, taking into account the degree of insolvency of the subsidiary and its future business plans based on assumptions such as future sales forecasts and operating profit margins. If it becomes necessary to review the solvency due to future changes in the business environment, etc., the allowance for doubtful accounts may increase or decrease in the next fiscal year.

## 3. Notes to Non-consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment ¥2,880 million

(2) Contingent liabilities

Guarantees for borrowings from financial institutions and accounts payable of subsidiaries and associates, etc.

| | |
|---|---|
| AD DEVICE CO., LTD. | ¥2,738 million |
| KAGA SOLUTION NETWORK CO., LTD. | ¥1,144 million |
| EXCEL ASIAN TAIWAN CO., LTD. | ¥587 million |
| EXCEL ELECTRONICS TRADING (THAILAND) CO., LTD. | ¥512 million |
| Other | ¥78 million |
| Total | ¥5,061 million |

Guarantees for performance guarantee insurance contracts of subsidiaries and associates

| | |
|---|---|
| KAGA TECHNO SERVICE CO., LTD. | ¥2,842 million |

(3) Monetary receivables from or payables to subsidiaries and associates

| | |
|---|---|
| Short-term monetary receivables | ¥10,435 million |
| Short-term monetary payables | ¥6,011 million |

(4) Monetary receivables from or payables to the Directors and Auditors

| | |
|---|---|
| Monetary payables | ¥1,169 million |

The above monetary debts are debts related to the discontinuation of payments due to the abolishment of the directors' retirement benefits system approved at the 50th Ordinary General Meeting of Shareholders held on June 28, 2018.

## 4. Notes to Non-consolidated Statement of Income

Volume of transactions with subsidiaries and associates

| | |
|---|---|
| Amount of operating transactions | |
| Net sales | ¥21,477 million |
| Purchase of goods | ¥35,422 million |
| Supply of materials for value to subsidiaries and associates for subcontract processing | ¥3,761 million |
| Transactions other than operating transactions | ¥14,486 million |

## 5. Notes to Non-consolidated Statement of Changes in Equity

Number of treasury shares

| Classes of shares | Number of shares at beginning of the fiscal year | Increase (shares) | Decrease (shares) | Number of shares at end of the fiscal year |
|---|---|---|---|---|
| Common share | 2,438,777 | 1,036 | 7,475 | 2,432,338 |

(Note) The increase and decrease in the number of treasury shares are due to an increase resulting from the purchase request of 1,036 shares less than one unit and a decrease resulting from the granting of 7,475 shares of restricted shares to directors. The number of treasury shares at the end of the fiscal year under review is 2,206 shares less than the number of treasury shares at the end of the fiscal year under review in the Notes to the Consolidated Financial Statements due to shares of the Company held by associates accounted for using equity method.

## 6. Notes to Tax Effect Accounting

(1) Main contributing factors to deferred tax assets and deferred tax liabilities

| | |
|---|---|
| Deferred tax assets | |
| Devaluation of inventories | ¥22 million |
| Deterioration in valuation of shares of subsidiaries | ¥1,405 million |
| Accrued enterprise tax | ¥45 million |
| Loss on valuation of investment securities | ¥736 million |
| Directors' retirement benefits | ¥358 million |
| Allowance for doubtful accounts | ¥1,852 million |
| Accrued bonuses | ¥454 million |
| Provision for retirement benefits | ¥25 million |
| Other | ¥817 million |
| Subtotal of deferred tax assets | ¥5,718 million |
| Valuation allowance on deductible temporary differences | ¥(4,698) million |
| Subtotal of valuation allowance | ¥(4,698) million |
| Total deferred tax assets | ¥1,019 million |
| Deferred tax liabilities | |
| Valuation difference on available-for-sale securities | ¥(1,248) million |
| Asset retirement cost | ¥(4) million |
| Other | ¥(16) million |
| Total deferred tax liabilities | ¥(1,269) million |
| Net deferred tax assets (liabilities) | ¥(249) million |

(2) Reconciliation of significant differences between the statutory effective tax rate and the actual effective rate of income taxes after application of deferred tax accounting

| | |
|---|---|
| Statutory effective tax rate | 30.6% |
| (Adjustments) | |
| Exclusion of entertainment expenses from deductible expenses | 0.3% |
| Exclusion of dividends income from taxable income | (12.6)% |
| Non-taxable dividends from overseas subsidiaries | (7.5)% |
| Non-deductible overseas withholding | 1.2% |
| Inhabitant per capita taxes | 0.1% |
| Changes in valuation allowance | (0.9)% |
| Exclusion of provision for directors' bonuses from deductible expenses | 0.7% |
| Tax credits under the wage promotion system | (0.2)% |
| Subtotal | (19.0)% |
| Effective rate of income taxes after application of deferred tax accounting | 11.7% |

(3) Accounting treatment of corporation tax and local corporation tax or accounting treatment of tax effect accounting related to these

The Company applies the group tax sharing system, and accounting treatment of corporation tax and local corporation tax or accounting treatment and disclosure of tax effect accounting related to these are conducted pursuant to "the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (Practical Solution No. 42, August 12, 2021).

## 7. Transactions with Related Party

Subsidiaries and associates of the Company

| Category | Name of company | Location | Capital stock or investments in capital | Details of business | Percentage of voting rights, etc., held (or held of the Company) (%) | Relationship with the related party | Transaction details | Transaction amount (Millions of yen) | Account title | Ending balance (Millions of yen) |
|---|---|---|---|---|---|---|---|---|---|---|
| Subsidiary | KAGA DEVICES CO., LTD. | Chiyoda-ku, Tokyo | ¥395 million | Sale of electronic components, electronic equipment, etc. | (holding) Directly 100.0 | Borrowing of funds and interlocking of officers | Borrowing of funds (zero balance) | 1,828 | Short-term loans payable to subsidiaries and associates | 1,966 |
| | KAGA SOLUTION NETWORK CO., LTD. | Chuo-ku, Tokyo | ¥310 million | Development, design, installation, and maintenance of computer network systems, and sale of information equipment, software, photosensitive material, and optical equipment, etc. | (holding) Directly 100.0 | Borrowing of funds, guarantee of obligation, and interlocking of officers | Borrowing of funds (zero balance) | 4,772 | Short-term loans payable to subsidiaries and associates | 6,025 |
| | | | | | | | Purchasing of merchandise | 11,719 | Accounts payable - trade | 2,328 |
| | | | | | | | Guarantee of obligation | 1,144 | – | – |
| | AD DEVICE CO., LTD. | Chiyoda-ku, Tokyo | ¥301 million | Sale of electronic components, electronic equipment, etc. | (holding) Directly 96.7 | Borrowing of funds, guarantee of obligation, and interlocking of officers | Guarantee of obligation | 2,738 | – | – |
| | KAGA MICRO SOLUTION CO., LTD. | Chiyoda-ku, Tokyo | ¥300 million | Development, manufacture, sale, and recycling of computers, computer peripheral equipment, and electric equipment, etc. | (holding) Directly 100.0 | Lending of funds and interlocking of officers | Lending of funds (zero balance) | 2,608 | Short-term loans receivable from subsidiaries and associates | 1,589 |
| | KAGA SPORTS CO., LTD. | Chiyoda-ku, Tokyo | ¥50 million | Manufacture, wholesale, and sale of sports goods, etc. | (holding) Directly 100.0 | Lending of funds and interlocking of officers | Lending of funds (zero balance) | 2,060 | Short-term loans receivable from subsidiaries and associates | 2,090 |
| | KAGA FEI Co., Ltd. | Yokohama, Kanagawa | ¥4,877 million | Sale of electronic components, electronic equipment, etc. | (holding) Directly 100.0 | Lending of funds and interlocking of officers | Lending of funds | 7,619 | Short-term loans receivable from subsidiaries and associates | 9,134 |
| | KAGA EMS TOWADA CO., LTD. | Towada, Aomori | ¥30 million | Manufacture and sale of electronic equipment, electronic components, etc. | (holding) Directly 100.0 | Lending of funds and interlocking of officers | Lending of funds | 1,255 | Short-term loans receivable from subsidiaries and associates | 1,501 |

| Category | Name of company | Location | Capital stock or investments in capital | Details of business | Percentage of voting rights, etc., held (or held of the Company) (%) | Relationship with the related party | Transaction details | Transaction amount (Millions of yen) | Account title | Ending balance (Millions of yen) |
|---|---|---|---|---|---|---|---|---|---|---|
| | Kyokuto Electric Co., Ltd. | Moriguchi, Osaka | ¥99 million | Manufacture and sale of electronic equipment, electronic components, etc. | (holding) Directly 100.0 | Lending of funds and interlocking of officers | Lending of funds | 1,556 | Short-term loans receivable from subsidiaries and associates | 1,606 |
| | TAXAN MEXICO S.A. DE C.V. | San Luis Potosi, Mexico | 861 million Mexican peso | Manufacture and sale of electronic equipment, electronic components, etc. | (holding) Directly 100.0 | Lending of funds and interlocking of officers | Lending of funds | 300 | Short-term loans receivable from subsidiaries and associates | 3,860 |
| | KAGA ELECTRONICS (THAILAND) COMPANY LIMITED | Samut Prakan, Thailand | 102 million THB | Manufacture and sale of electronic equipment, electronic components, etc. | (holding) Directly 100.0 | Supplies some products sold by the Company and the relevant company. Directors serve concurrently. | Sale of merchandise | 3,072 | Accounts receivable - trade | 1,415 |

(Note) Transaction terms and policy for determination thereof, etc.

(1) Transactions are determined by mutual consultation based on contracts and other agreements.

(2) Interest rates of interest income and interest expenses on loans and borrowings to the above companies are indexed to certain market interest rates.

(3) Zero balance refers to the "domestic yen funds pooling service" of the Cash Management System (CMS). As funds are transferred daily at zero balance, the transaction amount lists the average amount of loans and borrowings during the fiscal year under review.

(4) Allowance for doubtful accounts of 1,630 million yen is provided for doubtful receivables from subsidiaries. In addition, provision of allowance for doubtful accounts regarding a subsidiary of 26 million yen has been recorded for the fiscal year under review.

## 8. Revenue Recognition

Information forming the basis for understanding revenue

Information forming the basis for understanding revenue is omitted as the same contents are stated in (5) Accounting policy for revenues and expenses of 1. Significant Accounting Policies.

## 9. Per Share Information

(1) Net assets per share ¥2,295.42

(2) Earnings per share ¥588.68