

(Translation)

August 21, 2003

BRIEF STATEMENT OF ACCOUNTS
FOR THE FIRST QUARTER OF THE YEAR ENDING MARCH 31, 2004
(CONSOLIDATED)

Name of listed company: **MegaChips Corporation**
(URL <http://www.megachips.co.jp/>)

(Code number: 6875 Tokyo Stock Exchange, First section)

Representative: Shigeki Matsuoka
President and Representative Director

Person to contact: Tetsuo Hikawa
Director and Executive Officer, in charge
of System Business Unit and Corporate
Planning
(Tel. (06) 6399-2884)

1. Matters concerning the preparation of the brief quarterly statement of accounts:

- (i) Differences in the method of accounting for sales and operating profit from the recognition method for the most recent business year on a consolidated basis:
None.
- (ii) Changes in the scope of consolidation and the application of equity method:
Yes.

(Consolidated subsidiaries (exclusion): 1 company (in comparison with the year ended March 31, 2003))

2. Summary of the operating results for the first quarter of the year ending March 31, 2004 (from April 1, 2003 to June 30, 2003):

(1) Sales and operating profit

	Sales	Operating profit
First quarter ended June 30, 2003	¥4,611 million -%	¥132 million -%
(For reference) Year ended March 31, 2003	¥29,055 million	¥1,741 million

(Notes) 1. Sales and operating profit are the total sums accumulated up to the end of the first quarter under review.

2. The disclosure of quarterly statements of accounts has commenced as from the first quarter of the current business year. Hence, no actual results for the first quarter of the previous business year or no comparison with the actual results for the first quarter of the previous business year is given herein.

- **Overview of operating results in general**

The Japanese economy during the first quarter under review remained in a recession due to the persistent severe employment condition and slump in private spending while corporate earnings and capital investment registered tones of slow recovery driven by exports.

In the electronic machinery and equipment industry in which the Company belongs, markets for some consumer audio-visual (AV) equipment, such as digital televisions and digital cameras, and mobile phones expanded. However, the industry in general registered a slight increase in sales from the corresponding period of the previous business year.

Under these circumstances, the Group (the Company and its subsidiaries) concentrated its management resources on developing system LSIs in the areas of images, sounds and communications to expand the business actively. The Group also focused its efforts on developing and marketing customer-specific LSIs (ASIC), the core of the Company's business, as well as application-specific LSIs (ASSP), which is a growing area, and system products equipped with its originally developed system LSIs. As a result, on a consolidated basis, sales and operating profit amounted to ¥4,611 million and ¥132 million, respectively.

- **Overview of operating results by segment**

- (i) LSI business

Consolidated sales of customer-specific LSIs (ASIC) amounted to ¥2,473 million as demand for LSIs for storing game software (custom mask ROMs) remained strong while demand for system LSIs for use in game consoles and their peripherals was weak. Consolidated sales of application-specific LSIs (ASSP) amounted to ¥1,184 million as demand for LSIs for processing images, sounds and communications for 3G mobile phones remained strong though demand for LSIs for digital still cameras was weak. Consequently, consolidated sales in the LSI business totaled ¥3,658 million.

- (ii) System business

In the industrial system business, while corporate capital investment registered tones of slow recovery, investment in the security and monitoring field remained slow and demand for digital image recording and transmitting systems for use in the field was weak. However, due to the release of new products in the security and monitoring field, consolidated sales in the industrial system business amounted to ¥538 million. In the consumer system business, the Company focused its efforts on marketing network cameras and "rich media" communication terminals. However, consolidated sales amounted to just ¥6 million. Consequently, consolidated sales in the system business as a whole, including sales in the business independently conducted by MegaFusion Corporation, which is classified as other

systems, amounted to ¥952 million.

(2) Events that had significant effects on the financial position and operating results of the Group for the first quarter under review

- Events that had significant effects on the financial position

No event had significant effects on the financial position of the Group for the first quarter under review.

- Events that had significant effects on the operating results

No event had significant effects on the operating results of the Group for the first quarter under review.

(For reference) Summary of non-consolidated operating results for the first quarter of the year ending March 31, 2004 (from April 1, 2003 to June 30, 2003).

	Sales	Operating profit
First quarter ended June 30, 2003	¥4,179 million	¥206 million

3. Forecasts of operating results for the year ending March 31, 2004 (from April 1, 2003 to March 31, 2004):

The forecasts of operating results for the year ending March 31, 2004 publicized on May 15, 2003 are amended as described in the following tables:

Consolidated operating results for the whole year ending March 31, 2004 (from April 1, 2003 to March 31, 2004):

(million yen unless otherwise stated)

	Sales		Ordinary profit		Profit for the period	
	Interim	Whole year	Interim	Whole year	Interim	Whole year
Previous forecast (A)	10,000	23,000	150	900	90	500
Adjusted forecast (B)	10,350	21,700	170	840	20	120
Amount of increase or decrease (B-A)	350	(1,300)	20	(60)	(70)	(380)
Rate of increase or decrease (%)	3.5	(5.7)	13.3	(6.7)	(77.8)	(76.0)
(For reference) Previous results (for the year ended March 31, 2003)	14,094	29,055	919	1,721	495	192

Non-consolidated operating results for the year ending March 31, 2004 (from April 1, 2003 to March 31, 2004):

(million yen unless otherwise stated)

	Sales		Ordinary profit		Profit for the period	
	Interim	Whole year	Interim	Whole year	Interim	Whole year
Previous forecast (A)	9,000	20,500	230	860	130	480
Adjusted forecast (B)	9,450	19,950	330	900	150	330
Amount of increase or decrease (B-A)	450	(550)	100	40	20	(150)
Rate of increase or decrease (%)	5.0	(2.7)	43.5	4.7	15.4	(31.3)
(For reference) Previous results (for the year ended March 31, 2003)	13,046	27,172	891	1,954	508	367

- Reasons for the adjustments to the operating results for the year ending March 31, 2004 (from April 1, 2003 to March 31, 2004):

With regard to the LSI business, demand for customer-specific LSIs (ASIC), principally comprising LSIs for game consoles, and application-specific LSIs (ASSP), principally comprising LSIs for use in mobile phones and digital still cameras, remains strong. Consequently, sales in the LSI business are expected to reach the initial forecasts on both consolidated and non-consolidated bases.

However, with regard to the system business, sales of image recording and transmitting systems for the security and monitoring field, which fall into the category of industrial system business, are expected to be slow as corporate investment in machinery and equipment remains weak. Additionally, sales of the "rich media" services and audio authoring business, which fall into the category of other business, conducted independently by the Company's subsidiary MegaFusion Corporation are expected to be lower than the initial forecast on a consolidated basis due to delays in the expansion of the customer base and the launch of new products.

As a result, sales for the first half of the current business year are expected to exceed the previous forecasts on both consolidated and non-consolidated bases as the LSI business will continue to be favorable. However, sales for the whole year are expected to be lower than the previous forecasts on both consolidated and non-consolidated bases due to a decrease in sales in the system business though the LSI business will continue to be favorable.

As a result of the amendment to the forecasts of sales, ordinary profit for the first half of the current business year is expected to exceed the previous forecasts on both consolidated and non-consolidated bases. For the whole year, ordinary profit is expected to exceed the previous forecast on a non-consolidated basis but be lower than the previous forecast on a consolidated basis.

To improve profitability of the system business promptly, the Company has determined to implement measures for the consolidation and reorganization of the Group publicized on May 15, 2003, ahead of schedule. Consequently, as temporary expenses, the Company is expected to report special losses of approximately ¥120 million on a consolidated basis and approximately ¥50 million on a non-consolidated basis for the first half of the current business year, and approximately ¥490 million on a consolidated basis and approximately ¥240 million on a non-consolidated basis for the current business year. Additionally, due to the reversal of deferred tax assets related with its system business and no accounting for part of deferred income assets, the Company is expected to report interperiod tax allocations of approximately ¥130 million on a consolidated basis and approximately ¥50 million on a non-consolidated basis. As a result of the reporting of such special losses and interperiod tax allocations, profit for the year on a consolidated basis is expected to amount to ¥120 million, a decrease of ¥380 million from the previous forecast and profit for the year on a non-consolidated basis is expected to amount to ¥330 million, a decrease of ¥150 million from the previous forecast.

- Possible occurrence of special losses

As mentioned above, for the purpose of the consolidation and reorganization of the Group, the Company has determined to implement the following measures to improve the efficiencies of business and further promote the concentration and selection thereof:

- Improvement of efficiency of human resources

Number of employees: To be decreased by about 40 (expected)
Date of retirement: September 30, 2003 (expected)

- Close-down of Matsuyama Office of the Company

Schedule of close-down: December 31, 2003 (expected)
Place of office: Matsuyama-shi, Ehime Prefecture

- Decrease in floor space of Osaka Head Office of the Company

- Suspension of unprofitable themes

Special losses on a consolidated basis involved in the implementation of the above measures are expected to occur as follows:

	(million yen)	
	Interim	Whole year
Improvement of efficiency of human resources	80	80
Close-down of Matsuyama Office	-	10
Decrease in floor space of Osaka Head Office	-	40
Suspension of unprofitable themes	-	290
Others	40	70
Total	120	490

- Notice on the forecasts of operating results

The above forecasts are made based on information available as of the date hereof and assumptions as of the date hereof concerning uncertain factors that may affect the operating results in the future. The actual results may materially differ from the above forecasts due to various factors in the future.

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