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# MegaChips Corporation

Results for the 3Q in Fiscal Year  
ending March 31, 2007

(Securities Code No: 6875)

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<http://www.megachips.co.jp/>

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**Results for the 3Q  
in Fiscal Year ending  
March 31, 2007**

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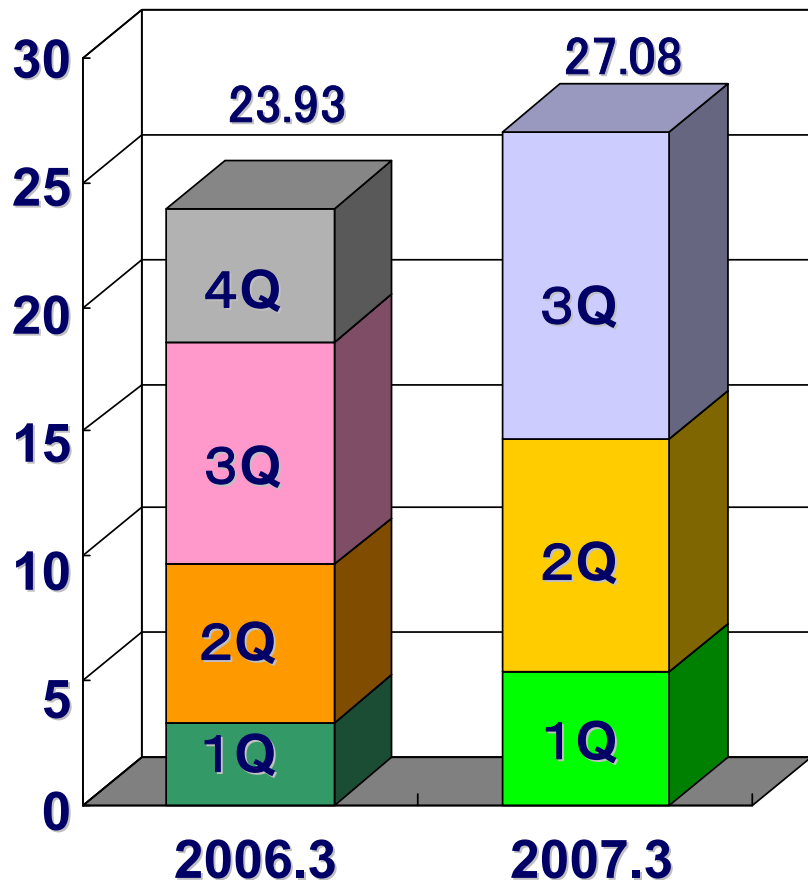
# Consolidated Statement of Income

(¥ Millions)		2007.3 Results for Apr.- Dec. (1)	2006.3 Results for Apr.- Dec. (2)	2007.3 11/7/07 Forecast for whole year (3)	Changes from (2) to (1)	Achievement ratio (1)/(3)
LSI Business	Sales	31,202	20,583	36,500	+ 51.6%	85.5%
	Operating Profit	2,665	1,534	2,900	+ 73.7%	91.9%
System Business	Sales	1,817	1,773	4,500	+ 2.5%	40.4%
	Operating Profit	-225	- 216	100	—	—
Holding Company	Operating revenue	682	633	900	+ 7.6%	75.9%
	Operating Profit	10	- 14	0	—	—
Consolidated	Sales	33,019	22,357	41,000	+ 47.7%	80.5%
	Operating Profit	2,386	1,302	3,000	+ 83.3%	79.6%
	Recurring Profit	2,364	1,307	2,950	+ 80.9%	80.1%
	Net income	1,236	677	1,750	+ 82.5%	70.6%
	Net income per share(¥)	49.92	27.33	70.64	+ 82.7%	70.7%

# Operations and Results for ASIC Business

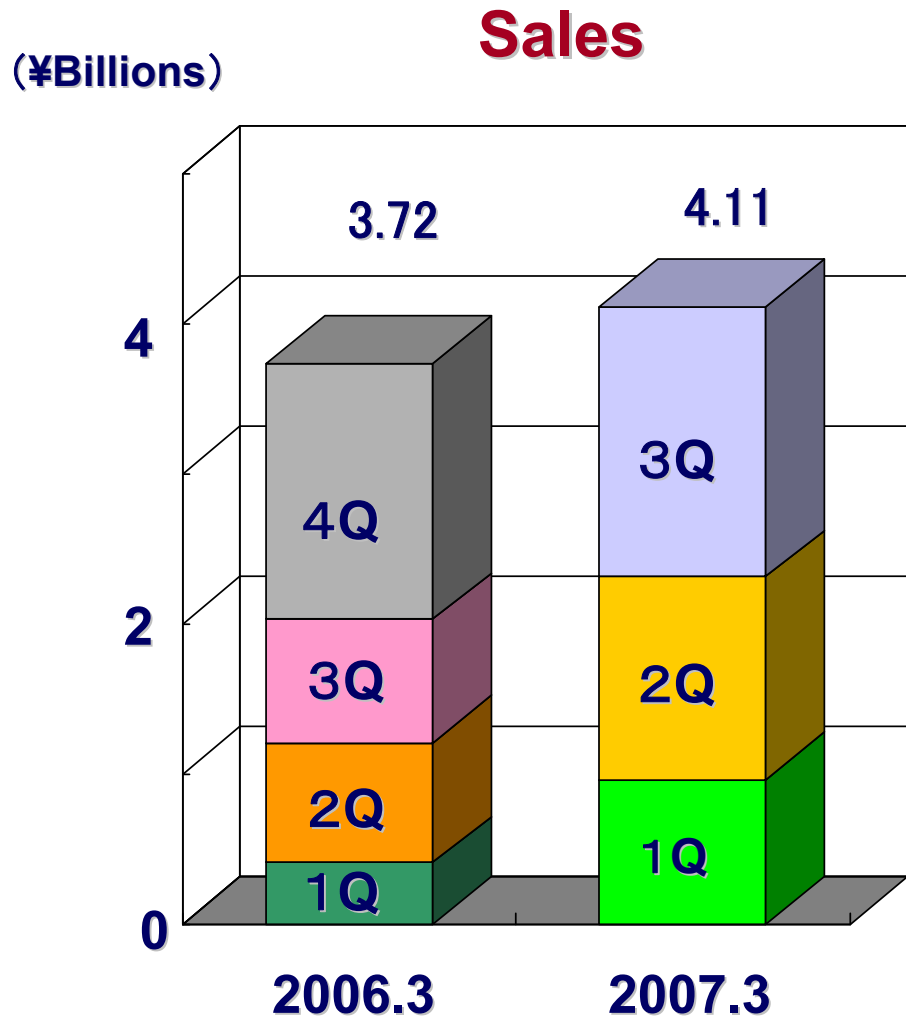
## Sales

(¥Billions)



- *Sales has been on the rise from the corresponding period of the previous year, also, it was exceeded the plan.*
- *The main reason for sales growth of ASIC is to be steady demand of the custom memories for handheld game machines.*

# Operations and Results for ASSP Business

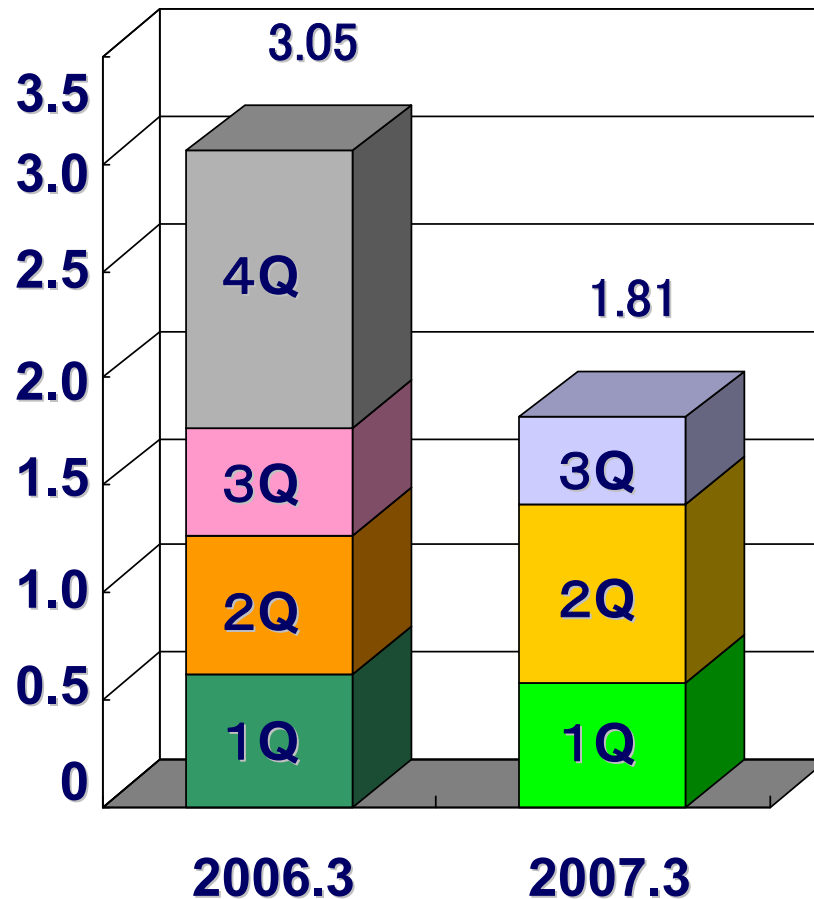


- *Sales has been on the rise from the corresponding period of the previous year, also, it achieved the plan.*
- *Increase in adoption of the OFDM demodulation LSIs for one segment of digital terrestrial broadcasting signals contributed to ASSP sales increase, and besides, steady demand for DSC LSIs for digital still camera. However, placing on the market for new product, RSOC LSIs for targeting at 3G cellular phone, has been behind schedule.*

# Operations and Results for System Business

## Sales

(¥Billions)



- Sales has been increased slightly than that of the corresponding period of the previous year, due to growth in demands for new products and own brand products but also decreasing demand for existing products. However, it was below the plan.

# Consolidated Balance Sheets

(¥ Millions)	2006.12	2006.3	Changes	(¥ Millions)	2006.12	2006.3	Changes
<b>Current assets</b>	<b>28,131</b>	<b>19,986</b>	<b>8,145</b>	<b>Current liabilities</b>	<b>14,761</b>	<b>7,112</b>	<b>7,649</b>
Cash and cash equivalents	3,370	4,677	- 1,307	Accounts payables	3,341	3,046	295
Accounts receivables and Notes receivables	21,506	13,786	7,720	Short-term debt	10,000	3,000	7,000
Inventories	2,639	970	1,669	Income tax payable	771	535	236
<b>Fixed assets</b>	<b>4,743</b>	<b>4,000</b>	<b>743</b>	<b>Non-current liabilities</b>	<b>44</b>	<b>40</b>	<b>4</b>
Tangible fixed assets	154	157	- 3	<b>Total liabilities</b>	<b>14,806</b>	<b>7,152</b>	<b>7,654</b>
Intangible fixed assets	172	164	8	<b>Total net assets</b> ※1	<b>18,069</b>	<b>16,834</b>	<b>1,236</b>
Investments and other assets	4,416	3,678	738	<b>Total liabilities and net assets</b> ※2	<b>32,875</b>	<b>23,986</b>	<b>8,889</b>
<b>Total assets</b>	<b>32,875</b>	<b>23,986</b>	<b>8,889</b>				

- Total assets: ¥8,889 million increase from the end of the previous fiscal year.
- Current assets: ¥8,145 million increase from the end of the previous fiscal year, mainly due to growth in demand for ASIC, ¥7,720 million increased in accounts receivables and notes receivables and ¥1,669 million increased in inventories.
- Fixed assets: ¥743 million increased from the end of the previous fiscal year, mainly due to ¥738 million increased in investments and other assets that is a variance of the estimate.
- Current liabilities: ¥7,649 million increase from the end of the previous fiscal year, mainly due to growth in demand for ASIC, ¥7,000 million increased in short-term debt.
- Total net assets: ¥1,236 million increase from the end of the previous fiscal year, mainly due to capital growth by net income and increase of net assets by variance of the estimate of investments in securities.

※1 Total shareholders' equity ※2 Total liabilities, minority interests and shareholders' equity

# Consolidated Statements of Cash Flows

(¥ Millions)	2007.3 3Q	2006.3 3Q	Changes
<b>Operating CF</b>	<b>- 7,445</b>	<b>- 6,672</b>	<b>- 773</b>
Income before income taxes (+)	2,350	1,307	1,043
Increase (-) or decrease (+) in receivables	- 7,720	- 6,387	- 1,333
Increase (-) or decrease (+) in inventories	- 1,669	- 182	- 1,487
Increase (+) or decrease (-) payables	280	488	- 208
paid (-) or refund (+) Income taxes	- 861	- 1,813	952
<b>Investing CF</b>	<b>- 491</b>	<b>- 1,936</b>	<b>1,445</b>
<b>Financing CF</b>	<b>6,631</b>	<b>2,009</b>	<b>4,622</b>
<b>Cash and cash equivalents</b>	<b>3,370</b>	<b>1,485</b>	<b>1,885</b>
<b>Free CF (Operating CF+Investing CF)</b>	<b>- 7,937</b>	<b>- 8,609</b>	<b>672</b>

- Operating CF totaled: - 7,445 million yen (- 773 million yen decrease from the previous fiscal year due to Income before income taxes increase 1,043 million and 1,333 million increase in accounts receivables, 1,487 million increase in inventories and 952 million increase in income taxes . )
- Investing CF resulted: - 491 million yen (mainly due to payment for long-term prepaid expenses.)
- Financing CF resulted: 6,631 million yen (4,622 million yen increase from the previous fiscal year, mainly due to increase in short-term debt. )

# **Forecasts for the Fiscal Year ending March 31, 2007**

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# Forecasts for the Fiscal Year ending March 31, 2007

(¥ Millions)			2007.3 Forecast for whole year 11/7/07 (1)	2006.3 Forecast for whole year 5/12/07 (2)	2006.3 Results for whole year (3)	Changes from (2) to (1)	Changes from (3) to (1)
LSI Business	Sales	ASIC	30,000	26,000	23,937	+15.4%	+25.3%
		ASSP	6,500	7,400	3,728	-12.2%	74.4%
			36,500	33,400	27,666	+9.3%	31.9%
	Operating profit		2,900	2,700	2,000	+7.4%	45.0%
System Business	Sales		4,500	5,600	3,055	-19.6%	47.3%
	Operating profit		100	300	113	-66.7%	-11.5%
Holding Company	Operating revenue		900	900	845	0.0%	+6.5%
	Operating profit		0	0	7	0.0%	—
Consolidated	Sales		41,000	39,000	30,721	+5.1%	+33.5%
	Operating profit		3,000	3,000	2,119	0.0%	41.6%
	Recurring Profit		2,950	2,950	2,119	0.0%	39.2%
	Net income		1,750	1,750	1,321	0.0%	32.5%
	Net income per share(¥) *1		70.64	70.69	50.95	-0.1%	38.6%

\*1 Standard calculating will be fluctuated based of exercise a right of stock option and pay back.

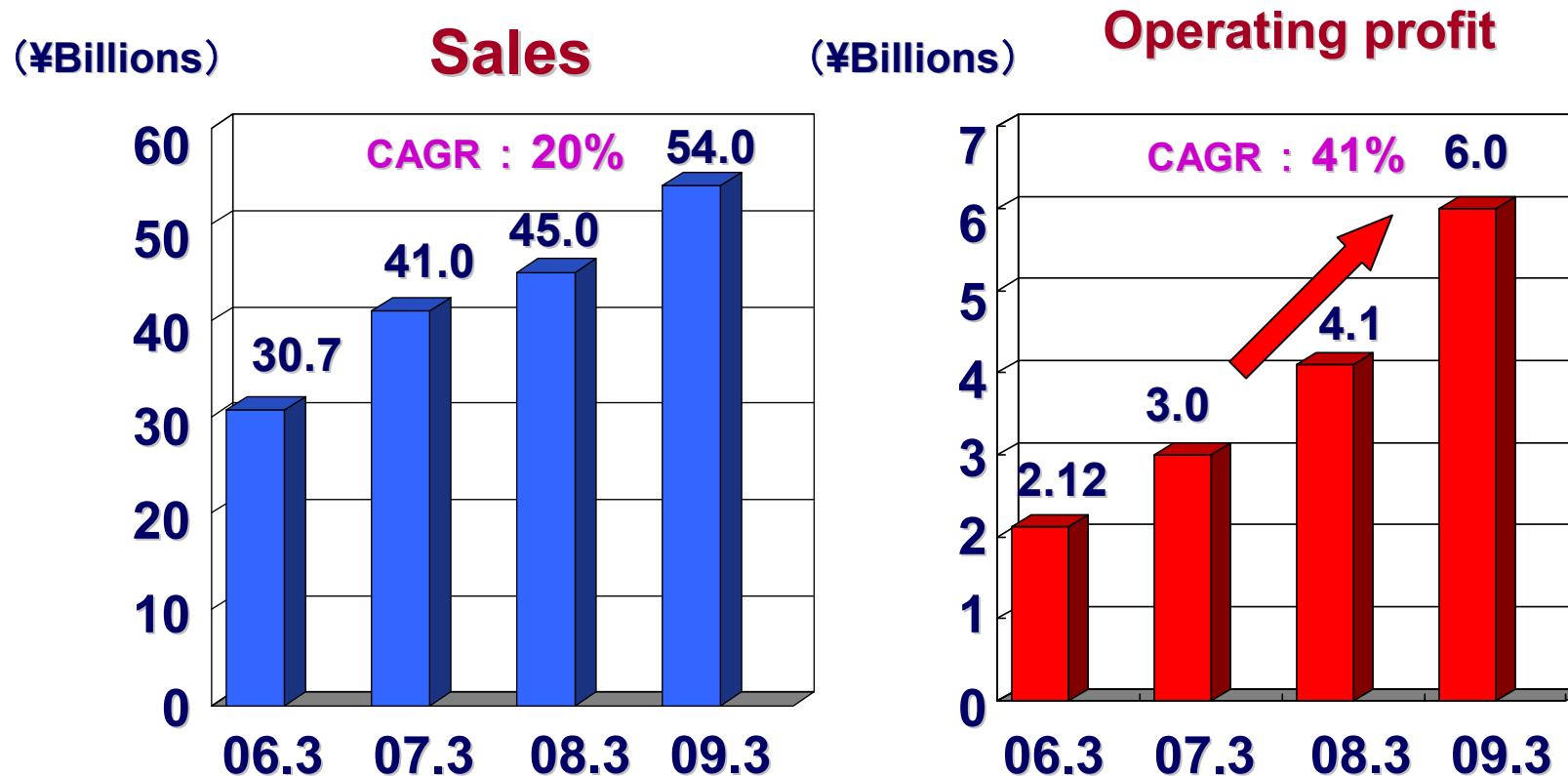
# **Business Plan for the Medium-term**

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# Outline of the Medium-term Plan

## Medium-term target (Fiscal Year ending March 31, 2009)

- Consolidate operating profit: ¥6.0 billion. Operating profit ratio: over 10%

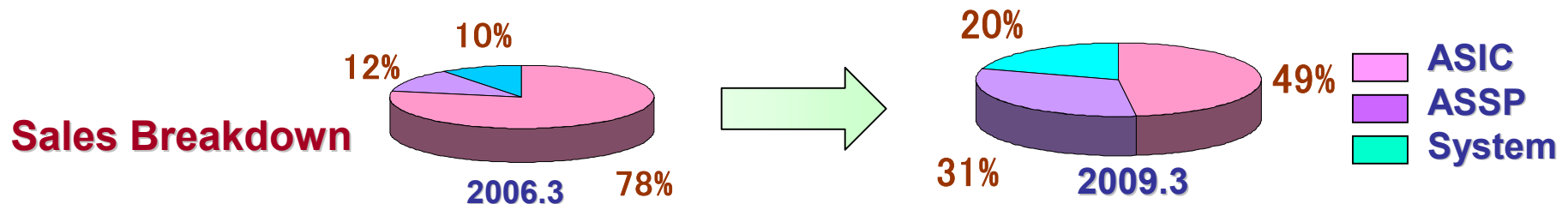


Sales plan for 07.3 has been revised and that for 08.3, 09.3 will be revised in May, '07.

# Outline of the Medium-term Plan

## 1. Bring more balance to the revenue structure

Establish balance sales among ASCIs, ASSPs and Systems, the three pillars of our business; and strengthen business foundations.



## 2. Continued steady growth based on core technology application and customer base.

Invest aggressively in R&D (expansion of the application areas based on core technology applications and customer base.)

Step up R&D, invest in human resources.

Aggressive strategic alliances with other company.

## 3. Overseas market development

Chinese market development.

## 4. Aggressive return to shareholders

Link dividend payments to business activity.

Targeting the payout ratio of 30%.

# Outline of the Medium-term Plan (R&D)

(¥ Millions)	2006.3		2007.3		2008.3	2009.3
	Results for 3Q (Apr.- Dec.)	Results for whole year	Results for 3Q (Apr.- Dec.)	Forecast for whole year	Forecast for whole year	Forecast for whole year
LSI business	867	1,139	867	1,650	2,000	2,500
System business	124	160	72	290	800	1,100
Total	991	1,299	940	1,940	2,800	3,600

# LSI Business Strategy

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## **ASIC (stable revenue base)**

- Diversifying products as well as enabling customers to differentiate their products on the back of our own competitive technologies and that of alliances.

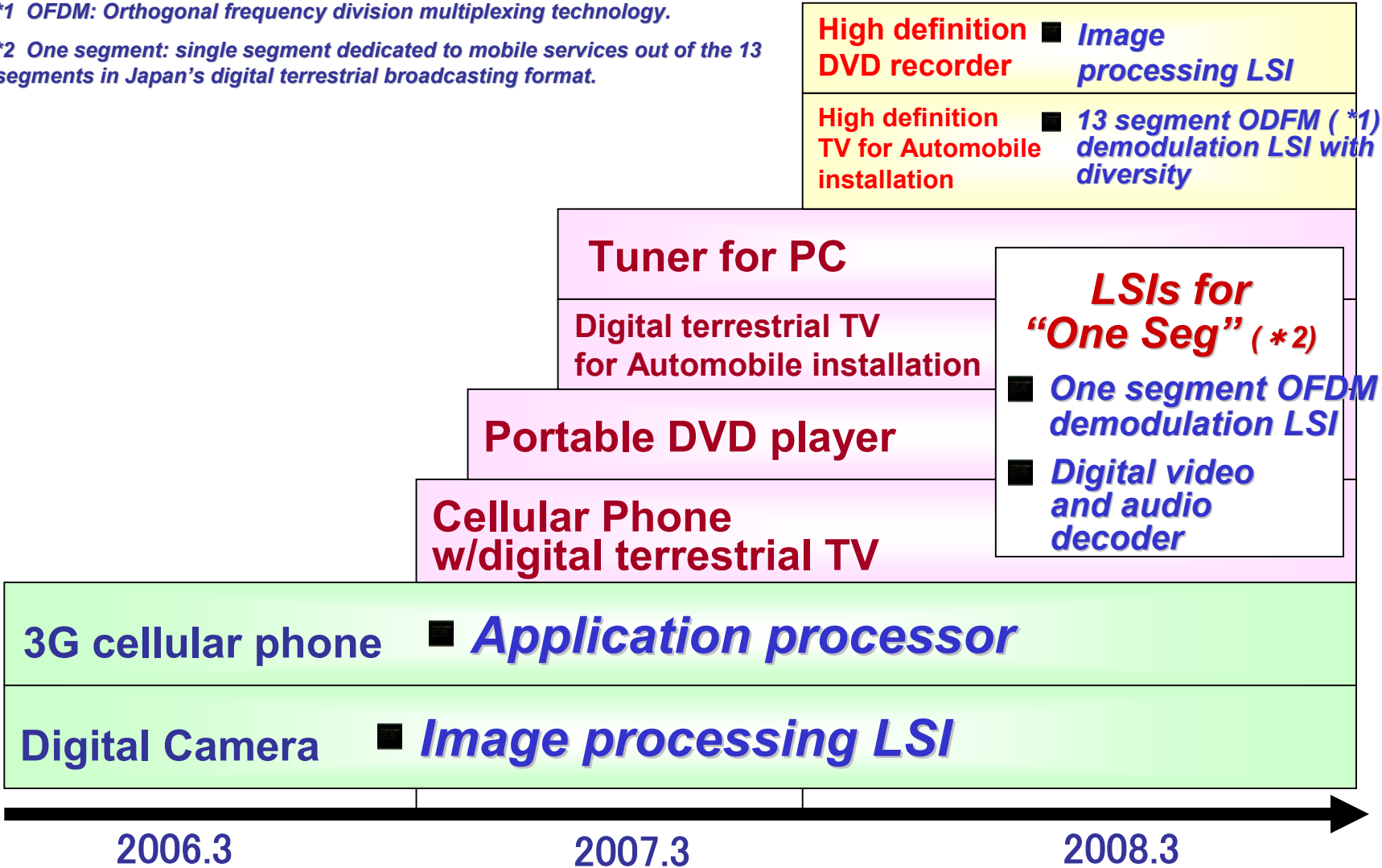
## **ASSP (seeking aggressive growth)**

1. Expand our coverage of applications by utilizing our core technology & customer base.
  - In addition to an increasing use of multimedia for cellular phone, high-definition-type digital camera, developing the applications of compact digital camera, cellular phone w/digital terrestrial broadcasting, High quality camera for cellular phone, Digital terrestrial broadcasting for Automobile installation, High definition AV.
  - Shift from reasonably priced products to high-end products.
2. Being made a go for successfully marketed due to co-development with customer and alliances.
3. Chinese market development utilizing MXIC's development, sales and customer support.

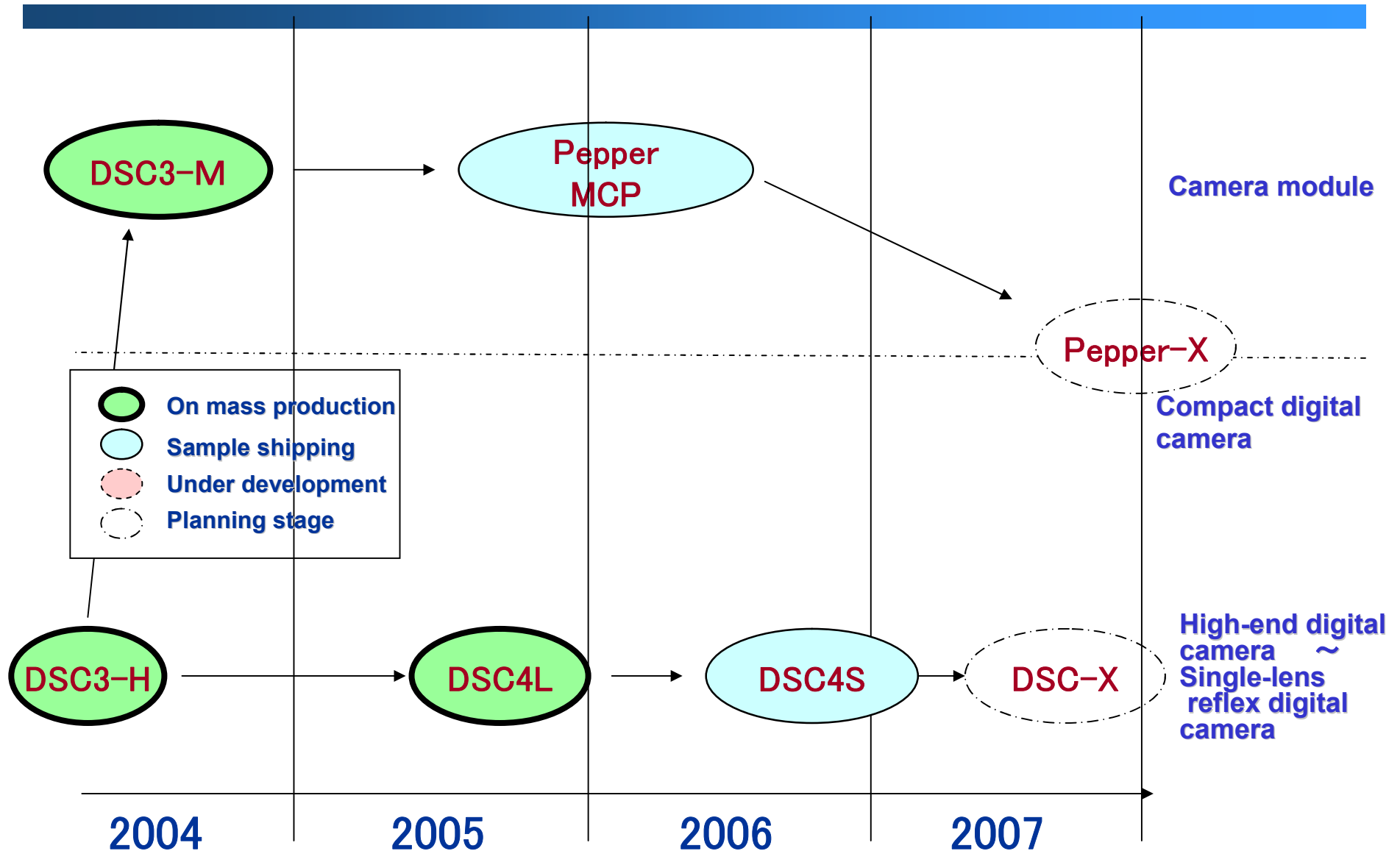
# Expansion of application areas for ASSP

\*1 OFDM: Orthogonal frequency division multiplexing technology.

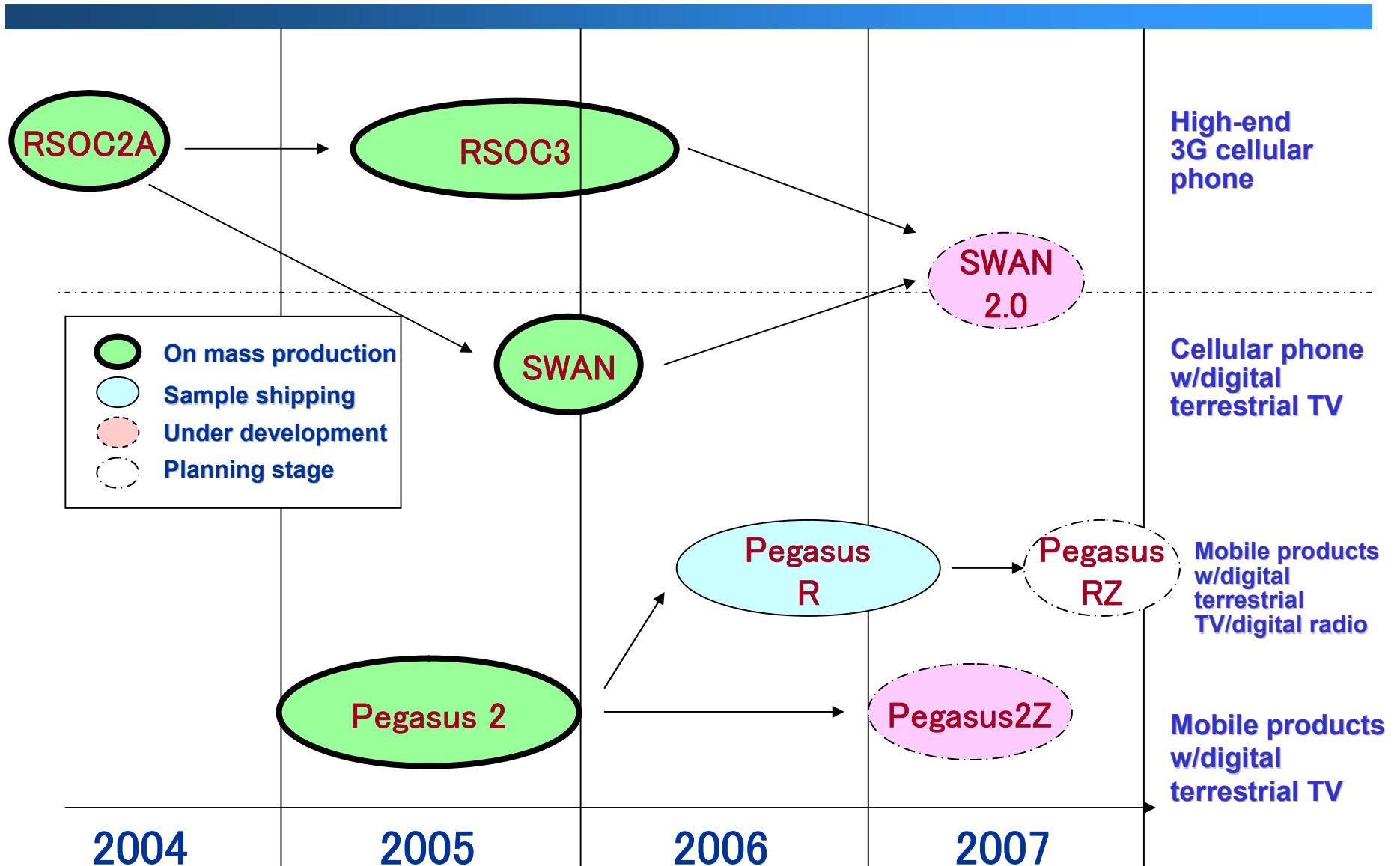
\*2 One segment: single segment dedicated to mobile services out of the 13 segments in Japan's digital terrestrial broadcasting format.



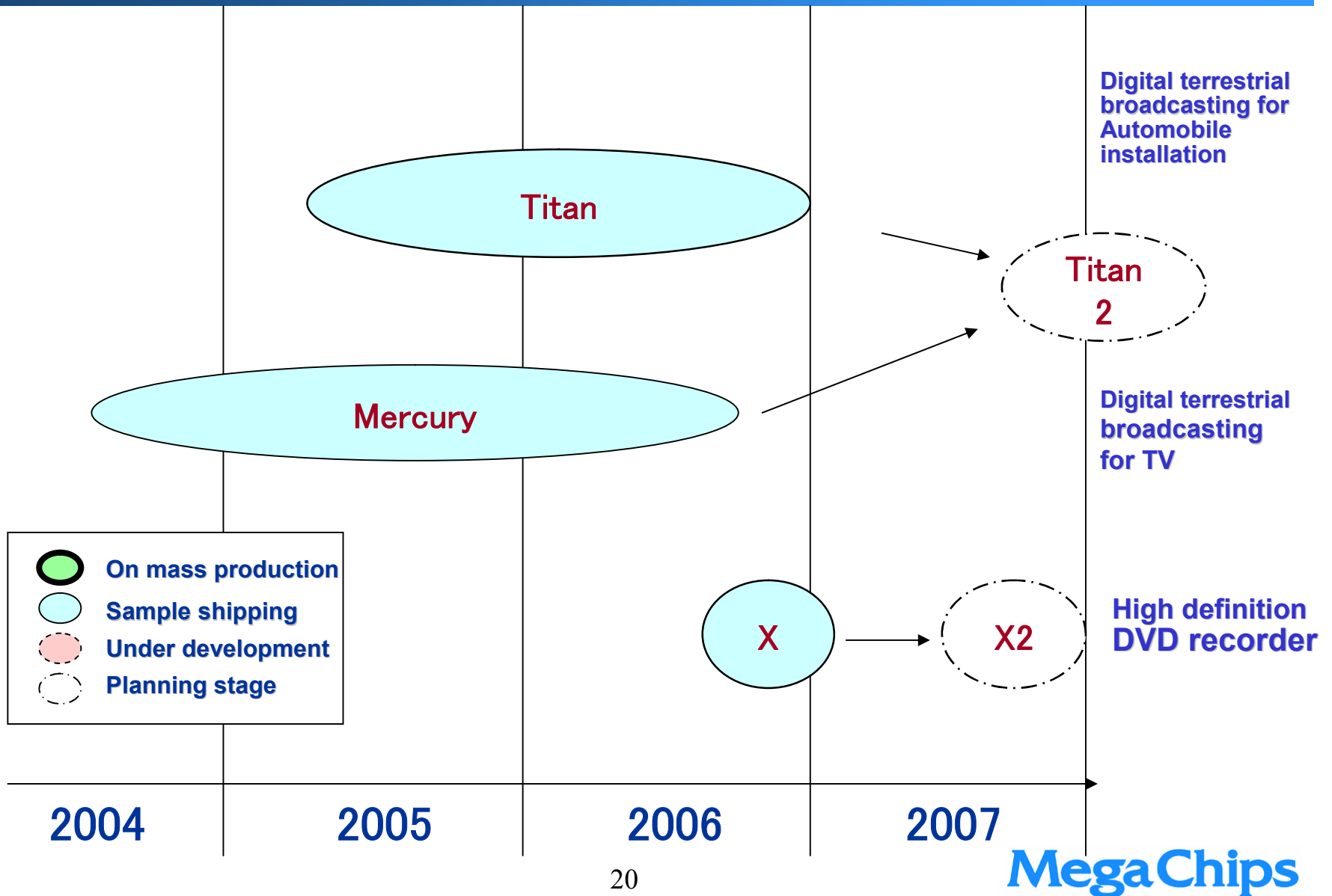
# ASSP Products Expansion (DSC)



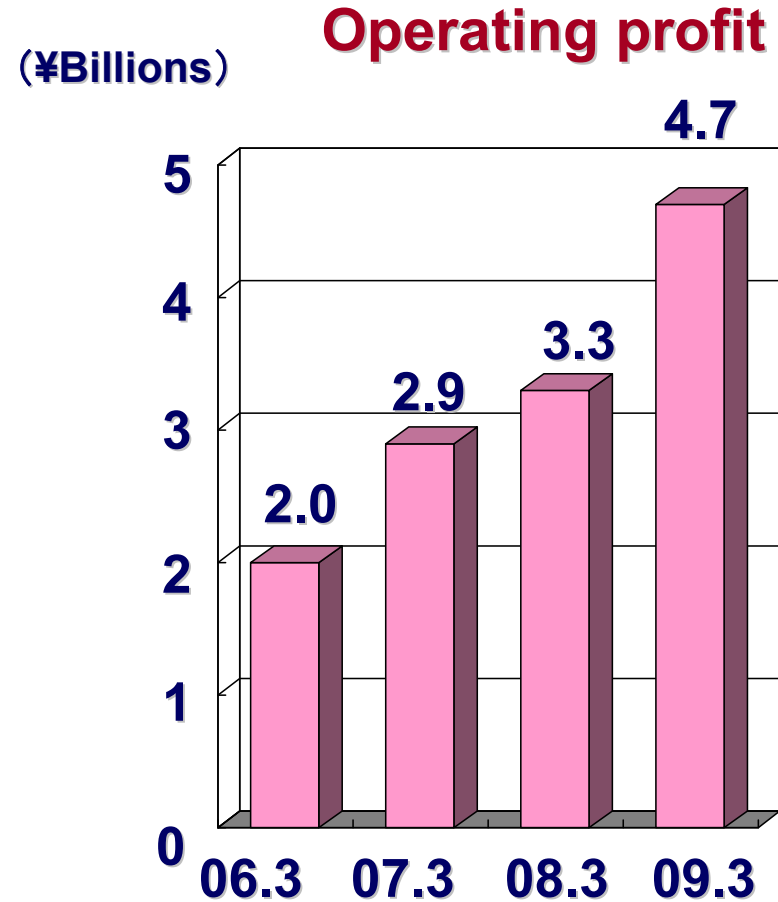
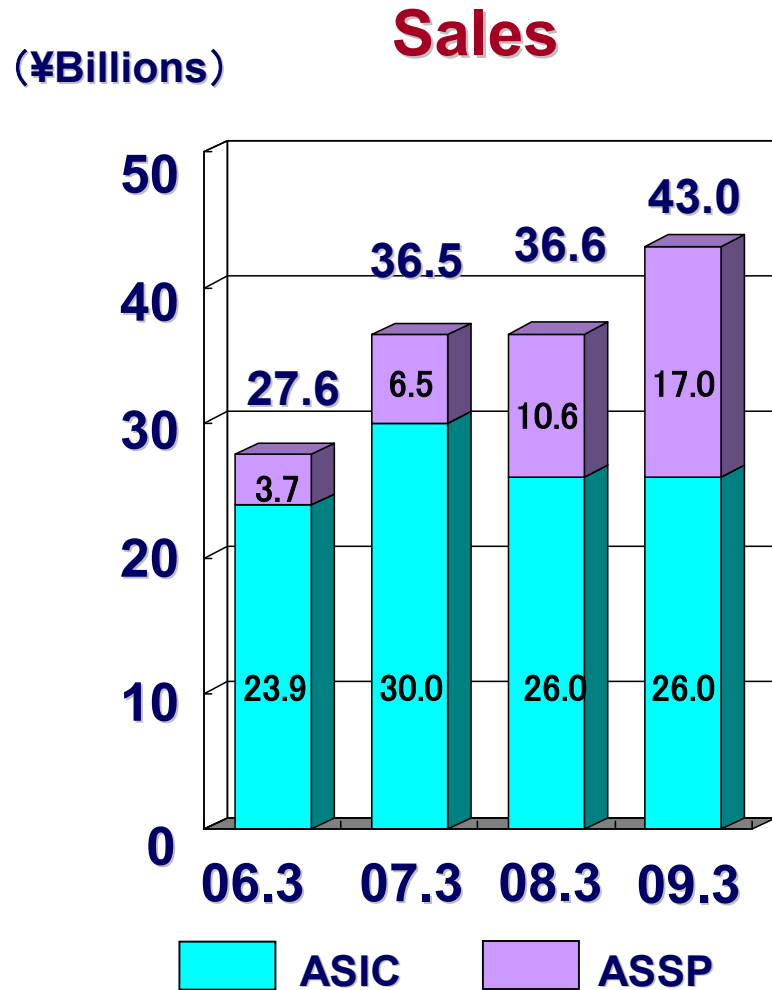
# ASSP Products Expansion (Multimedia for mobile/AV)



# ASSP Products Expansion (High definition AV)



# LSI Business Plan



Plan for 07.3 has been revised and that for 08.3, 09.3 will be revised in May, '07.

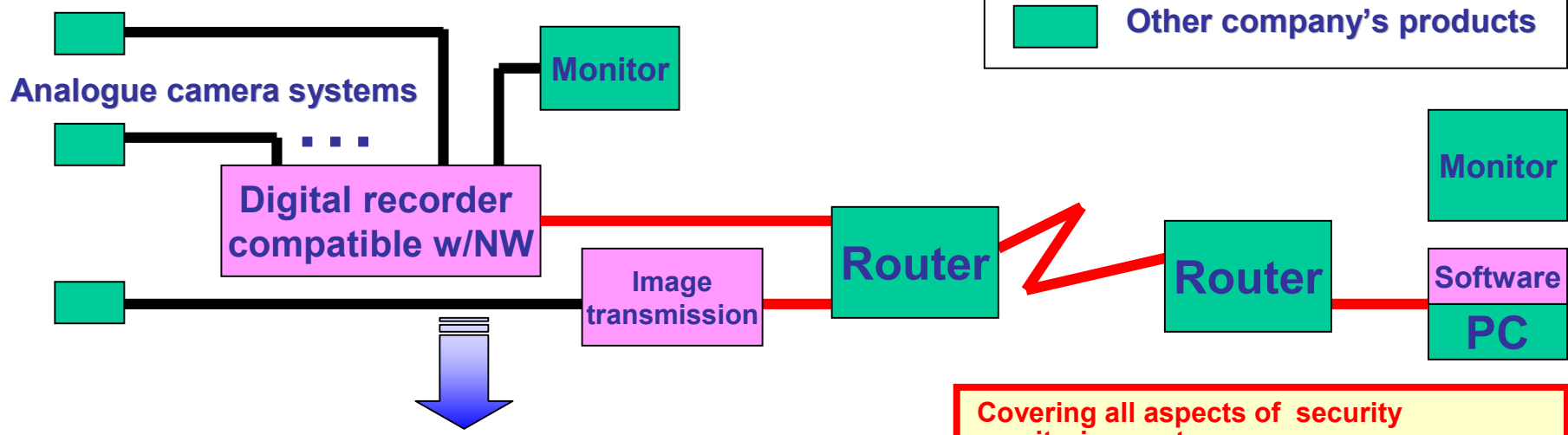
# System Business Strategy

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- 1. Expand our coverage of digital security monitoring products. (Enter the security camera market with digitalization of it.)**
- 2. Expansion into the home security market in addition to the corporate security market which develops steadily.**
- 3. Cost reduction through the relocation of various factories including those overseas.**
- 4. Expansion of our digital image business through customization for large corporate users.**
- 5. Expansion of our product lineup for security monitoring system for general purpose, through competitive pricing enabled by our overseas production. Market such products in China as well as in Japan.**

# Commercial System Business Expansion

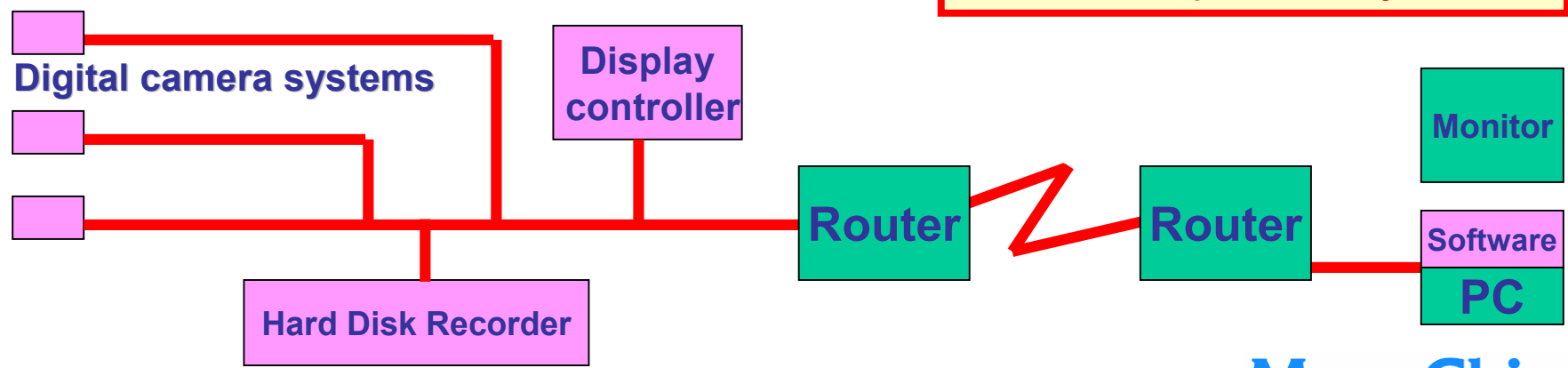
## Security monitoring systems mixed w/digital and analogue



Our products

Other company's products

## Fully digital CCTV security monitoring systems

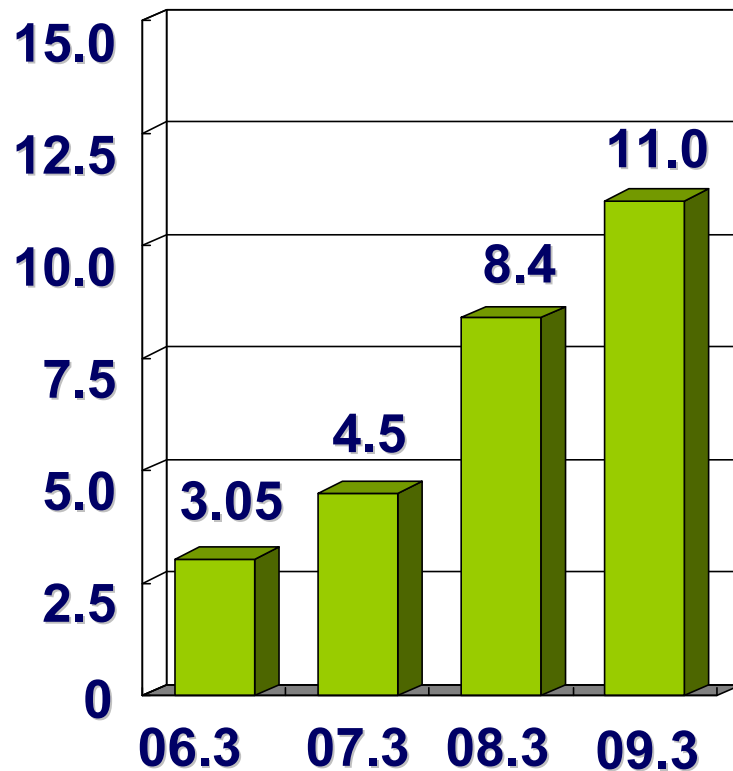


Covering all aspects of security monitoring systems.  
Expansion into the home security market in addition to corporate security market.

# System Business Plan

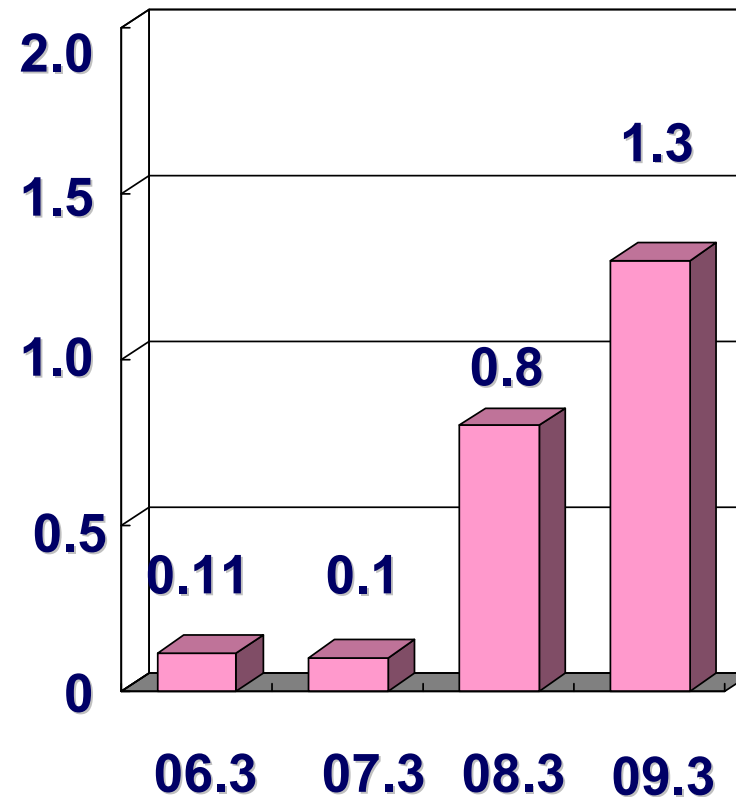
## Sales

(¥Billions)



## Operating profit

(¥Billions)



Plan for 07.3 has been revised and that for 08.3, 09.3 will be revised in May, '07.

# Progress of Chinese market development

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## Setting up

1. Sep., '05 『MegaChips (Hong Kong) Limited. 』(MCC/HK)
2. Nov., '05 『 MegaChips (Hong Kong) Limited., Representative Office in Shanghai』 Representative Office in Shanghai of MCC/HK

**Carry on a full-scale marketing activities.**

## LSI Business

- Memory IC and LSIs for DSC have been started supplying for local companies.
- New business development for LSIs for digital terrestrial broadcasting.

## System Business

- Marketing activities for security and monitoring system.  
Police station, road builders, railroad company, finance business, building management business.
- Image transmission server has been started supplying for local companies which are rail road and finance business.
- Digital video recorder series had been developed completely and being in opening up a new market for them in China, also, planning to release them for Japanese market with competitively priced.

# Key Investment Highlights

For the attainment of business profit ¥6 billion in FY2009, we'll expand our product coverage and customer base, then aim to achieve steady growth.

- mid-term: 1) Establishment of the three pillars of our business
- 2) Expansion of the application areas based on our core technology applications and customer base
- 3) Overseas market development 4) Aggressive return to shareholders

## LSI Business

- ASIC : Stable revenue base.
- ASSP: In addition to the field of Multimedia for cellular phone, high-definition digital camera, development of business field for compact digital camera, cellular phone w/digital terrestrial TV, cellular phone w/high-definition-type digital camera, digital terrestrial broadcasting for automobile installation, high definition AV. Expansion of target from high-end to low-end products.

## System Business

- Covering the entire spectrum of security monitoring systems' keeping pace with the digitalization of such products. Expansion into the market for home security system in addition to the steadily developing corporate security market.
- Promotion of growth through business both in China and Japan with competitively priced products made in overseas.

# IR Policy

## » Purposes of investor relations and basic policy

MegaChips is committed to active investor relations based on transparent, fair and timely disclosure. Our goal is to receive fair, appropriate share pricing that is relevant to corporate value and to gain trust and a solid reputation among shareholders, investors, analysts, and other stakeholders.

## » Disclosure rules

MegaChips provides information fully in compliance with the regulations of the Tokyo Stock Exchange on timely disclosure. We also disclose information deemed necessary or useful to shareholders, investors, and analysts to satisfy their interests in our company.

## » Disclosure method

All information defined by the regulations of the Tokyo Stock Exchange is first reported to the Exchange, and registered with their TDnet (Timely Disclosure Network) database. We also publish press releases on the information.

# IR Policy

## » Forward-looking statements

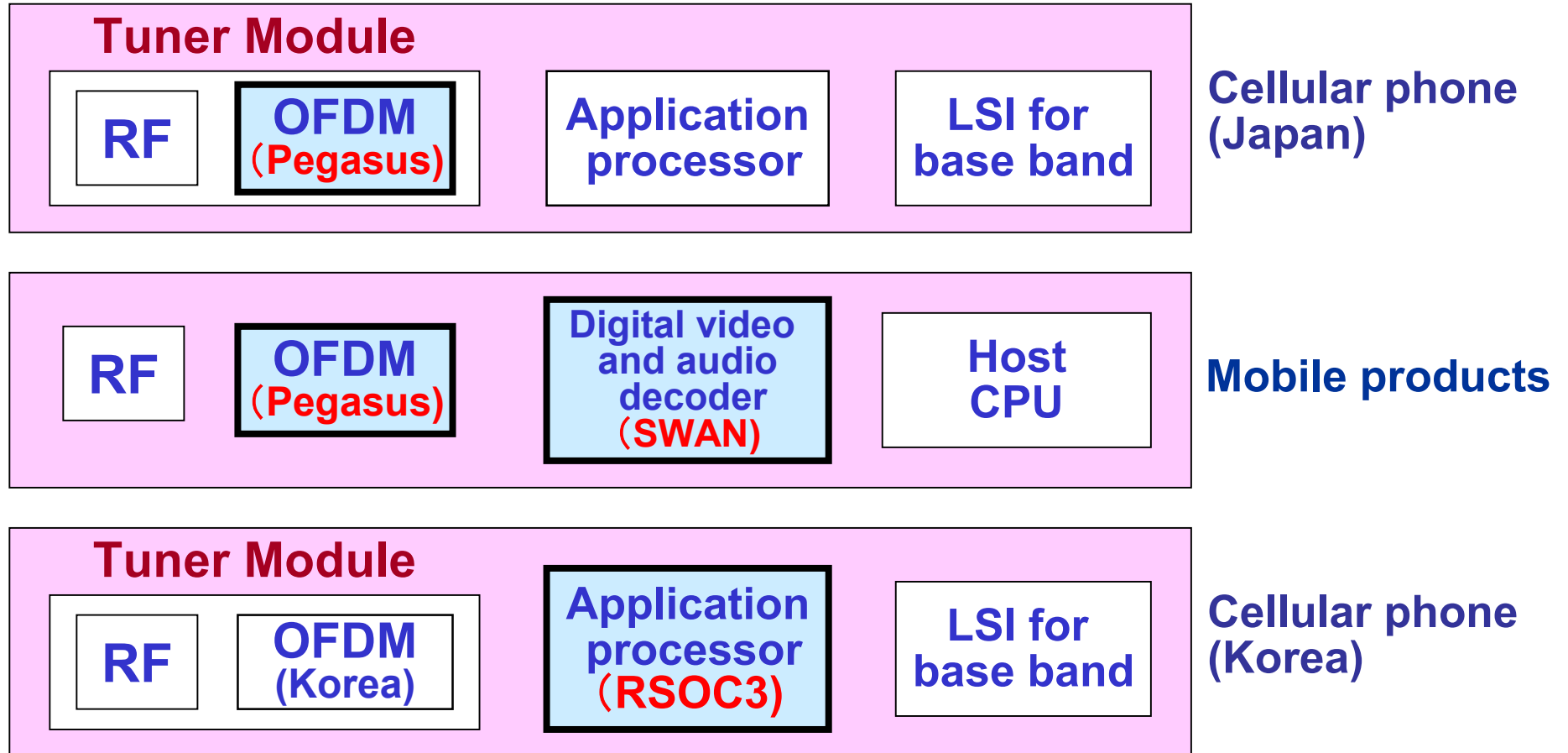
The information MegaChips discloses may contain forward-looking statements that reflect management's current views with regard to certain future events and financial performance. These statements are based on the current assumptions and beliefs of the MegaChips Group in light of the data and information currently available, and actual results may differ materially from those projected or implied in the statements. Accordingly, we wish to caution readers to refrain from placing undue reliance on them in making investing and other decisions.

## » IR “Quiet Period”

MegaChips observes a “Quiet Period” from 10 business days immediately before the end of each quarter until the announcement of its financial results, in order to prevent information leaks that may affect stock prices during the preparation of financial results announcement. During this period, the management refrains from giving press interviews, participating in meetings, and responding to questions and inquiries about financial results and forecasts. However, drastic forecast revision and other crucial information, as defined in the “timely disclosure rules” of the Tokyo Stock Exchange, shall be readily available during the period.

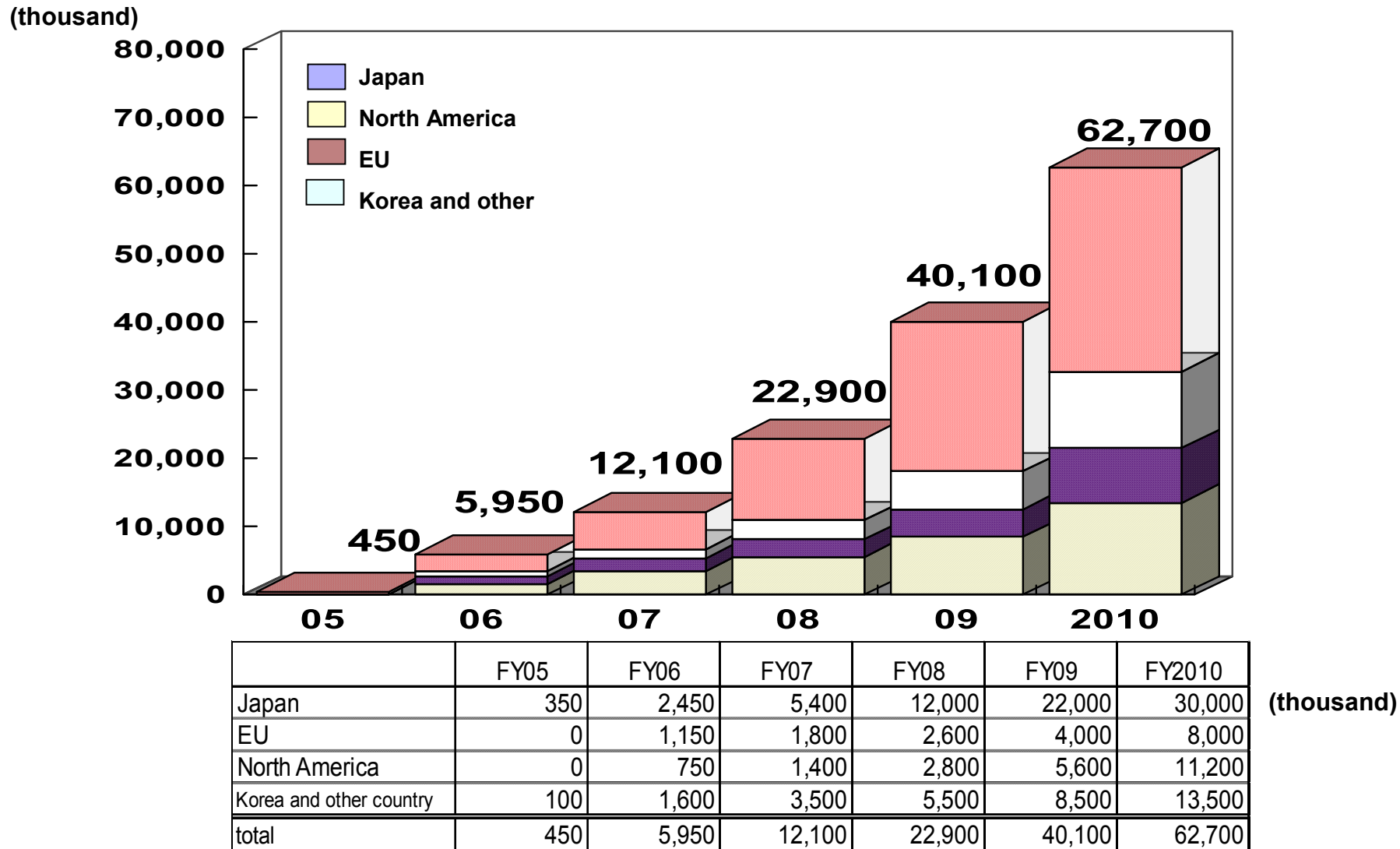
# Reference data

# Digital terrestrial broadcasting system architecture



 : MegaChips products

# Market scale of cellular phone w/digital terrestrial broadcasting (forecast)



# Our targets and its market scale for ASSP

	Target	Worldwide		Domestic	
		FY2006 (million)	FY2008 (million)	FY2006 (million)	FY2008 (million)
① DSC	Digital SLR	5.3	6.5	0.7	0.8
	Compact digital camera	73.7	82.0	8.7	8.5
② Cellular phone	High quality camera for cellular phone	40.0	180.0	20.0	38.0
	Terrestrial digital broadcasting	5.5	22.0	2.5	12.0
③ Automobile installation	Car navigation system	11.0	20.0	4.0	5.0
④ High definition AV	Hi-Definition TV	52.0	100.0	4.5	8.0
	HD DVD BlueRay	0.3	4.0	0.2	3.0

Source: ① CIPA, ②~④ chunichisha Co., Ltd.

# Our targets and its market scale for System business

	Target	Domestic		Source
		FY2006 (thousand )	FY2008 (thousand )	
Security monitoring system	Security monitoring camera	1,500	1,600	FY06 FUJI KEIZAI CO.,LTD. FY08 Company's estimation
	Image recording system	120	130	FY06 FUJI KEIZAI CO.,LTD. FY08 Company's estimation
	Image transmission system	4.8	4.8	FY06 FUJI KEIZAI CO.,LTD. FY08 Company's estimation

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