

Summary of Financial Results for the Fiscal Year Ended March 31, 2010

May 11, 2010

MegaChips Corporation

Code number: 6875

Representative: Yukihiko Ukai, President and Representative Director

Contact: Masayuki Fujii, Director, Officer and General Manager of Finance & Accounting Office

Listed exchange: TSE

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

Tel: +81-6-6399-2884

Scheduled date of the Ordinary General Meeting of Shareholders: June 24, 2010

Scheduled date of payment of dividends: June 3, 2010

Scheduled date of filing of securities report: June 24, 2010

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2010

(From April 1, 2009 to March 31, 2010)

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

(1) Consolidated operating results

(%: Year-on-year change)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2010	38,495	-27.1	3,034	-36.9	3,101	-36.6	2,140	-19.9
Year ended March 31, 2009	52,771	4.1	4,812	39.7	4,892	48.0	2,672	2.3

	Net income per share	Net income per share (fully diluted)	Ratio of profit to shareholders' equity for the year	Ratio of ordinary income to total assets	Ratio of ordinary income to sales
	Yen	Yen	%	%	%
Year ended March 31, 2010	88.19	88.07	9.5	10.4	7.9
Year ended March 31, 2009	110.21	110.11	12.7	14.3	9.1

(Reference): Gain or loss on equity method investment: - million yen for the year ended March 31, 2010,
- million yen for the year ended March 31, 2009

(2) Consolidated financial condition

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
Year ended March 31, 2010	26,612	24,439	91.8	1,006.08
Year ended March 31, 2009	33,115	20,564	62.1	849.02

(Reference) Shareholders' equity: Year ended March 31, 2010: ¥24,439 million
Year ended March 31, 2009: ¥20,564 million

(3) Consolidated cash flow condition

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	Million yen	Million yen	Million yen	Million yen
Year ended March 31, 2010	-431	358	-7,701	6,485
Year ended March 31, 2009	10,959	-1,082	-2,064	14,265

2. Dividends

(Record date)	Dividend per share					Aggregate dividends (annual)	Dividend propensity (consolidated)	Ratio of dividends to net assets (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Year ended March 31, 2009	—	—	—	33.00	33.00	799	29.9	3.8
Year ended March 31, 2010	—	—	—	27.00	27.00	655	30.6	2.9
Year ended March 31, 2011 (forecast)	—	—	—	—	—		—	

(Note) We pay dividends once per year based on the dividend policy, using the year-end date as the record date. Dividends are determined based on either a dividend payout ratio of around 30% or a dividend on equity (DOE) ratio of around 2%, whichever is higher, while taking into consideration the consolidated operating results, financial position, investment plans and so forth. Since the concrete dividend forecast is yet to be decided, “—” is shown for the year-end dividend and annual dividend forecast.

3. Forecast of consolidated operating results for the year ending March 31, 2011

(From April 1, 2010 to March 31, 2011)

(Percentages denote the rate of increase or decrease from the previous year in “Full-year” and from the same quarter of the previous year in “Six-month period ending September 30, 2010.”)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six-month period ending September 30, 2010	15,200	-31.9	1,100	-53.6	1,100	-52.2	700	-52.0	28.82
Full-year	35,000	-9.1	3,100	2.1	3,100	-0.1	2,150	0.4	88.51

4. Others

(1) Changes in key subsidiaries during the term (changes in specific subsidiaries resulting in changes in the scope of consolidation): None

(2) Changes in accounting principles, processing, presentation method, etc. of pertaining to the preparation of consolidated financial statements (those to be stated as Changes in the Important Matters Forming the Basis for Preparing Consolidated Financial Statements):

1) Changes associated with changes in accounting standards: Yes

2) Other changes: Yes

(Note) Refer to 4-(7). Change of important matters fundamental to the preparation of consolidated financial statements of “Qualitative Information, Financial Statements and Other Information” on page 24 for details.

(3) Number of issued shares (shares of common stock):

1) Number of issues shares (including shares of treasury stock) as of the end of the period:

Year ended March 31, 2010: 24,353,900

Year ended March 31, 2009: 24,667,317

2) Number of shares of treasury stock as of the end of the period:

Year ended March 31, 2010: 61,937

Year ended March 31, 2009: 446,282

(Note) Refer to “Per share information” on page 33 for the number of shares which is the basis for the calculation of net income per share (consolidated basis).

(Reference) Summary of Non-Consolidated Financial Results

1. Non-Consolidated Financial Results for the Fiscal Year Ended March 31, 2010

(From April 1, 2009 to March 31, 2010)

(1) Non-consolidated operating results (%: Year-on-year change)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2010	38,495	-27.0	3,035	-38.2	2,933	-38.5	1,874	-24.5
Year ended March 31, 2009	52,764	4.2	4,913	37.7	4,773	41.7	2,482	-33.3

	Net income per share	Net income per share (fully diluted)
	Yen	Yen
Year ended March 31, 2010	77.22	77.11
Year ended March 31, 2009	102.38	102.28

(2) Non-consolidated financial condition

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
Year ended March 31, 2010	24,226	22,070	91.1	908.57
Year ended March 31, 2009	33,165	20,624	62.2	851.51

(Reference) Shareholders' equity: Year ended March 31, 2010: ¥22,070 million

Year ended March 31, 2009: ¥20,624 million

Note: Request for appropriate use of the business outlook and other remarks

The description of the future in this material, including the forecast of operating results, is based on the information available as of the published date of this release and on certain assumptions considered reasonable as of the published date of this release. The actual results may change materially depending on various factors that may arise in the future.

[Qualitative Information / Financial Statements]

1. Operating Results

(1) Analysis of operating results

(i) General Financial Results Condition

In the consolidated fiscal year under review, the Japanese economy continued to experience difficult circumstances, with corporate profits and capital spending having yet to see full-scale recovery, in tandem with reduced consumer spending and the worsening employment situation. However, the economy is believed to have passed the worst of the recession triggered by the global downturn that began in the second half of the previous fiscal year, and there were some signs of bottoming out in the economy in the second half of the fiscal year ended March 31, 2010.

In the electronic machinery and equipment industry, in which the Group is a part, demand remained sluggish across the entire market, including electronic components such as semiconductors and consumer electronic equipment. The market for the entire electronic machinery and equipment industry remained below where it was for the same period of the year ended March 31, 2009.

In these severe circumstances, the Group focused its efforts in developing and selling products in the LSI business and the systems business, as well as on expanding the businesses by staying in close contact with customers and providing solutions best suited to their needs, based on the compression and decompression technologies for images, sound and music, as well as its unique telecommunications technologies.

Specifically, with the digitalization of media including images, sound and music, the enhancement of the performance of LSIs using advanced semiconductor technology, the upgrading of the infrastructures of wired and wireless high-speed communication networks, and the diversification of digital broadcasting such as high-definition broadcasting, the Group has broadened its appeal in the field of information and communications. In this growing area, the Group has actively developed and sold high-end application-specific memories, system LSIs, electronic parts mounted with its system LSIs and customer-specific system products for transmitting and recording digital images, particularly for use in the security and monitoring area for games, amusements, digital single-lens reflex cameras and high-definition audio visual (AV) devices.

However, given that the business environment surrounding the Group remained more challenging than anticipated, net sales for the fiscal year under review amounted to ¥38,495 million on a consolidated basis (down 27.1% from the previous fiscal year ended March 31, 2009). Operating income stood at ¥3,034 million (down 36.9%), and ordinary income reached ¥3,101 million yen (down 36.6%). Net income was ¥2,140 million (down 19.9%), with extraordinary loss falling ¥651 million compared with the previous year.

(ii) Business Overview by Segment

In the LSI business, demand for the main products, LSIs for storing game software (customer memories), declined. Demand, meanwhile, for LSIs for digital single-lens reflex camera image processing and LSIs for high-definition AV recording was strong, but demand for tuner modules for receiving 1 seg digital terrestrial broadcasting remained sluggish, and the start of mass production of a new product, LSIs for amusement areas, was delayed.

As a result, net sales for the consolidated fiscal year under review were ¥36,124 million (down 25.6% from the year ended March 31, 2009), and operating income stood at ¥4,212 million (a fall of 12.1%).

In the systems business, net sales for the consolidated fiscal year under review were ¥2,371 million (down 43.6%) and the operating loss was ¥1,141 million (compared with an operating income of ¥22 million for the previous year ended March 31, 2009), due to greatly reduced demand for customer-specific digital image monitoring systems for security/monitoring applications.

(iii) Prospect for operating results in general for the next fiscal year

As for the economic outlook for the coming year, although there are signs of the economy bottoming out, and although the domestic economy in general is expected to head toward gradual recovery with company profits and consumer spending edging up slowly, the overall economic outlook is still uncertain considering risk factors such as the eliminated policy effect, progressive deflationary trend and currency market conditions.

In terms of the social environment surrounding the Group's businesses, the recovery of demand for digital

appliances is expected to be limited, with persistently adverse market conditions. On the other hand, however, an increasingly sophisticated information society is expected to come to fruition, with the ongoing digitization of broadcasting and the expansion of wired and wireless broadband networks. At the same time, it also seems that initiatives for creating a low-carbon, recycling-oriented society where people live in harmony with nature are also likely to receive greater emphasis, with the objective of global environmental sustainability.

Under these circumstances, the Company intends to advance its businesses by concentrating on its customer-oriented business, which will be achieved by maximizing the Company's technical capabilities and providing optimal solutions that focus on meeting the needs of individual customers.

In our LSI business, the Group will focus on developing and selling the system LSIs required separately by individual customers to further expand those of its businesses aimed at prominent customers in areas including games, amusement, and digital single-lens reflex cameras. It will also develop application products such as boards and modules that utilize system LSIs, and will work on strengthening its product lineup and supply capacity.

The Group will also increase its profit-earning opportunities in lifeline infrastructure areas by playing a role in activities for furthering the development and introduction of energy-efficient products and new energies that target the eco/energy field, the market for which is expected to expand in the future, and by improving the market awareness of the Group as a smart grid player with a focus on telecommunications technologies and the manufacture of peripheral equipment.

In the systems business, the Group will improve earnings by focusing on customer-specific systems that specialize in applications for specific customers, including the commercialization of the next generation of image monitoring systems for specific customers, and by developing new business models.

Consolidated sales, operating income and ordinary income for the next fiscal year are expected to be ¥35,000 million (a 9.1% decrease from the fiscal year under review), ¥3,100 million (a 2.1% increase) and ¥3,100 million (a 0.1% decrease), respectively. Net income for the next fiscal year is expected to be ¥2,150 million (a 0.4% increase).

The forecast of consolidated sales for each business segment is ¥32,200 million for the LSI business (a 10.9% decrease) and ¥2,800 million for the systems business (an 18.1% increase).

(2) Analysis of the financial position

(i) Changes in the financial position (consolidated)

Total assets at the end of the fiscal year under review were ¥26,612 million (a decrease of ¥6,502 million from the end of the previous fiscal year). The main contributing factors to this change compared to the end of the previous fiscal year were decreases in cash and deposits (¥7,980 million), which were only partly offset by increases in investment securities (¥2,444 million) and trade notes and trade accounts receivable (¥1,175 million).

Total liabilities were ¥2,172 million (down ¥10,378 million), mainly reflecting declines in short-term loans payable (down ¥5,000 million), the current portion of long-term loans payable (down ¥2,000 million), income taxes payable (down ¥1,856 million) and trade notes and trade accounts payable (down ¥1,116 million) from the end of the consolidated fiscal year ended March 31, 2009.

Total net assets were ¥24,439 million (an increase of ¥3,875 million). The main contributing factors to this change compared to the end of the previous fiscal year were increases in the valuation difference on available-for-sale securities (¥2,356 million) and retained earnings (¥830 million). As a result, the Shareholders' equity ratio for the end of the fiscal year under review was 91.8%.

(ii) Cash flow status

Cash and cash equivalents ("net cash") at the end of the fiscal year ended March 31, 2010 came to ¥6,485 million on a consolidated basis, down ¥7,780 million from the end of the year ended March 31, 2009 (up ¥7,735 million in the year ended March 31, 2009). The status of cash flows at the end of the year ended March 31, 2010 was as follows:

Net cash used in operating activities was ¥431 million (compared with net cash provided of ¥10,959 million in the year ended March 31, 2009), mainly reflecting net income before taxes of ¥3,199 million (down 26.1% year on year), the amortization of long-term prepaid expenses of ¥1,150 million, increased trade notes and trade accounts

receivable (up ¥1,174 million), decreased trade notes and trade accounts payable (down ¥1,116 million) and ¥2,787 million in income taxes paid.

Net cash provided by investment activities was ¥358 million (compared with net cash used of ¥1,082 million in the year ended March 31, 2009), primarily reflecting income of ¥370 million from sales of investment securities. As a result, free cash flow, which is the sum of the net cash used in operating activities and the net cash provided by investment activities, resulted in cash used of ¥72 million (compared with ¥9,877 million of net cash provided in the year ended March 31, 2009).

Net cash used in financing activities was ¥7,701 million (compared with net cash used of ¥2,064 million in the year ended March 31, 2009). This was due to factors such as a ¥5,000 million decrease in short-term loans payable and the repayment of long-term loans payable of ¥2,000 million.

The following table shows the trends of the indices of cash flows for the Group.

	Year ended March 31, 2007 (from April 1, 2006 to March 31, 2007)	Year ended March 31, 2008 (from April 1, 2007 to March 31, 2008)	Year ended March 31, 2009 (from April 1, 2008 to March 31, 2009)	Year ended March 31, 2010 (from April 1, 2009 to March 31, 2010)
Shareholders' equity ratio (%)	60.9	60.7	62.1	91.8
Shareholders' equity ratio on a market value basis (%)	191.3	88.7	116.4	128.1
Ratio of interest-bearing debt to cash-flow (%)	—	341.8	63.9	—
Interest coverage ratio	—	22.3	117.1	—

(Notes) 1. Each of the indices is calculated as follows:

Shareholders' equity ratio: Shareholders' equity/Total assets

Shareholders' equity ratio on a market value basis: Aggregate market value of listed stock/Total assets

Ratio of interest-bearing debt to cash-flow: Interest-bearing debt/Cash provided by operating activities

Interest coverage ratio: Cash provided by operating activities/Interest payments

- Each of the indices is calculated based on financial data on a consolidated basis.
- The aggregate market value of listed stock is calculated based on the closing stock price at the end of each fiscal year multiplied by the total number of shares issued as of the end of each fiscal year.
- Interest-bearing debt covers all debt with interest being paid which is stated in the balance sheet.

(3) Basic principles concerning the distribution of profits and the dividends for the fiscal year under review and the next fiscal year

Senior management of the Company regards the appropriate distribution of profits to its shareholders as an important management issue, and is working to distribute profits in line with earnings. The basic policy is as follows:

- (i) To maintain the internal reserves required to maintain a healthy financial position that can withstand variations in the business environment and to make investments for the medium- to long-term growth of the Company (such as investments in human resources, investments to accelerate the achievement of a suitable business portfolio, and investments to develop original products and undertake the basic research for creating innovative new technology as a high-tech fabless company dedicated to research and development), aiming to continuously improve our corporate value.
- (ii) The distribution of retained earnings shall be determined by taking into consideration such factors as the consolidated operating results, financial circumstances, and investment plans, but in principle the amount to be distributed shall be either a dividend payout ratio of about 30% or about 2% of the consolidated dividend on equity (DOE), whichever is greater. (However, this amount may, following due consideration, be increased or decreased in cases where there are special factors affecting the financial results.) Specifically, the annual dividend to be distributed per share shall be determined as either (a) or (b) below, whichever is greater.
 - a. Calculate the aggregate amount of dividends as an amount equivalent to about 30% of the consolidated net income, and divide this amount by the number of shares that have been issued at the end of the period, minus the number of shares held by the Company at the end of the period.
 - b. Calculate the aggregate amount of dividends as an amount equivalent to about 2% of the consolidated dividend on equity (DOE), and divide this amount by the number of shares that have been issued at the end of the period, minus the number of shares held by the Company at the end of the period.
- (iii) The Company shall endeavor to return profits to shareholders by acquiring its own shares expeditiously, taking into consideration such as market conditions, movements of stock prices, and the Company's financial circumstances in order to improve the efficiency of capital.

In accordance with this basic policy, the Company has decided to distribute dividends as follows:

- (i) In accordance with the Articles of Incorporation approved at the 16th Ordinary General Meeting of Shareholders held on June 23, 2006 and Article 459(1) of the Companies Act, decisions regarding the distribution of dividends shall be made via a resolution by the Board of Directors, without requiring a resolution by a General Meeting of Shareholders, unless otherwise stipulated by law.
- (ii) Dividends shall be distributed once every year to those Shareholders or Registered Pledgees of Shares listed or registered in the final shareholder registry as March 31 of every year. However, dividends may be distributed by prescribing a different record date, following a resolution by the Board of Directors in accordance with the Companies Act and the Articles of Incorporation.

In accordance with the above policy, with respect to distributing retained earnings for the fiscal year under review, the Company decided to pay an annual dividend of ¥27 per share as an ordinary dividend (¥33 for the previous period) to shareholders as of March 31, 2010. The annual dividend per share for the next fiscal year is still undecided, but the Company intends to distribute dividends in accordance with the above policy.

The Company did not acquire its own shares from the capital market during the fiscal year under review. 313,417 shares of its treasury stock were retired on November 30, 2009

(4) Risk factors in business

(i) Dependence on specific customers

a. Purchasers

The Company principally sells LSIs for storing game software (custom memories) for use in game consoles, LSIs for game consoles and their peripherals, LSIs for receiving 1 seg digital terrestrial broadcasts, LSIs for digital cameras image processing, and digital video monitoring systems for security and monitoring applications. However, the proportion of net sales which involves providing LSIs for game software (custom memories) to Nintendo Co., Ltd. (“Nintendo”) is particularly high.

Accordingly, the operating results of the Group may vary according to market trends for game software and the game consoles that use these products, as well as according to the extent to which Nintendo adopts the Group’s products.

b. Consigned manufacturers (suppliers)

The Company has since its incorporation adopted a model of business as a fabless enterprise to concentrate its management resources on research and development and consign manufacturing of products to third parties, whereby developing products to best meet customer needs based on its unique technological capabilities and expanding business without need to invest in plant and equipment that require a large amount of money. The Company diversifies manufacturing consignments in Japan and overseas, though the rate of consignments to Macronix International Co., Ltd. (“Macronix”), to which the Company consigns manufacturing of LSIs for storing game software (custom memories) supplied to its major customer Nintendo and LSIs for game consoles and their peripherals, is high.

Hence, if for some reason, Macronix stops manufacturing, the operating results of the Group may fluctuate.

The Company has entered into manufacturing consignment agreements with Nintendo and Macronix, respectively. The Company intends to build up good and close relationships with these companies to secure constant supply of products.

(ii) Business

a. Risks in LSI business

The Company has adopted a model of fabless enterprise that possesses no manufacturing plant and equipment of its own and consigns manufacturing all to third parties. In the LSI business, manufacturing of products is consigned to semiconductor manufacturers.

Hence, demand and supply in the semiconductor market may affect the quantities and prices of products to be procured by the Company and the Company may not be able to procure products in such quantities and at such prices as it expects.

The Company’s LSIs are used in state-of-the-art digital devices, and the pace of technological innovation in this field is quite rapid, so there is no guarantee that these products will continue to be used. Furthermore, as equipment mounted with the Company’s LSIs is exposed to intensive competition and demand volatilities, demand for the Company’s LSIs may swing sharply and widely.

b. Risks in systems business

For the systems business, the Company mainly sells image recording and transmission system products that support the development of digitization in the security and monitoring area. Demand for products in the security and monitoring area fluctuates according to the trend of capital investment in the area and accordingly, the operating results of the Group may be affected.

In addition, the Company has exerted its efforts to maintain its technological edge, including digital image processing and network technologies, and its competitive edge by supplying optimized specific image systems for customers’ operations. However, technological renovations in the area are rapid and the trends of technologies and services of other companies may affect the operating results of the Company.

Furthermore, in the event that a totally new market is to be created, the market may not grow as the Group foresees and accordingly, the operating results of the Company may be affected.

c. Risks in strategic investment

In the event that the Company engages in strategic tie-ups, including equity participation, in order to accelerate the growth of its businesses, there is a possibility that the benefits that the Company anticipates, such as business synergies or increased earnings, may not materialize.

d. Research and development

Under the philosophy of expanding business by “Innovation,” remaining coexistent with customers by “Credibility” and continuing to make contributions to society by “Creation,” the Company has conducted business based on its technological development capabilities. Its competitiveness derives from “Specialization” in products for specific customers and for specific applications in the growing image-, sound- and communication-related market, “Concentration” of its resources on research and development activities to provide most advanced technologies and products to its customers and the showing of the Group’s “Uniqueness.”

The Group believes that it can continue to develop and launch to the market innovative and attractive new products. However, the industry in which the Group belongs is exposed to rapid technological changes and the rapid prevalence of new technologies and new services or other changes may take place. In case of such any change, there is no assurance that the Group can respond quickly and it may be required to invest a large sum in research and development in response to such change.

Consequently, the operating results of the Group may be affected.

e. Procurement of human resources

The Company, which has conducted business based on its technological development capabilities in the area of image, sound and communication, is required to acquire and maintain excellent engineers. The Company has exerted its efforts to establish a personnel management policy necessary for that purpose and has maintained its excellent technological development capabilities and conducted business. However, if many excellent engineers leave the Company or new recruits cannot be supplied in the future, the Group may become less competitive.

(iii) Management

a. Purchase defense measures

The Company recognizes that purchase defense measures and the protection of the interests of its shareholders from abusive purchasers are important issues for corporate management, and always collects information on recent business takeovers.

b. Account auditors

For any reason on the part of the Company or in the event that the account auditors violate or contravene with laws or ordinances or the Company considers that the account auditors offended public order or morals, the Board of Statutory Auditors of the Company shall accordingly deliberate on the dismissal or non-reappointment of the account auditors. In the event that it considers it adequate to dismiss or not to reappoint the account auditors, it shall request the Board of Directors to make the “dismissal or non-reappointment of the account auditors” a proposition to be submitted to its General Meeting of Shareholders and the Board of Directors shall deliberate thereon.

c. Risk concerning the establishment of internal control systems

The Group has recognized the emphasis on legal compliance and the establishment of corporate governance as its important managerial issues and has exerted its efforts to strengthen the same and enhance risk management. Since May 2006, the Group has instituted fundamental policies on internal control pursuant to the Companies Act, and has made efforts to improve internal control systems pursuant to the Financial Instruments and Exchange Law, and to operate in accordance with these rules. Accordingly, the Group has managed its businesses properly and lawfully, and has also made progress in establishing, improving and evaluating these internal control systems, including internal control with regard to financial reporting.

However, if any extraordinary event not assumed under the internal control systems established by the Group occurs, the credibility and comprehensiveness of financial reporting and information disclosure by the Group may not be assured. In such case, the Company may lose the trust of its stakeholders and it may have a material adverse effect on the financial position and operating results of the Group.

Note, however, that no such events have occurred thus far.

(iv) Intellectual property rights

The Company, which is an R&D-oriented fabless enterprise, recognizes that the protection of its intellectual property rights is material to its business development. Hence, the Company has exerted its efforts to build up its internal system concerning intellectual property rights and strengthen cooperation with patent law offices to actively file applications for patents and trademarks and make them registered to protect the products and services offered by the Company, and simultaneously investigate rights of other companies thoroughly to prevent infringement of their rights.

However, there exists no assurance that all patents or trademarks for which the Company files applications will be registered. Additionally, as it is impossible to fully investigate technologies and rights of other companies prior to publication thereof, the Company may infringe intellectual property rights of other companies and litigation may be filed against the Company. In such case, the operating results of the Company may be affected.

As of the date hereof (May 11, 2010), no litigation has been filed against the Company in respect of any intellectual property right.

2. State of Corporate Group

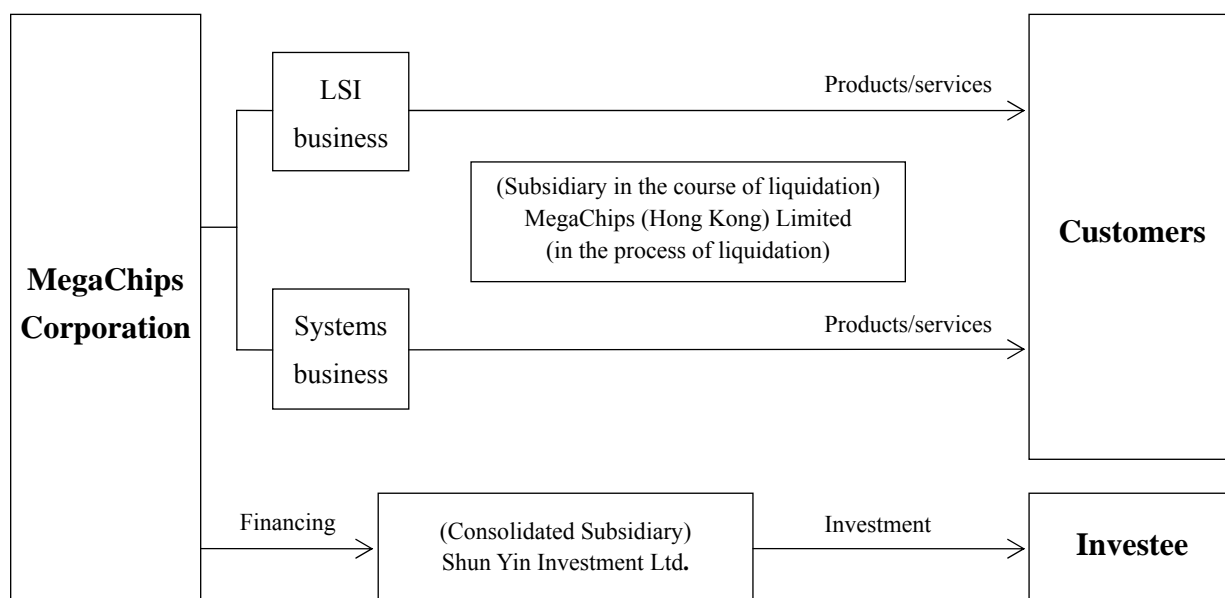
The Company's corporate group (the "Group") is comprised of the Company (MegaChips Corporation) and two subsidiaries (one of them is undergoing liquidation proceedings as at the end of the consolidated fiscal year under review), and principally engages in the development, manufacture and sale of system LSIs and system products.

The content of operations of the Group and the positioning of the Company and its related companies in such operations are described below.

The two business categories described herein are the same as those in the segment information by business category described in "4.(10) Documented matters."

(1) LSI business... The core products are system LSIs, and electronic components with system LSIs manufactured by the Company. The products are developed and sold by the Company with manufacturing contracted to major foreign and domestic semiconductor manufacturers.

(2) Systems business... The core products are digital video monitoring systems for security and monitoring applications. The products are developed and sold by the Company with their manufacturing contracted to outsourced manufacturers.



State of related companies

Consolidated subsidiaries

Company	Location	Capital	Main business ¹	Ratio of holding of voting rights	Relationship
Shun Yin Investment Ltd. ²	Taipei, Republic of China	NT\$629,040 thousand	All group (investment business)	100.0%	The subsidiary holds the shares of Macronix International Co., Ltd. and MaxRise Inc., with which the Company has entered into a business alliance.

(Notes) 1. In the column of main business, the segment name by business category is listed.

2. The company falls under the category of specified subsidiaries.

3. MegaChips (Hong Kong) Limited, in the course of liquidation since the previous consolidated fiscal year, is excluded from the scope of consolidation because the liquidation proceedings are expected to be completed soon.

3. Business Policy

(1) Basic management policy

Under the philosophy of expanding business by “Innovation,” remaining coexistent with customers by “Credibility” and continuing to make contributions to society by “Creation,” the Company has conducted business based on its technological development capabilities as an R&D-oriented, fables and high-tech enterprise, unique in Japan, since its incorporation in 1990. This competitiveness derives from four main sources: “Specialization” in products for the growing markets associated with digital images, sound and communications; “Concentration” of business resources on research and development activities in order to provide customers with cutting-edge products and technologies; a technology platform founded on technologies associated with images, sound and communications and the Company’s competitive advantage in its ability to develop these technologies; and the Company’s “Uniqueness” in developing businesses that provide optimal solutions to customers by integrating the Company’s knowledge of systems (devices) and LSIs.

Under such philosophy, the Company has pursued a basic policy of distributing returns to its investors by exerting efforts to show consistent growth and increase its value by taking the lead in providing unique system LSIs, electronic devices, including boards and modules, utilizing these system LSIs and system products in the market.

(2) Targeted management indexes

As targeted management indices, the Company shall continue to place emphasis on consolidated return on equity (ROE), consolidated return on assets (ROA) and consolidated cash flows. In addition, the Company has defined “operating income per employee” as an index of operating efficiency, and shall work to increase this index, as well as continuing to work to increase the ratio of operating income to sales on a consolidated basis.

(3) Medium- to long-term management strategy and issues to be addressed

With the development of LSI technologies, the penetration of digital technologies in broad areas and the prevalence of highspeed telecommunications infrastructures, an advanced information society is expected to arrive. In response to these social changes, the Company believes that it has a mission of “Help people achieve safety, security, and fulfilling lives, while protecting the global environment, based on sophisticated technological capabilities”. The Company desires to contribute to creating an affluent future society in which people can feel happy, by providing products offering innovative, new values to the world, as well as unique products big business would not be able to produce, and utilizing its high technologies. The Company’s medium- to long-term management strategies are as follows:

(i) To concentrate on customer-oriented business and expand business that can grow and develop with customers over the long term

The Company is particularly good at providing solutions. Its strengths lay in its technological capabilities in areas where image, sound and communications technologies are utilized. This enables the Company to develop everything from system LSIs through to system products independently, and focus on specific customers to provide them with the best solutions that solve their specific needs. Going forward, the Company intends to concentrate further on this kind of “customer-oriented business.”

The Company remains committed to expanding its business by developing operations that enable it to grow together with its customers over the long term, with optimal solutions that meet customer needs. The Company will do this by leveraging its strengths in technologies such as image compression and decompression, digital image processing and communications technologies, and by undertaking other business activities, such as licensing intellectual property and developing products including modules and boards, as well as system LSIs.

(ii) To aim at solid management by creating a suitable business portfolio

The Company views the severe changes in the operating environment as a significant opportunity. In response to this opportunity, it is starting initiatives aimed at the eco/energy field, in addition to traditional areas of games, digital appliances and security. The eco/energy area is expected to expand in the future, and is less vulnerable to economic circumstances. Consequently, the Company regards this area as the key driver for its

growth in the medium- to long-term, and is taking steps to develop relevant businesses.

The Company will also continue its work to expand its existing business over the medium and long terms, by working to develop a suitable business portfolio, focusing on those businesses with potential for growth.

(iii) To improve business efficiency by executing reforms to achieve greater profitability

In these difficult economic circumstances, the Company believes that it is important to institute reforms to achieve higher profitability. It is aiming for further growth by enhancing business efficiency and eliminating inefficiencies, which will be achieved by using alliances, controlling costs from the development stage, shortening the production cycle, compressing inventories and improving the operational efficiency. At the same time the Company will also contribute to global environmental sustainability.

In this way, the Company intends to enlarge its business and respond to a constantly changing society, by using “Innovation” to respond quickly to market changes, gaining “Credibility” by continuing to provide optimal solutions to resolve customer problems, “Creating” attractive solutions by combining the technologies that the Company has cultivated in its LSI and systems businesses, and actively engaging in the development of products for new areas, in order to contribute to the creation of an affluent future society.

4. Consolidated Financial Statements
 (1) Consolidated Balance Sheet

(Thousand yen)

	Previous consolidated fiscal year (ended March 31, 2009)	Consolidated fiscal year under review (ended March 31, 2010)
Assets		
Current assets:		
Cash and deposits	14,565,936	6,585,643
Notes and accounts receivable-trade	10,700,231	11,875,538
Merchandise and finished goods	1,007,453	366,934
Work in process	167,783	*3 370,274
Raw materials and supplies	383,404	209,022
Deferred tax assets	434,033	219,755
Other	205,531	377,574
Allowance for doubtful accounts	-760	-832
Total current assets	27,463,613	20,003,911
Noncurrent assets:		
Property, plant and equipment		
Buildings and accompanying facilities	240,576	240,576
Accumulated depreciation	-145,939	-162,329
Buildings and accompanying facilities, net	94,637	78,247
Other	328,684	354,216
Accumulated depreciation	-235,139	-292,039
Other, net	93,544	62,176
Total property, plant and equipment	188,182	140,423
Intangible assets		
Other	108,653	75,135
Total intangible assets	108,653	75,135
Investments and other assets		
Investment securities	*1 2,167,100	4,611,444
Long-term prepaid expenses	2,347,032	1,405,084
Long-term time deposits	100,000	—
Deferred tax assets	431,007	74,754
Other	312,961	304,178
Allowance for doubtful accounts	-3,448	-2,717
Total investment and other assets	5,354,654	6,392,744
Total noncurrent assets	5,651,489	6,608,303
Total assets	33,115,103	26,612,215

	(Thousand yen)	
	Previous consolidated fiscal year (ended March 31, 2009)	Consolidated fiscal year under review (ended March 31, 2010)
Liabilities		
Current liabilities:		
Notes and accounts payable-trade	2,551,852	1,435,794
Short-term loans payable	5,000,000	—
Current portion of long-term loans payable	2,000,000	—
Income taxes payable	1,901,413	44,771
Provision for bonuses	307,830	232,316
Provision for loss on construction contracts	—	*3 25,246
Other	744,061	396,349
Total current liabilities	<u>12,505,156</u>	<u>2,134,478</u>
Noncurrent liabilities:		
Deferred tax liabilities	5,287	—
Other	40,591	38,032
Total noncurrent liabilities	<u>45,878</u>	<u>38,032</u>
Total liabilities	<u>12,551,035</u>	<u>2,172,511</u>
Net assets		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	6,181,300	6,181,300
Retained earnings	10,550,311	11,380,544
Treasury stock	-660,018	-91,585
Total shareholders' equity	<u>20,911,906</u>	<u>22,310,572</u>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	95,449	2,451,726
Foreign currency translation adjustment	-443,287	-322,594
Total valuation and translation adjustments	<u>-347,838</u>	<u>2,129,131</u>
Total net assets	<u>20,564,068</u>	<u>24,439,703</u>
Total liabilities and net assets	<u>33,115,103</u>	<u>26,612,215</u>

(2) Consolidated Statements of Income

(Thousand yen)

	Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
Net sales	52,771,460	38,495,895
Cost of sales	*1 43,671,726	*1*2 31,833,636
Gross profit	9,099,733	6,662,258
Selling, general and administrative expenses	*3*4 4,286,879	*3*4 3,627,324
Operating income	4,812,854	3,034,934
Non-operating income		
Interest income	8,640	4,100
Dividends income	201,713	147,847
Reversal of allowance for doubtful accounts	1,953	730
Miscellaneous income	14,030	23,353
Total non-operating income	226,338	176,032
Non-operating expenses		
Interest expenses	93,612	55,429
Commitment fee	6,904	—
Loss on sales of accounts receivable	30,919	2,936
Loss on investments in partnership	331	19,468
Foreign exchange losses	11,434	31,282
Miscellaneous loss	3,290	167
Total non-operating expenses	146,492	109,285
Ordinary income	4,892,701	3,101,681
Extraordinary income		
Gain on sales of investment securities	118,440	126,658
Total extraordinary income	118,440	126,658
Extraordinary loss		
Loss on valuation of investment securities	39,644	28,880
Loss on sales of golf club memberships	9,500	—
Loss on liquidation of business	*5 631,025	—
Total extraordinary loss	680,170	28,880
Net income before taxes	4,330,970	3,199,459
Income taxes-current	2,151,088	790,659
Income taxes-deferred	-492,229	378,442
Refund of income taxes for prior periods	—	-110,416
Total income taxes	1,658,859	1,058,685
Net income	2,672,111	2,140,773

(3) Consolidated Statements of Changes in Net Assets

(Thousand yen)

	Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
Shareholders' equity		
Capital stock		
Balance at the end of previous period	4,840,313	4,840,313
Balance at the end of the period	4,840,313	4,840,313
Capital surplus		
Balance at the end of previous period	6,181,300	6,181,300
Balance at the end of the period	6,181,300	6,181,300
Retained earnings		
Balance at the end of previous period	9,012,581	10,550,311
Changes of items during the period		
Dividends from surplus	-782,494	-799,294
Net income	2,672,111	2,140,773
Disposal of treasury stock	-1,091	-14,429
Retirement of treasury stock	-350,794	-463,536
Change of scope of consolidation	—	-33,279
Total changes of items during the period	1,537,729	830,233
Balance at the end of the period	10,550,311	11,380,544
Treasury stock		
Balance at the end of previous period	-718,718	-660,018
Changes of items during the period		
Purchase of treasury stock	-300,197	-256
Disposal of treasury stock	8,102	105,152
Retirement of treasury stock	350,794	463,536
Total changes of items during the period	58,699	568,432
Balance at the end of the period	-660,018	-91,585
Total shareholders' equity		
Balance at the end of previous period	19,315,477	20,911,906
Changes of items during the period		
Dividends from surplus	-782,494	-799,294
Net income	2,672,111	2,140,773
Purchase of treasury stock	-300,197	-256
Disposal of treasury stock	7,010	90,723
Retirement of treasury stock	—	—
Change of scope of consolidation	—	-33,279
Total changes of items during the period	1,596,429	1,398,666
Balance at the end of the period	20,911,906	22,310,572
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	2,090,734	95,449
Changes of items during the period		
Net changes of items other than shareholders' equity	-1,995,285	2,356,276
Total changes of items during the period	-1,995,285	2,356,276
Balance at the end of the period	95,449	2,451,726

(Thousand yen)

	Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
Foreign currency translation adjustment		
Balance at the end of previous period	30,700	-443,287
Changes of items during the period		
Net changes of items other than shareholders' equity	-473,987	120,692
Total changes of items during the period	-473,987	120,692
Balance at the end of the period	-443,287	-322,594
Total valuation and translation adjustments		
Balance at the end of previous period	2,121,435	-347,838
Changes of items during the period		
Net changes of items other than shareholders' equity	-2,469,273	2,476,969
Total changes of items during the period	-2,469,273	2,476,969
Balance at the end of the period	-347,838	2,129,131
Total net assets		
Balance at the end of previous period	21,436,912	20,564,068
Changes of items during the period		
Dividends from surplus	-782,494	-799,294
Net income	2,672,111	2,140,773
Purchase of treasury stock	-300,197	-256
Disposal of treasury stock	7,010	90,723
Retirement of treasury stock	—	—
Change of scope of consolidation	—	-33,279
Net changes of items other than shareholders' equity	-2,469,273	2,476,969
Total changes of items during the period	-872,843	3,875,635
Balance at the end of the period	20,564,068	24,439,703

(4) Consolidated Statements of Cash Flows

(Thousand yen)

	Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
Net cash provided by (used in) operating activities		
Net income before taxes	4,330,970	3,199,459
Depreciation and amortization	190,113	167,857
Amortization of long-term prepaid expenses	941,581	1,150,865
Increase (decrease) in allowance for doubtful accounts	-1,953	-658
Increase (decrease) in provision for bonuses	49,016	-75,514
Increase (decrease) in provision for loss on construction contracts	—	25,246
Interest and dividends income	-210,354	-151,948
Interest expenses	93,612	55,429
Loss (gain) on investments in partnership	331	19,468
Loss on retirement of noncurrent assets	1,360	167
Loss (gain) on sales of investment securities	-118,440	-126,658
Loss (gain) on valuation of investment securities	39,644	28,880
Loss (gain) on sales of golf club memberships	9,500	—
Loss on liquidation of business	95,545	—
Decrease (increase) in notes and accounts receivable-trade	6,935,452	-1,174,570
Decrease (increase) in inventories	657,430	612,410
Increase (decrease) in notes and accounts payable-trade	-1,450,244	-1,116,057
Decrease (increase) in other current assets	83,443	-48,487
Increase (decrease) in other current liabilities	2,044	-299,442
Other	10,505	19,752
Subtotal	11,659,559	2,286,202
Interest and dividends income received	210,472	152,036
Interest expenses paid	-94,087	-82,892
Income taxes paid	-816,873	-2,787,692
Income taxes refund	895	841
Net cash provided by (used in) operating activities	10,959,966	-431,505
Net cash provided by (used in) investment activities		
Proceeds from withdrawal of time deposits	—	300,000
Purchase of property, plant and equipment	-84,310	-30,003
Purchase of intangible assets	-66,320	-61,435
Purchase of investment securities	-91,583	—
Proceeds from sales of investment securities	10,963	370,848
Collection of loans receivable	3,996	3,996
Purchase of long-term prepaid expenses	-865,037	-228,616
Payments for guarantee deposits	-3,246	-668
Proceeds from collection of guarantee deposits	5,503	4,747
Proceeds from sales of golf club memberships	8,000	—
Other	6	—
Net cash provided by (used in) investment activities	-1,082,028	358,867
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	-1,000,000	-5,000,000
Repayment of long-term loans payable	—	-2,000,000
Purchase of treasury stock	-300,197	-256
Proceeds from disposal of treasury stock	7,010	90,723
Cash dividends paid	-771,117	-791,677

(Thousand yen)

	Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
Net cash provided by (used in) financing activities	-2,064,303	-7,701,210
Effect of exchange rate change on cash and cash equivalents	-77,897	-6,444
Net increase (decrease) in cash and cash equivalents	7,735,736	-7,780,292
Cash and cash equivalents at beginning of period	6,530,199	14,265,936
Cash and cash equivalents at end of period	14,265,936	6,485,643

(5) Note on going concern assumptions

None

(6) Important matters fundamental to the preparation of consolidated financial statements

Item	Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
1. Matters regarding the scope of consolidation	<p>(1) There are 2 consolidated subsidiaries: Shun Yin Investment Ltd. and MegaChips (Hong Kong) Limited.</p> <p>(2) There is no non-consolidated subsidiary.</p>	<p>(1) There is one consolidated subsidiary, i.e., Shun Yin Investment Ltd. MegaChips (Hong Kong) Limited, which was a consolidated subsidiary, is excluded from the scope of consolidation in the consolidated fiscal year under review because its liquidation proceedings are coming to an end.</p> <p>(2) There is no non-consolidated subsidiary.</p>
2. Matters regarding the application of the equity method	<p>An affiliated company to which the equity method is not applied is Mobile Television Inc.</p> <p>Reasons for not applying the equity method: The company to which the equity method is not applied had a negligible effect on consolidated net profit or loss and retained earnings, etc. and no significance as a whole, and was therefore excluded from the scope of consolidation.</p>	There is no equity method affiliate or non-equity method affiliate.
3. Matters regarding the fiscal year, etc. of consolidated subsidiaries	The closing date of Shun Yin Investment Ltd. and MegaChips (Hong Kong) Limited, consolidated subsidiaries, is December 31. Financial statements as of the closing date are used for the preparation of consolidated financial statements. However, adjustments necessary for consolidation were made for important transactions that were carried out between January 1, 2009 and March 31, 2009, which is the closing date for consolidated financial statements.	The closing date of Shun Yin Investment Ltd. and MegaChips (Hong Kong) Limited, consolidated subsidiaries, is December 31. Financial statements as of the closing date are used for the preparation of consolidated financial statements. However, adjustments necessary for consolidation were made for important transactions that were carried out between January 1, 2010 and March 31, 2010, which is the closing date for consolidated financial statements.
4. Matters regarding accounting standards (1) Valuation standards and method for important assets	<p>(i) Securities Other securities Securities with market value Market value method based on the market prices on closing date (the entire valuation gain and loss was processed using the method for entering directly in net assets, and the cost of sale was calculated based on the moving average method.)</p>	<p>(i) Securities Other securities Securities with market value As stated on the left</p>

Item	Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
(2) Depreciation method for important depreciable assets	<p>Securities without market value Recorded at cost using the moving average method However, money invested in investment partnerships is based on the individual method. An amount equivalent to the amount of equity in the properties of the investment partnership is recorded as "investment securities" under investments and other assets. The amount of investment in investment partnerships is recorded under "investment securities." An amount equivalent to the amount of equity in net profit and loss earned by investment partnerships is recorded under "non-operating profit and expense." At the same time, the amount of "investment securities" was increased or decreased by the above amount. The amount of "investment securities" was also decreased by the amount of dividends from investment partnerships.</p>	<p>Securities without market value As stated on the left</p>
	<p>(ii) Inventory a. Goods in process Recorded at cost using the individual method (The amount shown on the balance sheet is based on the method for reducing book value due to a decline in profitability.) b. Others Recorded at cost chiefly using the weighted average inventory costing method (The amount shown on the balance sheet is based on the method for reducing book value due to a decline in profitability.)</p>	<p>(ii) Inventory a. Goods in process As stated on the left b. Others As stated on the left</p>
	<p>(i) Property, plant and equipment Property, plant and equipment acquired on and after April 1, 2007: Chiefly the declining balance method Other than the foregoing: Chiefly the old declining balance method Major useful lives are as shown below: Buildings and accompanying facilities 3 to 18 years Others: 2 to 15 years</p>	<p>(i) Property, plant and equipment As stated on the left</p>
	<p>(ii) Intangible assets Straight line method However, the straight line method based on the period of possible use within the Company (generally 5 years) is applied to software used by the Company. The straight line method based on the period of possible sale (generally 3 years) is applied to software to be sold on the market. (iii) Long-term prepaid expenses a. Development expenses paid especially for the preparation of mass production: Straight line method based on the period of possible sale (generally 3 years)</p>	<p>(ii) Intangible assets As stated on the left (iii) Long-term prepaid expenses a. Development expenses paid especially for the preparation of mass production: As stated on the left</p>

Item	Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
	b. Others Equal amortization	b. Others As stated on the left
(3) Standards for recording important reserves and allowances	(i) Allowance for doubtful accounts In preparation for anticipated losses as a result of bad debts, the expected unrecoverable amount is recorded based on an actual bad debt ratio for general receivables, and by individually taking the possibility of collection into consideration for specified receivables, including loans that are likely to be unrecoverable. (ii) Provision for bonuses In preparation for the payment of bonuses to employees, the expected amount of payment that should be borne in the consolidated fiscal year under review is recorded. -----	(i) Allowance for doubtful accounts As stated on the left (ii) Provision for bonuses As stated on the left (iii) Provision for loss on construction contracts For contraction contracts, when aggregate construction costs applicable to realized revenue are highly likely to exceed aggregate construction revenue, and when the amount may reasonably be estimated, the amount expected to exceed aggregate construction revenue is recorded.
(4) Basis for recording significant revenue and expenses	-----	Basis for recording revenue related to engineering contracts (i) Construction for which the outcome of the construction activity by the end of the fiscal year under review is deemed certain. The completion percentage method (the percentage of construction is estimated based on a method using the ratio of the actual cost incurred to the total estimated cost) (ii) Other construction work Basis for completed construction
(5) Other important matters for the preparation of consolidated financial statements	The accounting treatment of consumption tax is based on the method for excluding consumption tax.	The accounting treatment of consumption tax is based on the method for excluding As stated on the left
5. Matters regarding the valuation of assets and liabilities of consolidated subsidiaries	The market value valuation method is adopted for the valuation of all assets and liabilities of consolidated subsidiaries.	As stated on the left
6. Matters regarding the amortization of goodwill and negative goodwill	Goodwill is amortized on a 5-year basis using the straight line method.	As stated on the left
7. Scope of funds for consolidated cash flow statements	The scope of funds includes cash on hand, on-call deposits, and short-term investments with a limited risk of change in value that can be easily converted into cash and will be redeemed within 3 months of the date of acquisition.	As stated on the left

(7) Change of important matters fundamental to the preparation of consolidated financial statements

Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
<p>(Change of the valuation standards and method for important assets)</p> <p>In the past, inventories held for the purpose of ordinary sale were recorded at cost chiefly using the weighted average inventory costing method. However, the Accounting Standard for the Measurement of Inventories (ASB Standard No. 9 dated July 5, 2006) was applied from the consolidated fiscal year under review. Inventories held for the purpose of ordinary sale are therefore recorded at cost chiefly using the weighted average inventory costing method (the amounts shown on the balance sheet are based on the method for reducing book value due to a decline in profitability).</p> <p>As a result, operating profit and ordinary profit decreased by 199,732,000 yen and income before income taxes and others declined by 690,424,000 yen from those based on the previous method.</p> <p>The effect on segment information is stated in the relevant section.</p>	<p>—————</p>
<p>(Change of accounting treatment for lease transactions)</p> <p>In the past, finance lease transactions other than lease transactions based on which the right of ownership of leased assets is transferred were based on the accounting treatment similar to the method for lease transactions. However, the Accounting Standard for Lease Transactions (ASB Standard No. 13 dated June 17, 1993, revised by the No. 1 Subcommittee of the Business Accounting Council on March 30, 2007) and the Guidance on Accounting Standard for Lease Transactions (ASB Guidance No. 16 dated January 18, 1994, revised by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on March 30, 2007) were applied from the consolidated fiscal year under review. As a result, finance lease transactions other than lease transactions based on which the right of ownership of leased assets is transferred are based on the accounting treatment similar to the method for ordinary sales transactions.</p> <p>This had no effect on the financial statements for the consolidated fiscal year under review.</p>	<p>—————</p>
<p>—————</p>	<p>(Matters regarding the scope of consolidation)</p> <p>MegaChips (Hong Kong) Limited, which was a consolidated subsidiary, is excluded from the scope of consolidation in the consolidated fiscal year under review because its liquidation proceedings are coming to an end.</p> <p>However, since the company's net profit and retained earnings and consolidated cash flow are included in Consolidated Profit and Loss Statements, Consolidated Statements of Changes in Shareholders' Equity, etc. and Consolidate Statements of Cash Flows for the period until its exclusion (i.e., fiscal year under review), they are included in the scope of consolidation.</p> <p>As a result, there is one consolidated subsidiary, i.e., Shun Yin Investment Ltd. as at the end of consolidated fiscal year under review.</p>

Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
<p style="text-align: center;">—————</p>	<p>(Matters regarding the application of the equity method) By applying the “Guidelines for Determining the Scope of Subsidiary and Affiliated Company in Consolidated Financial Statements” (the Accounting Standards Board of Japan (ASBJ), Corporate Accounting Standards Implementation Guideline No. 22 of May 13 of 2008), the Company reviewed the scope of its affiliates and decided that clearly did not have a significant influence on decisions about the financial matters and operational or business policies of Mobile Television Inc., an affiliated company to which the equity method was not applied. Therefore, Mobile Television is excluded from the scope of consolidation from the beginning of the consolidated fiscal year under review. As a result, there is no equity method affiliate or non-equity method affiliate.</p>
<p style="text-align: center;">—————</p>	<p>(Change of standards for recording revenue related to engineering contracts) The Company formerly recognized the construction revenues of engineering contracts by utilizing the completed contract method. Effective from the beginning of the consolidated fiscal year under review, however, it adopted the “Accounting Standard for Construction Contracts (the ASBJ Statement No. 15 issued on December 27, 2007)” and the “Guidance on Accounting Standard for Construction Contracts (ASBJ Implementation Guidance No. 18 issued on December 27, 2007)” to recognize the construction revenues. Accordingly, with respect to construction contracts whose construction work began during the fiscal year under review, the completion percentage method (the percentage of construction is estimated based on a method that uses the ratio of the actual cost incurred to the total estimated cost) is applied to the construction contracts through a process whereby the outcome of the construction activity is deemed certain by the end of the fiscal year, while the completed contract method is applied to other construction contracts. As a result of this change, compared to the previous method, net sales for the fiscal year under review rose 28,143,000 yen, operating income, ordinary income, and net income before taxes each fell 2,700,000 yen. The impact of this change on segment information is stated where relevant.</p>
<p style="text-align: center;">—————</p>	<p>(Provision for loss on construction contracts) In terms of construction contracts, effective from the consolidated fiscal year under review, the Company records any amount estimated to exceed aggregate construction revenue as a provision for losses on construction contracts, where the aggregate cost of construction is likely to exceed the aggregate revenue of construction and the amount can be reasonably estimated. This change was made to accommodate the establishment of an internal construction management system developed for the above “Change of recognition of construction revenues from engineering contracts,” and the provision is considered to have been established as an accounting practice as well as to promote financial health. As a result of this change, compared to the previous method, net sales for the fiscal year under review rose 25,246,000 yen, operating income, ordinary income, and net income before taxes each decreased by the same amount. The impact of this change on segment information is stated where relevant.</p>

(8) Change of notation method

Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
<p>(Consolidated balance sheet)</p> <p>1. With the application of the “Partial Amendment of Regulations for Terminology, Forms and Preparation Methods of Financial Statements” (Cabinet Office Ordinance No. 50, August 7, 2008), those indicated as “inventories” in the previous consolidated fiscal year are shown individually and separately as “goods and products,” “goods in process” and “materials and supplies” from the consolidated fiscal year under review. The amounts of “goods and products,” “goods in process” and “materials and supplies” that were included under inventories in the previous consolidated fiscal year were 1,427,215,000 yen, 335,168,000 yen and 496,795,000 yen, respectively.</p> <p>2. With the introduction of XBRL into EDINET, the following changes were made to improve the comparability of consolidated financial statements. Those shown as “buildings” in the previous consolidated fiscal year were shown as “equipment attached to buildings” from the consolidated fiscal year under review. Those shown as “trade accounts payable” in the previous consolidated fiscal year were shown as “trade notes and accounts payable” from the consolidated fiscal year under review.</p>	<p style="text-align: center;">—————</p> <p style="text-align: center;">—————</p>

(9) Additional information

Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
<p>(Accounting Standard for Disclosure of Transaction with Related Parties)</p> <p>The Accounting Standard for Disclosure of Transaction with Related Parties (ASB Standard No. 11 dated October 17, 2006) and the Guidance on Accounting Standard for Disclosure of Transaction with Related Parties (ASB Guidance No. 13 dated October 17, 2006) were applied from the consolidated fiscal year under review. This did not cause any change in the scope of the object of disclosure.</p>	<p style="text-align: center;">—————</p>

(10) Documented matters

(Related to Consolidated Balance Sheets)

End of the previous consolidated fiscal year (March 31, 2009)	End of the consolidated fiscal year under review (March 31, 2010)												
<p>*1. Those matters related to unconsolidated subsidiaries and affiliated companies are as shown below.</p> <p style="padding-left: 40px;">Investment securities (stock) 28,488,000 yen</p> <p>2. The Company entered into an overdraft facility agreement with its four banks to raise operating funds. The balance of the overdraft facility for which borrowings were not secured based on the above agreement as of the end of the consolidated fiscal year under review is as shown below.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 40px;">Limit of overdraft facility</td> <td style="text-align: right;">21,500,000,000 yen</td> </tr> <tr> <td style="padding-left: 40px;">Balance of actual borrowings</td> <td style="text-align: right;">5,000,000,000 yen</td> </tr> <tr> <td style="padding-left: 40px;">Difference</td> <td style="text-align: right;">16,500,000,000 yen</td> </tr> </table> <p>3. _____</p>	Limit of overdraft facility	21,500,000,000 yen	Balance of actual borrowings	5,000,000,000 yen	Difference	16,500,000,000 yen	<p>1. _____</p> <p>2. The Company entered into an overdraft facility agreement with its four banks to raise operating funds. The balance of the overdraft facility for which borrowings were not secured based on the above agreement as of the end of the consolidated fiscal year under review is as shown below.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 40px;">Limit of overdraft facility</td> <td style="text-align: right;">21,500,000,000 yen</td> </tr> <tr> <td style="padding-left: 40px;">Balance of actual borrowings</td> <td style="text-align: right;">— yen</td> </tr> <tr> <td style="padding-left: 40px;">Difference</td> <td style="text-align: right;">21,500,000,000 yen</td> </tr> </table> <p>*3. Inventories and the provision for loss on construction contracts related to construction contracts that are likely to incur losses are presented as is and are not offset. The amount equivalent to the provision for the loss on construction contracts included in inventories related to construction contracts that are likely to incur losses is 14,641,000 yen for work in process.</p>	Limit of overdraft facility	21,500,000,000 yen	Balance of actual borrowings	— yen	Difference	21,500,000,000 yen
Limit of overdraft facility	21,500,000,000 yen												
Balance of actual borrowings	5,000,000,000 yen												
Difference	16,500,000,000 yen												
Limit of overdraft facility	21,500,000,000 yen												
Balance of actual borrowings	— yen												
Difference	21,500,000,000 yen												

(Related to Consolidated Profit and Loss Statements)

Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)																						
<p>*1. Reduction of book value due to a decline in the profitability of inventories held for the purpose of ordinary sale</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 40px;">Cost of sales</td> <td style="text-align: right;">199,732,000 yen</td> </tr> <tr> <td style="padding-left: 40px;">Extraordinary loss</td> <td style="text-align: right;">490,692,000 yen</td> </tr> </table> <p>(Indicated by inclusion in loss on business restructuring)</p> <p>2. _____</p> <p>*3. The major expense items and amounts of selling, general and administrative expenses are as shown below.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 40px;">Salary</td> <td style="text-align: right;">624,978,000 yen</td> </tr> <tr> <td style="padding-left: 40px;">Provision for bonuses</td> <td style="text-align: right;">134,369,000 yen</td> </tr> <tr> <td style="padding-left: 40px;">Retirement benefit expenses</td> <td style="text-align: right;">10,694,000 yen</td> </tr> <tr> <td style="padding-left: 40px;">Research and development expenses</td> <td style="text-align: right;">1,606,128,000 yen</td> </tr> </table> <p>*4. Research and development expenses included in selling, general and administrative expenses and manufacturing costs for the fiscal year under review</p> <p style="text-align: right;">1,606,128,000 yen</p> <p>*5. This reflects a change to the systems business.</p>	Cost of sales	199,732,000 yen	Extraordinary loss	490,692,000 yen	Salary	624,978,000 yen	Provision for bonuses	134,369,000 yen	Retirement benefit expenses	10,694,000 yen	Research and development expenses	1,606,128,000 yen	<p>*1. Reduction of book value due to a decline in the profitability of inventories held for the purpose of ordinary sale</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 40px;">Cost of sales</td> <td style="text-align: right;">218,425,000 yen</td> </tr> </table> <p>*2. Provision for loss on construction contracts included in the cost of sales</p> <p style="text-align: right;">25,246,000 yen</p> <p>*3. The major expense items and amounts of selling, general and administrative expenses are as shown below.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 40px;">Salary</td> <td style="text-align: right;">535,611,000 yen</td> </tr> <tr> <td style="padding-left: 40px;">Provision for bonuses</td> <td style="text-align: right;">97,657,000 yen</td> </tr> <tr> <td style="padding-left: 40px;">Retirement benefit expenses</td> <td style="text-align: right;">31,493,000 yen</td> </tr> <tr> <td style="padding-left: 40px;">Research and development expenses</td> <td style="text-align: right;">1,374,064,000 yen</td> </tr> </table> <p>*4. Research and development expenses included in selling, general and administrative expenses and manufacturing costs for the fiscal year under review</p> <p style="text-align: right;">1,374,064,000 yen</p> <p>5. _____</p>	Cost of sales	218,425,000 yen	Salary	535,611,000 yen	Provision for bonuses	97,657,000 yen	Retirement benefit expenses	31,493,000 yen	Research and development expenses	1,374,064,000 yen
Cost of sales	199,732,000 yen																						
Extraordinary loss	490,692,000 yen																						
Salary	624,978,000 yen																						
Provision for bonuses	134,369,000 yen																						
Retirement benefit expenses	10,694,000 yen																						
Research and development expenses	1,606,128,000 yen																						
Cost of sales	218,425,000 yen																						
Salary	535,611,000 yen																						
Provision for bonuses	97,657,000 yen																						
Retirement benefit expenses	31,493,000 yen																						
Research and development expenses	1,374,064,000 yen																						

(Notes to Consolidated Statements of Changes in Shareholders' Equity, etc.)

Previous consolidated fiscal year (April 1, 2008 through March 31, 2009)

1. Notes on type and total number of outstanding shares and type and number of treasury stocks

	Number of shares as of the end of the previous consolidated fiscal year (shares)	Increase in number of shares during the consolidated fiscal year under review (shares)	Decrease in number of shares during the consolidated fiscal year under review (shares)	Number of shares as of the end of the consolidated fiscal year under review (shares)
Outstanding shares				
Common shares	24,904,517	-	237,200	24,667,317
Total	24,904,517	-	237,200	24,667,317
Treasury stock				
Common shares	451,552	237,409	242,679	446,282
Total	451,552	237,409	242,679	446,282

- (Notes) 1. A decrease of 237,200 shares in the number of outstanding common shares was due to the cancellation of treasury stocks.
2. The number of shares of treasury stock (common shares) increased 237,200 shares with the acquisition of treasury stock by resolution of the Board of Directors and 209 shares with the acquisition of shares the number of which is less than one stock trade unit.
3. The number of shares of treasury stock (common shares) decreased 237,200 shares with the cancellation of treasury stock, 5,400 shares with the exercise of stock acquisition rights and 79 shares with the disposal of treasury stock.

2. Notes on stock acquisition rights

Category	Breakdown of stock acquisition rights	Type of shares which are the object of stock acquisition rights	Number of shares which are the object of stock acquisition rights (shares)				Balance as of the end of the consolidated fiscal year under review (thousand yen)
			End of the previous consolidated fiscal year	Increase during the consolidated fiscal year under review	Decrease during the consolidated fiscal year under review	End of the consolidated fiscal year under review	
Submitting company (parent company)	Stock options resolved at the ordinary general meeting of shareholders on June 27, 2002	Common share	5,146	-	-	5,146	-
	Stock options resolved at the ordinary general meeting of shareholders on June 25, 2004	Common share	257,400	-	6,500	250,900	-
	Stock options resolved at the ordinary general meeting of shareholders on June 24, 2005	Common share	58,200	-	11,000	47,200	-
Total		-	-	-	-	-	-

- (Notes) 1. Stock options resolved at the ordinary general meeting of shareholders on June 25, 2004 decreased 5,400 shares due to the exercise of stock acquisition rights and 1,100 shares due to the loss of effect.
2. A decrease in stock options resolved at the ordinary general meeting of shareholders on June 24, 2005 was due to the loss of effect.

3. Notes on dividends

(1) Amount of dividends paid

Resolution	Type of share	Total amount of dividends (thousand yen)	Dividend per share (yen)	Record date	Effective date
Meeting of the Board of Directors held on May 9, 2008	Common shares	782,494	32	March 31, 2008	June 4, 2008

(2) Dividends for which the record date falls in the consolidated fiscal year under review, but the effective date falls in the following consolidated fiscal year

Resolution	Type of share	Total amount of dividends (thousand yen)	Funds for dividends	Dividend per share (yen)	Record date	Effective date
Meeting of the Board of Directors held on May 11, 2009	Common shares	799,294	Retained earnings	33	March 31, 2009	June 3, 2009

Consolidated fiscal year under review (April 1, 2009 through March 31, 2010)

1. Notes on type and total number of outstanding shares and type and number of treasury stocks

	Number of shares as of the end of the previous consolidated fiscal year (shares)	Increase in number of shares during the consolidated fiscal year under review (shares)	Decrease in number of shares during the consolidated fiscal year under review (shares)	Number of shares as of the end of the consolidated fiscal year under review (shares)
Outstanding shares				
Common shares	24,667,317	–	313,417	24,353,900
Total	24,667,317	–	313,417	24,353,900
Treasury stock				
Common shares	446,282	172	384,517	61,937
Total	446,282	172	384,517	61,937

- (Notes)
1. A decrease of 313,417 shares in the number of outstanding common shares was due to the cancellation of treasury stocks.
 2. The number of shares of treasury stock (common shares) increased by 172 shares with the acquisition of shares of less than one stock trade unit.
 3. The number of shares of treasury stock (common shares) decreased 313,417 shares with the cancellation of treasury stock and 71,100 shares with the exercise of stock acquisition rights.

2. Notes on stock acquisition rights

Category	Breakdown of stock acquisition rights	Type of shares which are the object of stock acquisition rights	Number of shares which are the object of stock acquisition rights (shares)				Balance as of the end of the consolidated fiscal year under review (thousand yen)
			End of the previous consolidated fiscal year	Increase during the consolidated fiscal year under review	Decrease during the consolidated fiscal year under review	End of the consolidated fiscal year under review	
Submitting company (parent company)	Stock options resolved at the ordinary general meeting of shareholders on June 27, 2002	Common share	5,146	–	5,146	–	–
	Stock options resolved at the ordinary general meeting of shareholders on June 25, 2004	Common share	250,900	–	250,900	–	–
	Stock options resolved at the ordinary general meeting of shareholders on June 24, 2005	Common share	47,200	–	–	47,200	–
Total		–	–	–	–	–	–

- (Notes)
1. The decrease in the number of stock options resolved at the ordinary general meeting of shareholders on June 27, 2002 was due to the loss of effect of stock acquisition rights.
 2. Stock options resolved at the ordinary general meeting of shareholders on June 25, 2004 decreased 71,100 shares due to the exercise of stock acquisition rights and 179,800 shares due to the loss of effect.

3. Notes on dividends

(1) Amount of dividends paid

Resolution	Type of share	Total amount of dividends (thousand yen)	Dividend per share (yen)	Record date	Effective date
Meeting of the Board of Directors held on May 11, 2009	Common shares	799,294	33	March 31, 2009	June 3, 2009

(2) Dividends for which the record date falls in the consolidated fiscal year under review, but the effective date falls in the following consolidated fiscal year

Resolution	Type of share	Total amount of dividends (thousand yen)	Funds for dividends	Dividend per share (yen)	Record date	Effective date
Meeting of the Board of Directors held on May 11, 2010	Common shares	655,883	Retained earnings	27	March 31, 2010	June 3, 2010

(Notes to Consolidated Statements of Cash Flows)

Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
1. Relationship between the closing balance of cash and cash equivalents and the amount shown on the consolidated balance sheet	1. Relationship between the closing balance of cash and cash equivalents and the amount shown on the consolidated balance sheet
Cash and deposits 14,565,936,000 yen	Cash and deposits 6,585,643,000 yen
Time deposits with more than 3 months to maturity -300,000,000 yen	Time deposits with more than 3 months to maturity -100,000,000 yen
<u>Cash and cash equivalents 14,265,936,000 yen</u>	<u>Cash and cash equivalents 6,485,643,000 yen</u>
2. Details of important non-cash transactions	2. Details of important non-cash transactions
Retirement of treasury stock 350,794,000 yen	Retirement of treasury stock 463,536,000 yen

(Segment information)

[Segment information by type of business]

Previous consolidated fiscal year (April 1, 2008 through March 31, 2009)

(Thousand yen)

	LSI business	Systems business	Total	Eliminated or group-wide	Consolidated
I Net sales and operating income (loss)					
Net sales					
(1) External customers	48,569,924	4,201,535	52,771,460	—	52,771,460
(2) Inter-segment	9,777	—	9,777	-9,777	—
Total	48,579,702	4,201,535	52,781,237	-9,777	52,771,460
Operating expenses	43,788,361	4,179,057	47,967,419	-8,813	47,958,605
Operating income (loss)	4,791,340	22,477	4,813,818	-963	4,812,854
II Assets, depreciation expense and capital expenditure					
Assets	10,923,592	4,050,825	14,974,418	18,140,684	33,115,103
Depreciation expense	440,505	619,419	1,059,925	71,770	1,131,695
Capital expenditure	71,140	830,382	901,522	5,872	907,394

(Notes) 1. Segment categories represent the categories used for internal control purposes.

2. Major products in each category

(1) LSI business: LSI for storing game software, LSI for home-use video game machines, LSI for digital camera image processing, LSI for image/audio processing for one -segment digital broadcasting/digital radio broadcasting, LSI for OFDM demodulation for one-segment digital television broadcasting/digital radio broadcasting/full-segment digital television broadcasting

(2) Systems business: Image transmission servers, digital video recorders, display controllers, image camera systems for equipment security, security controller terminals and surveillance cameras

3. Of assets, the overall assets of the Company included in the item "Elimination or corporate" amounted to 18,140,684,000 yen and chiefly consisted of the surplus working funds (cash and securities) of the Company and assets, etc. for administrative divisions.

4. Long-term prepaid expenses and the amount of reimbursement of long-term prepaid expenses are included in depreciation expense and capital expenditure.

5. Change of accounting standards

(Change of the valuation standards and method for important assets)

As stated in the "Change in important matters fundamental to the preparation of consolidated financial statements," the valuation standards and method for inventories held for the purpose of ordinary sale were changed in the consolidated fiscal year under review. As a result, operating expenses for the consolidated fiscal year under review increased 183,136,000 yen in the LSI business and 16,595,000 yen in the systems business from those based on the previous method, and operating income decreased by the same amount.

Consolidated fiscal year under review (April 1, 2009 through March 31, 2010) (Thousand yen)

	LSI business	Systems business	Total	Eliminated or group-wide	Consolidated
I Net sales and operating income (loss)					
Net sales					
(1) External customers	36,124,876	2,371,018	38,495,895	—	38,495,895
(2) Inter-segment	8,497	—	8,497	-8,497	—
Total	36,133,374	2,371,018	38,504,393	-8,497	38,495,895
Operating expenses	31,920,787	3,512,801	35,433,588	27,372	35,460,961
Operating income (loss)	4,212,587	-1,141,782	3,070,805	-35,870	3,034,934
II Assets, depreciation expense and capital expenditure					
Assets	12,283,428	2,298,023	14,581,452	12,030,762	26,612,215
Depreciation expense	133,941	1,120,049	1,253,990	64,733	1,318,723
Capital expenditure	52,257	203,881	256,139	28,972	285,111

(Notes) 1. Segment categories represent the categories used for internal control purposes.

2. Major products in each category

(1) LSI business: LSI for storing game software, LSI for home-use video game machines, LSI for digital camera image processing, LSI for image/audio processing for one-segment broadcasting, LSI for OFDM demodulation for one-segment broadcasting, LSI for high-definition AV recording
 (2) Systems business: Image transmission servers, digital video recorders, display controllers, image camera systems for equipment security, security controller terminals and surveillance cameras

3. Of assets, the overall assets of the Company included in the item "Elimination or corporate" amounted to 12,030,762,000 yen and chiefly consisted of the surplus working funds (cash and securities) of the Company and assets, etc. for administrative divisions.

4. Long-term prepaid expenses and the amount of reimbursement of long-term prepaid expenses are included in depreciation expense and capital expenditure.

5. Change of accounting standards

(Change of recognition of amount of completed construction and cost of completed construction)

As stated under "Changes in accounting policies and processing and representation methods adopted to prepare the consolidated financial statements for the current term," effective from the beginning of the consolidated fiscal year under review, the Company has changed the recognition of construction revenues from engineering contracts. As a result of this change, compared to the previous method, net sales for the fiscal year under review rose 8,008,000 yen, operating expenses increased 13,253,000 yen, and operating income fell 5,245,000 yen in the LSI business, while net sales rose 20,135,000 yen, operating expenses increased 17,590,000 yen and the operating loss declined 2,544,000 yen in the systems business.

(Provision for loss on construction contracts)

As stated under "Changes in accounting policies and processing and representation methods adopted to prepare the consolidated financial statements for the current term," effective from beginning of the consolidated fiscal year under review, in terms of construction contracts the Company records any amount estimated to exceed the aggregate construction revenue as a provision for losses on construction contracts, where the aggregate cost of construction is likely to exceed the aggregate revenue of construction and the amount can be reasonably estimated. As a result of this change, operating expense rose 25,246,000 yen while operating income fell by the same amount in the LSI business compared to the figures calculating using the previous method.

[Segment information by region]

Previous consolidated fiscal year (April 1, 2008 through March 31, 2009)

(Thousand yen)

	Japan	Asia	Total	Eliminated or group-wide	Consolidated
I Net sales and operating income (loss)					
Net sales					
(1) External customers	52,648,103	123,356	52,771,460	—	52,771,460
(2) Inter-segment	104,483	—	104,483	-104,483	—
Total	52,752,586	123,356	52,875,943	-104,483	52,771,460
Operating expenses	47,782,026	304,321	48,086,348	-127,743	47,958,605
Operating income (loss)	4,970,559	-180,965	4,789,594	23,260	4,812,854
II Assets	30,961,883	2,179,885	33,141,768	-26,665	33,115,103

(Notes) 1. Countries and regions are divided based on the degree of geographical proximity.

2. The breakdown of countries and regions belonging to the category of Japan is as shown below.

Asia: Taiwan, China (including Hong Kong)

3. Change of accounting standards

(Change of the valuation standards and method for important assets)

As stated in the “Change in important matters fundamental to the preparation of consolidated financial statements,” the standards and method for measuring inventories held for the purpose of ordinary sale were changed in the consolidated fiscal year under review. As a result, operating expenses increased 199,732,000 yen in “Japan” from those based on the previous method, and operating income decreased by the same amount.

Consolidated fiscal year under review (April 1, 2009 through March 31, 2010)

(Thousand yen)

	Japan	Asia	Total	Eliminated or group-wide	Consolidated
I Net sales and operating income (loss)					
Net sales					
(1) External customers	38,490,900	4,995	38,495,895	—	38,495,895
(2) Inter-segment	—	—	—	—	—
Total	38,490,900	4,995	38,495,895	—	38,495,895
Operating expenses	35,452,961	7,999	35,460,961	—	35,460,961
Operating income (loss)	3,037,938	-3,003	3,034,934	—	3,034,934
II Assets	22,068,078	4,544,136	26,612,215	—	26,612,215

(Notes) 1. Countries and regions are divided based on the degree of geographical proximity.

2. The breakdown of countries and regions belonging to the category of Japan is as shown below.

Asia: Taiwan, China (including Hong Kong)

3. Change of accounting standards

(Change of recognition of amount of completed construction and cost of completed construction)

As stated under “Changes in accounting policies and processing and representation methods adopted to prepare the consolidated financial statements for the current term,” effective from the beginning of the consolidated fiscal year under review, the Company has changed the recognition of construction revenues from engineering contracts. As a result, net sales for the consolidated fiscal year under review rose 28,143,000 yen, operating expenses increased 30,843,000 yen and operating income fell 2,700,000 yen in “Japan” from the figures calculated using the previous method.

(Provision for loss on construction contracts)

As stated under “Changes in accounting policies and processing and representation methods adopted to prepare the consolidated financial statements for the current term,” effective from beginning of the consolidated fiscal year under review, in terms of construction contracts the Company records any amount estimated to exceed the aggregate construction revenue as a provision for losses on construction contracts, where the aggregate cost of construction is likely to exceed the aggregate revenue of construction and the amount can be reasonably estimated. As a result, operating expenses for the consolidated fiscal year under review increased 25,246,000 yen while operating income fell by the same amount in “Japan” from the figures calculated using the previous method.

[Sales to foreign customers]

Previous consolidated fiscal year (April 1, 2008 through March 31, 2009) and consolidated fiscal year under review (April 1, 2009 through March 31, 2010)

Overseas sales account for only less than 10% of consolidated sales. For this reason, sales information in foreign countries is omitted.

(Per share information)

Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)		Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)	
Net assets per share	849.02 yen	Net assets per share	1,006.08 yen
Net income per share	110.21 yen	Net income per share	88.19 yen
Diluted net income per share	110.11 yen	Diluted net income per share	88.07 yen

(Note) The following shows the basis of calculation of net income per share and diluted net income per share.

	Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)	Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)
Net income per share		
Net income (thousand yen)	2,672,111	2,140,773
Amount that does not belong to ordinary shareholders (thousand yen)	—	—
Net income related to common shares (thousand yen)	2,672,111	2,140,773
Average number of common shares during the period	24,246,339	24,273,662
Diluted net income per share		
Net income adjustments (thousand yen)	—	—
Increase in number of common shares	21,774	34,867
(Number of stock acquisition rights)	(21,774)	(34,867)
Outline of latent shares without dilution effect not taken into account for calculation of diluted net income per share	2 types of stock acquisition rights (503 stock acquisition rights)	2 types of stock acquisition rights (502 stock acquisition rights)

(Notes) For one type of these stock acquisition rights, 30 unexercised rights lost effect due to the expiry of the exercise period on September 30, 2009.

(Material subsequent events)

Not applicable.

(Omission of disclosure)

Disclosure of notes to lease transactions, financial instruments, securities, derivative transactions, retirement benefits, stock options, tax effect accounting, business combinations, rental properties and related parties are omitted as the need to disclose these items in the Summary of Financial Results is considered limited.

These notes will be presented in the Securities Report to be submitted on June 24, 2010 and become available on the Electronic Disclosure for Investors' NETwork (EDINET).

5. Non-Consolidated Financial Statements

(1) Balance sheet

(Thousand yen)

	Previous fiscal year (March 31, 2009)	Fiscal year under review (March 31, 2010)
Assets		
Current Assets:		
Cash and deposits	14,253,169	5,856,446
Notes receivable-trade	13,600	5,054
Accounts receivable-trade	10,686,108	11,870,484
Merchandise and finished goods	1,007,453	366,934
Work in process	167,783	370,274
Raw materials and supplies	383,404	209,022
Advance payments-trade	651	—
Prepaid expenses	57,371	74,001
Income taxes receivable	—	257,531
Deferred tax assets	434,033	219,755
Other	156,413	44,024
Allowance for doubtful accounts	-760	-832
Total current assets	27,159,227	19,272,695
Noncurrent assets		
Property, plant and equipment		
Buildings	240,576	240,576
Accumulated depreciation	-145,939	-162,329
Buildings, net	94,637	78,247
Tools, furniture and fixtures	328,684	354,216
Accumulated depreciation	-235,139	-292,039
Tools, furniture and fixtures, net	93,544	62,176
Total property, plant and equipment	188,182	140,423
Intangible assets		
Telephone subscription right	2,775	2,775
Software	105,877	72,360
Total intangible assets	108,653	75,135
Investments and other assets		
Investment securities	362,493	824,406
Stocks of subsidiaries and affiliates	2,160,890	2,132,401
Long-term loans receivable	5,661	1,665
Long-term prepaid expenses	2,347,032	1,405,084
Long-term time deposits	100,000	—
Guarantee deposits	301,856	299,795
Claims provable in bankruptcy, claims provable in rehabilitation and other	3,448	2,717
Deferred tax assets	431,007	74,754
Allowance for doubtful accounts	-3,448	-2,717
Total investment and other assets	5,708,942	4,738,107
Total noncurrent assets	6,005,777	4,953,667
Total assets	33,165,005	24,226,362

(Thousand yen)

	Previous fiscal year (March 31, 2009)	Fiscal year under review (March 31, 2010)
Liabilities		
Current liabilities:		
Accounts payable-trade	2,579,261	1,435,794
Short-term loans payable	5,000,000	—
Current portion of long-term loans payable	2,000,000	—
Accounts payable-other	360,935	275,556
Income taxes payable	1,901,413	27,856
Accrued consumption taxes	198,462	—
Accrued expenses	133,845	101,415
Advances received	—	157
Deposits received	15,924	16,967
Unearned revenue	2,192	2,192
Provision for bonuses	307,830	232,316
Provision for loss on construction contracts	—	25,246
Total current liabilities	12,499,865	2,117,502
Noncurrent liabilities:		
Other	40,591	38,032
Total noncurrent liabilities	40,591	38,032
Total liabilities	12,540,456	2,155,535
Net Assets		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus		
Legal capital surplus	6,181,300	6,181,300
Total capital surpluses	6,181,300	6,181,300
Retained earnings		
Legal retained earnings	97,042	97,042
Other retained earnings		
Voluntary retained earnings	3,830,500	3,830,500
Retained earnings brought forward	6,275,199	6,872,359
Total retained earnings	10,202,741	10,799,901
Treasury stock	-660,018	-91,585
Total shareholders' equity	20,564,336	21,729,929
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	60,211	340,898
Total valuation and translation adjustments	60,211	340,898
Total net assets	20,624,548	22,070,827
Total liabilities and net assets	33,165,005	24,226,362

(2) Statements of Income

(Thousand yen)

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Fiscal year under review (From April 1, 2009 to March 31, 2010)
Net sales	52,764,415	38,495,895
Cost of sales		
Beginning finished goods	1,427,215	1,007,453
Purchase of finished goods	38,222,859	28,035,245
Cost of products manufactured	5,758,204	3,251,843
Total	45,408,280	32,294,542
Transfer to other account	738,425	119,216
Ending finished goods	1,007,453	366,934
Provision for loss on construction contracts	—	25,246
Cost of finished goods sold	43,662,401	31,833,636
Gross profit	9,102,013	6,662,258
Selling, general and administrative expenses		
Promotion expenses	104,025	153,532
Directors' compensations	235,650	234,900
Salaries	612,182	535,611
Provision for bonuses	134,369	97,657
Retirement benefit expenses	10,694	31,493
Depreciation and amortization	34,439	26,901
Research and development expenses	1,606,128	1,374,064
Commission fee	269,960	180,343
Other	1,181,529	992,104
Total selling, general and administrative expenses	4,188,979	3,626,609
Operating income	4,913,034	3,035,649
Non-operating income		
Interest income	6,757	3,536
Dividends income	100	130
Fiduciary obligation fee	533	—
Reversal of allowance for doubtful accounts	1,953	730
Income from disqualification of unclaimed dividends	1,188	1,885
Miscellaneous income	666	762
Total non-operating income	11,199	7,045
Non-operating expenses		
Interest expenses	93,612	55,429
Commitment fee	6,904	—
Loss on sales of accounts receivable	30,919	2,936
Loss on investments in partnership	331	19,468
Foreign exchange losses	15,466	31,423
Miscellaneous loss	3,798	167
Total non-operating expenses	151,032	109,426
Ordinary income	4,773,201	2,933,268

(Thousand yen)

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Fiscal year under review (From April 1, 2009 to March 31, 2010)
Extraordinary income		
Gain on sales of investment securities	118,440	49
Total extraordinary income	118,440	49
Extraordinary loss		
Loss on valuation of investment securities	39,644	16,527
Loss on valuation of stocks of subsidiaries and affiliates	61,501	—
Loss on sales of golf club memberships	9,500	—
Loss on liquidation of business	630,091	—
Loss on liquidation of subsidiaries	11,632	665
Total extraordinary loss	752,370	17,192
Net income before taxes	4,139,270	2,916,125
Income taxes-current	2,149,242	773,679
Income taxes-deferred	-492,229	378,442
Refund of income taxes for prior periods	—	-110,416
Total income taxes	1,657,013	1,041,705
Net income	2,482,257	1,874,420

(3) Statements of Changes in Net Assets

(Thousand yen)

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Fiscal year under review (From April 1, 2009 to March 31, 2010)
Shareholders' equity		
Capital stock		
Balance at the end of previous period	4,840,313	4,840,313
Balance at the end of the period	4,840,313	4,840,313
Capital surplus		
Legal capital surplus		
Balance at the end of previous period	6,181,300	6,181,300
Balance at the end of the period	6,181,300	6,181,300
Total capital surplus		
Balance at the end of previous period	6,181,300	6,181,300
Balance at the end of the period	6,181,300	6,181,300
Retained earnings		
Legal retained earnings		
Balance at the end of previous period	97,042	97,042
Balance at the end of the period	97,042	97,042
Other retained earnings		
Voluntary retained earnings		
Balance at the end of previous period	3,830,500	3,830,500
Balance at the end of the period	3,830,500	3,830,500
Retained earnings brought forward		
Balance at the end of previous period	4,927,322	6,275,199
Changes of items during the period		
Dividends from surplus	-782,494	-799,294
Net income	2,482,257	1,874,420
Disposal of treasury stock	-1,091	-14,429
Retirement of treasury stock	-350,794	-463,536
Total changes of items during the period	1,347,876	597,159
Balance at the end of the period	6,275,199	6,872,359
Total retained earnings		
Balance at the end of previous period	8,854,864	10,202,741
Changes of items during the period		
Dividends from surplus	-782,494	-799,294
Net income	2,482,257	1,874,420
Disposal of treasury stock	-1,091	-14,429
Retirement of treasury stock	-350,794	-463,536
Total changes of items during the period	1,347,876	597,159
Balance at the end of the period	10,202,741	10,799,901
Treasury stock		
Balance at the end of previous period	-718,718	-660,018
Changes of items during the period		
Purchase of treasury stock	-300,197	-256
Disposal of treasury stock	8,102	105,152
Retirement of treasury stock	350,794	463,536
Total changes of items during the period	58,699	568,432
Balance at the end of the period	-660,018	-91,585

(Thousand yen)

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Fiscal year under review (From April 1, 2009 to March 31, 2010)
Total shareholders' equity		
Balance at the end of previous period	19,157,760	20,564,336
Changes of items during the period		
Dividends from surplus	-782,494	-799,294
Net income	2,482,257	1,874,420
Purchase of treasury stock	-300,197	-256
Disposal of treasury stock	7,010	90,723
Retirement of treasury stock	—	—
Total changes of items during the period	1,406,576	1,165,592
Balance at the end of the period	20,564,336	21,729,929
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	470,431	60,211
Changes of items during the period		
Net changes of items other than shareholders' equity	-410,220	280,686
Total changes of items during the period	-410,220	280,686
Balance at the end of the period	60,211	340,898
Total valuation and translation adjustments		
Balance at the end of previous period	470,431	60,211
Changes of items during the period		
Net changes of items other than shareholders' equity	-410,220	280,686
Total changes of items during the period	-410,220	280,686
Balance at the end of the period	60,211	340,898
Total net assets		
Balance at the end of previous period	19,628,192	20,624,548
Changes of items during the period		
Dividends from surplus	-782,494	-799,294
Net income	2,482,257	1,874,420
Purchase of treasury stock	-300,197	-256
Disposal of treasury stock	7,010	90,723
Retirement of treasury stock	—	—
Net changes of items other than shareholders' equity	-410,220	280,686
Total changes of items during the period	996,355	1,446,279
Balance at the end of the period	20,624,548	22,070,827

- (4) Notes on going concern assumption
Not applicable.

6. Other

(1) Management Reshuffles

(i) Candidates for directors to be elected (on June 24, 2010)

New Position	Name	Current Position
Director, Officer, Manager of Production Management Department	Akira Takata	Officer, Manager of Production Management Department

(ii) Director expected to retire (on June 24, 2010)

New Position	Name	Current Position
Officer, General Manager of Security Business Division	Tadashi Sumi	Director, Officer, General Manager of Security Business Division

(2) Production, Orders and Sales

(i) Production

The following portrays production by business segment for the consolidated fiscal year under review.

Name of Business Segment	Production (thousand yen)	YoY ratio (%)
LSI business	35,672,499	73.8
Systems business	2,117,760	54.8
Total	37,790,260	72.4

(Notes) 1. The amounts are based on selling prices.

2. The amounts indicated above do not include consumption and other taxes.

3. Purchases of products from contracted manufacturers account for a large majority of the amount in the LSI business.

(ii) Goods purchases

There were no goods purchases during the consolidated fiscal year under review.

(iii) Orders

The following portrays orders received by business segment for the consolidated fiscal year under review.

Name of Business Segment	Orders (thousand yen)	YoY ratio (%)	Order backlog (thousand yen)	YoY ratio (%)
LSI business	35,689,896	73.9	150,767	27.0
Systems business	2,323,909	55.4	222,745	82.5
Total	38,013,806	72.4	373,513	45.1

(Note) The amounts indicated above do not include consumption and other taxes.

(iv) Sales

The following portrays sales by business segment for the consolidated fiscal year under review.

Name of Business Segment	Sales(thousand yen)	YoY ratio (%)
LSI business	36,124,876	74.4
Systems business	2,371,018	56.4
Total	38,495,895	72.9

(Notes) 1. The amounts indicated above do not include consumption and other taxes.

2. Inter-segment transactions are offset and eliminated.

3. Sales to major customers and their percentage of total sales are as follows:

Customer	Previous consolidated fiscal year (From April 1, 2008 to March 31, 2009)		Consolidated fiscal year under review (From April 1, 2009 to March 31, 2010)	
	Amount (thousand yen)	Ratio (%)	Amount (thousand yen)	Ratio (%)
Nintendo Co., Ltd.	45,861,478	86.9	33,479,509	87.0