

Consolidated Balance Sheets

MegaChips Corporation and its Consolidated Subsidiaries
March 31, 2010 and 2011

ASSETS	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Current assets:			
Cash and cash equivalents (Note 6 and 7)	¥ 7,503,256	¥ 6,585,643	\$ 90,237
Receivables			
Trade (Note 7)			
Notes	19,155	5,054	230
Accounts	15,140,665	11,870,484	182,088
Others	—	266,257	—
Allowance for doubtful receivables	(1,061)	(832)	(12)
Inventories (Note 11 and 12)	637,726	946,231	7,669
Deferred income taxes (Note 16)	273,434	219,755	3,288
Other current assets	172,545	111,316	2,075
Total current assets	23,745,723	20,003,911	285,576
Property and equipment:			
Buildings	215,065	240,576	2,586
Tools, furnitures and fixtures	382,975	354,216	4,605
	598,040	594,793	7,192
Less accumulated depreciation	(489,590)	(454,369)	(5,888)
Total property and equipment	108,449	140,423	1,304
Intangible assets (Note 13):	63,639	75,135	765
Investments and other assets:			
Investment securities (Note 7 and 8)	4,187,223	4,611,444	50,357
Long-term prepaid expenses	665,808	1,405,084	8,007
Deferred income taxes (Note 16)	186,008	74,754	2,237
Other investments	249,082	304,178	2,995
Allowance for doubtful receivables	(2,675)	(2,717)	(32)
Total investments and other assets	5,285,446	6,392,744	63,565
Total assets	¥ 29,203,259	¥ 26,612,215	\$ 351,211

The accompanying notes to the consolidated financial statements are an integral part of these statements.

LIABILITIES AND NET ASSETS	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Current liabilities:			
Payables:			
Trade (Note 7)	¥ 1,922,329	¥ 1,435,794	\$ 23,118
Others	418,428	275,556	5,032
Accrued expenses	395,795	333,791	4,760
Income taxes payable	897,643	44,771	10,795
Provision for loss on construction contracts (Note 12)	49,251	25,246	592
Other current liabilities	22,130	19,317	266
Total current liabilities	3,705,579	2,134,478	44,564
Long-term liabilities:			
Deferred income taxes (Note 16)	—	—	—
Other long-term liabilities	44,346	38,032	533
Total long-term liabilities	44,346	38,032	533
Total liabilities	3,749,926	2,172,511	45,098
Net Assets (Note 17):			
Shareholders' equity			
Common stock			
Authorized — 100,000,000 shares			
Issued			
24,353,900 shares in 2010			
24,038,400 shares in 2011	4,840,313	4,840,313	58,211
Capital surplus	6,181,300	6,181,300	74,339
Retained earnings	12,536,142	11,380,544	150,765
Treasury stock, at cost			
61,937 shares in 2010			
30,020 shares in 2011	(45,385)	(91,585)	(545)
Total shareholders' equity	23,512,370	22,310,572	282,770
Accumulated other comprehensive income			
Net unrealized gains on securities	2,326,955	2,451,726	27,985
Foreign currency translation adjustments	(385,993)	(322,594)	(4,642)
Total accumulated other comprehensive income	1,940,962	2,129,131	23,342
Total net assets	25,453,332	24,439,703	306,113
Total liabilities and net assets	¥ 29,203,259	¥ 26,612,215	\$ 351,211

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Income and Comprehensive Income

MegaChips Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2010 and 2011

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net sales	¥ 36,259,447	¥ 38,495,895	\$ 436,072
Cost of sales (Note 11 and 12)	29,731,376	31,833,636	357,563
Gross profit	6,528,071	6,662,258	78,509
Selling, general and administrative expenses (Note 15)	3,472,933	3,627,324	41,767
Operating income	3,055,137	3,034,934	36,742
Other income (expenses):			
Interest and dividend income	281,855	151,948	3,389
Interest expense	—	(55,429)	—
Gain on sales of investment securities	371,050	126,658	4,462
Loss on liquidation of business (Note 11 and 19)	(193,253)	—	(2,324)
Others, net (Note 19)	(25,276)	(58,651)	(303)
	434,375	164,524	5,224
Income before income taxes and minority interests	3,489,513	3,199,459	41,966
Income taxes (Note 16):			
Refund of income taxes for prior periods	—	(110,416)	—
Current	1,266,954	790,659	15,236
Deferred	(65,879)	378,442	(792)
Total income taxes	1,201,075	1,058,685	14,444
Income before minority interests	2,288,438	2,140,773	27,521
Net income	¥ 2,288,438	¥ 2,140,773	\$ 27,521
Income before minority interests	2,288,438	2,140,773	27,521
Other comprehensive income			
Net unrealized gain (loss) on investment securities	(124,770)	2,356,276	(1,500)
Foreign currency translation adjustments	(63,398)	120,692	(762)
Total other comprehensive income	(188,169)	2,476,969	(2,263)
Comprehensive income	2,100,269	4,617,742	25,258
	(Yen)		U.S. dollars (Note 1)
Amounts per share			
Net income — basic	¥ 94.64	¥ 88.19	\$ 1.13
Net income — diluted	—	88.07	—
Cash dividends	29.00	27.00	0.34

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

MegaChips Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2010 and 2011

	Number of shares of common stock issued	Thousands of yen						Total
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gains on securities	Foreign currency translation adjustments	
Balance at March 31, 2009	24,667,317	¥ 4,840,313	¥ 6,181,300	¥ 10,550,311	¥ (660,018)	¥ 95,449	¥ (443,287)	¥ 20,564,068
Cash dividends paid — ¥33.00 per share				(799,294)				(799,294)
Net income				2,140,773				2,140,773
Acquisition of treasury stock					(256)			(256)
Disposal of treasury stock				(14,429)	105,152			90,723
Retirement of treasury stock	(313,417)			(463,536)	463,536			—
Change in scope of consolidation				(33,279)				(33,279)
Net increase in unrealized gains on securities						2,356,276		2,356,276
Foreign currency translation adjustments							120,692	120,692
Balance at March 31, 2010	24,353,900	4,840,313	6,181,300	11,380,544	(91,585)	2,451,726	(322,594)	24,439,703
Cash dividends paid — ¥27.00 per share				(655,883)				(655,883)
Net income				2,288,438				2,288,438
Acquisition of treasury stock					(430,757)			(430,757)
Disposal of treasury stock								
Retirement of treasury stock	(315,500)			(476,957)	476,957			—
Change in scope of consolidation								
Net increase in unrealized gains on securities						(124,770)		(124,770)
Foreign currency translation adjustments							(63,398)	(63,398)
Balance at March 31, 2011	24,038,400	¥ 4,840,313	¥ 6,181,300	¥ 12,536,142	¥ (45,385)	¥ 2,326,955	¥ (385,993)	¥ 25,453,332

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gains on securities	Foreign currency translation adjustments	Total
Balance at March 31, 2010	\$ 58,211	\$ 74,339	\$ 136,867	\$(1,101)	\$ 29,485	\$(3,879)	\$ 293,923
Cash dividends paid — \$ 0.32 per share			(7,887)				(7,887)
Net income			27,521				27,521
Acquisition of treasury stock				(5,180)			(5,180)
Disposal of treasury stock							
Retirement of treasury stock			(5,736)	5,736			—
Change in scope of consolidation							
Net increase in unrealized gains on securities					(1,500)		(1,500)
Foreign currency translation adjustments						(762)	(762)
Balance at March 31, 2011	\$ 58,211	\$ 74,339	\$ 150,765	\$(545)	\$ 27,985	\$(4,642)	\$ 306,113

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

MegaChips Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2010 and 2011

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,489,513	¥ 3,199,459	\$ 41,966
Adjustments for:			
Depreciation and amortization	1,030,567	1,318,723	12,394
Increase (decrease) in accrued employee bonuses	50,501	(75,514)	607
Increase in provision for loss on construction contracts	24,005	25,246	288
Interest and dividend income	(281,855)	(151,948)	(3,389)
Interest expense	—	55,429	—
Gain on sales of investment securities	(371,050)	(126,658)	(4,462)
Loss on liquidation of business	167,699	—	2,016
Change in assets and liabilities:			
Decrease (increase) in:			
Receivables (trade)	(3,284,240)	(1,174,570)	(39,497)
Inventories	308,504	612,410	3,710
Other current assets	(140,459)	(48,487)	(1,689)
Increase (decrease) in:			
Payables (trade)	486,535	(1,116,057)	5,851
Other current liabilities	133,254	(299,442)	1,602
Other, net	51,693	67,610	621
	1,664,668	2,286,202	20,020
Interest and dividends received	281,682	152,036	3,387
Interest paid	—	(82,892)	—
Income taxes paid	(185,212)	(2,786,851)	(2,227)
Net cash provided by operating activities	1,761,138	(431,505)	21,180
Cash flows from investing activities:			
Proceeds from withdrawal of time deposits	100,000	300,000	1,202
Purchases of property and equipment	(33,388)	(30,003)	(401)
Purchases of intangible assets	(70,178)	(61,435)	(843)
Payments for investment securities	(125,145)	—	(1,505)
Proceeds from sales of investment securities	620,546	370,848	7,462
Payments for long-term prepaid expenses	(177,389)	(228,616)	(2,133)
Other, net	67,066	8,075	806
Net cash used in investing activities	381,510	358,867	4,588
Cash flows from financing activities:			
Net decrease in short-term debt	—	(5,000,000)	—
Repayment of long-term loans payable	—	(2,000,000)	—
Purchases of treasury stock	(430,757)	(256)	(5,180)
Proceeds from disposal of treasury stock	—	90,723	—
Cash dividends paid	(649,480)	(791,677)	(7,810)
Net cash provided by (used in) financing activities	(1,080,238)	(7,701,210)	(12,991)
Effect of exchange rate changes on cash and cash equivalents	(44,798)	(6,444)	(538)
Net increase in cash and cash equivalents	1,017,612	(7,780,292)	12,238
Cash and cash equivalents at beginning of year	6,485,643	14,265,936	77,999
Cash and cash equivalents at end of year (Note 4)	¥ 7,503,256	¥ 6,485,643	\$ 90,237

* Important noncash transactions: Retirement of treasury stock
¥463,536 thousand in 2010
¥476,957 thousand (\$5,736 thousand) in 2011

* The accompanying notes to the consolidated financial statements are an integral part of these statements.

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of MegaChips Corporation ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The significant portion of the accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP

and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2011, which was ¥83.15 to U.S. \$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Certain 2010 consolidated financial statement items have been reclassified to conform to the presentation for 2011.

2. Significant accounting policies

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and Shun Yin Investment Ltd. ("the Companies"), a significant subsidiary over which the Company has power of control through substantial ownership or existence of certain conditions evidencing control by the Company.

There are no equity method affiliates or non-equity method affiliates. The Company holds more than one fifth and less than one half of the voting rights of Mobile Television Inc. The Company has excluded Mobile Television Inc. from the scope of its affiliates after determining that the Company was unable to have a significant impact on the decision-making of Mobile Television Inc. for its financing, sales, or operational policies.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

All significant intercompany transactions and accounts have been eliminated.

(2) Cash and cash equivalents

Cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase and that present insignificant risk of change in value are considered to be cash and cash equivalents.

(3) Allowance for doubtful receivables

The allowance for doubtful receivables is stated at an amount based principally on the actual ratio of bad debts in the past plus the estimated uncollectible amounts based on the analysis of certain individual receivables.

(4) Inventories

Work-in-process is stated at cost determined by the specific identification method. Other inventories are stated mainly at cost determined by the average method. The amounts shown on the balance sheet are based on the method used for reducing book values due to a decline in profitability.

(5) Securities and investments

Available-for-sale securities with available fair market

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

values are stated at fair market value, and unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. The cost of sales of such securities is computed using moving average cost. Available-for-sale securities with no available fair market value are stated at moving average cost.

Investments in business partnerships are increased by earnings and decreased by losses and distributions from the business partnerships, and included in investment securities.

If the market value of equity securities issued by something must follow-such as "nonconsolidated subsidiaries" available-for-sale securities (including investments in business partnerships) declines significantly, the securities are stated at fair market value, and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline.

If the fair market value of equity securities issued by something must follow-such as "nonconsolidated subsidiaries" available-for-sale securities is not readily available, the securities should be written down to net asset value in the event net asset value declines significantly.

(6) Property and equipment

Property and equipment are stated at cost. Depreciation is computed principally on the declining balance method based on the estimated useful life of the asset. Depreciation of property and equipment acquired before March 31, 2007 is based on a previous fixed percentage of diminishing value method.

The principle estimated useful lives are as follows:

	2011	2010
Buildings	3~18 years	3~18 years
Others	2~15 years	2~15 years

(7) Intangible assets

Capitalized costs of internal use software are amortized by the straight-line method over the estimated useful life of mainly 5 years.

Capitalized costs of producing product masters to be sold are amortized on the straight-line method over the estimated period of future sales of mainly 3 years.

Amortization of other intangible assets is computed

on the straight-line method.

(8) Long-term prepaid expenses

Long-term prepaid expenses are amortized on the straight-line method.

Certain post-development stage expenses related to the initial mass production of new products, except for costs of producing product masters to be sold, are amortized on the straight-line method over the estimated period of future sales of 3 years.

(9) Bonuses

Accrued liabilities for employee bonuses as of the balance sheet date are based on the estimated amounts to be paid in the future.

(10) Provision for loss on construction contracts

The total cost of construction when is likely to exceed the total revenue and the amount can be reasonably estimated, the Companies record any amount estimated to exceed the total construction revenue as provision for loss on construction contracts.

(11) Basis for recording the revenue of engineering contracts

The percentage-of-completion method is applied to engineering contracts for which the outcome of the construction activity by the end of the fiscal year under review is deemed certain. The percentage of construction completed is estimated using the ratio of the actual cost incurred to the total estimated cost.

The completed contract method is applied to other construction contracts.

(12) Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(13) Translation of foreign currencies

All receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Assets, liabilities and income and expenses of a foreign subsidiary are translated into Japanese yen at the year-end rates. Net assets of a foreign subsidiary is translated into Japanese yen at the historical rate. The translation differences arising from the use of different rates are recognized as foreign currency translation adjustments in the consolidated balance sheets.

(14) Per share amounts of net income and cash dividends

The computation of net income per share shown in the consolidated statements of income is based upon the weighted average number of issued shares outstanding during each period.

Cash dividends per share shown in the consolidated statements of income represent actual amounts applicable to earnings in the respective fiscal year, including dividends to be paid after the end of the period.

3. Changes in significant accounting policies

(1) Changes regarding the scope of consolidation

MegaChips (Hong Kong) Limited, which was a consolidated subsidiary, has been excluded from the scope of consolidation since the end of the fiscal year that ended March 31, 2010 because its liquidation proceedings are coming to an end.

However, since the companies' net profit, retained earnings and consolidated cash flows are included in the consolidated statements of income, changes in net assets and cash flows for the period until its exclusion, the fiscal year under review, they are included in the scope of consolidation.

As a result, there is one consolidated subsidiary, Shun Yin Investment Ltd., as at the end of the fiscal year ended March 31, 2010.

(2) Changes regarding the application of the equity method

By applying the "Guidance on Accounting Standard for Determining a Subsidiary and an Affiliate for the Consolidated Financial Statements" (ASBJ Guidance No. 22 dated May 13, 2008), the Companies concluded that they did not have a significant influence on decisions about the financial matters and operational or business policies of Mobile Television Inc., an affiliated company, which had been excluded from the scope of the equity method. Therefore, Mobile Television Inc. was excluded from the scope of consolidation from the beginning of the fiscal year ended March 31, 2010. As a result of this exclusion,

there are no longer any equity method or non-equity method affiliates.

(3) Change in standards for recording revenue related to engineering contracts

In the past, the Companies recognized the construction revenues on engineering contracts by utilizing the completed contract method. Effective from the beginning of the consolidated fiscal year ended March 31, 2010, however, the Companies adopted the "Accounting Standard for Construction Contracts (the ASBJ Statement No. 15 dated December 27, 2007)" and the "Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No. 18 dated December 27, 2007)". Accordingly, with respect to construction contracts whose construction work began during the fiscal year under review, the percentage-of-completion method (the percentage of construction completed is estimated using the ratio of the actual cost incurred to the total estimated cost) is used with the construction contracts in which 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 with the amounts that would have been recorded with the previous method, net sales for the fiscal year ended March 2010 increased by ¥28,143 thousand, and operating income, ordinary income and net income before taxes each decreased by ¥2,700 thousand.

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The effect on segment information is stated in Note 18.

(4) Provision for loss on construction contracts

Effective from the fiscal year ended March 2010, when the aggregate cost of construction is likely to exceed the aggregate revenue and the amount can be reasonably estimated, the Companies record any amount estimated to the exceed aggregate construction revenue as a provision for loss on construction contracts.

This change was made to accommodate an internal construction management system developed for the above "Change of recognition of construction revenues from engineering contracts." The provision is considered to have been established as an accounting practice and to promote financial health.

As a result of this change, compared with the amounts that would have been recorded with the previous method, net sales for the fiscal year ended March 31, 2010 increased by ¥25,246 thousand, and operating income, ordinary income, and net income before taxes each decreased by the same amount.

The effect on segment information is stated in Note 18.

(5) Accounting standards regarding asset retirement obligations

Effective from the consolidated fiscal year under review, the Company has started applying the "Accounting Standard for Asset Retirement Obligations" (the Accounting Standards Board of Japan (ASBJ) Statement No. 18, issued on March 31, 2008) and the "Guidance on the Accounting Standard for Asset Retirement Obligations" (ASBJ Implementation Guidance No. 21, issued on March 31, 2008) to its consolidated financial statements.

This adoption had a minor effect on profits and losses for the consolidated fiscal year under review. Changes in asset retirement obligations as a result of the application of the accounting standard and the guidance amounted to ¥1,284 thousand (\$15 thousand).

The effects of this change on segment information were insignificant.

4. Changes in presentation methods

Consolidated Statements of Income and Statements of Comprehensive Income

The Company states "net income before minority interests" in its financial statements from the consolidated fiscal year under review with the application of the "Partial Amendment of Regulations for Terminology, Forms and Preparation Methods of Financial Statements" (Cabinet Office Ordinance No. 5, March 24, 2009) based on the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on December 26, 2008).

5. Additional information

Accounting Standard for the presentation of comprehensive income

Effective from the consolidated fiscal year under review, the Company has started applying the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued on June 30, 2010) to its consolidated financial statements.

6. Cash and cash equivalents

The relationship between the closing balance of cash and cash equivalents on the consolidated statements of cash flows and the amount of cash and deposits on the consolidated balance sheet were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and cash equivalents — balance sheets	¥ 7,503,256	¥ 6,585,643	\$ 90,237
Time deposits with more than 3 months to maturity	—	(100,000)	—
Cash and cash equivalents — statements of cash flows	¥ 7,503,256	¥ 6,485,643	\$ 90,237

7. Financial Instruments

(1) Status of financial instruments

(i) Policies for the handling of financial instruments

To improve the efficiency with which funds are used while applying appropriate risk control, the Companies have adopted the basic policies of concentrating the use of funds on its main business activities, refraining from speculative fund management, investing in financial instruments only after the details of the products and risks involved are clearly understood, and making investments after fully evaluating the historical performance and any potential investment impact.

The products in which the Companies invest are limited to bank deposits and public and corporate bond investment trusts, in which the principal is appropriately protected and for which the liquidity is high, and instruments in which credit and market risks are low. The Companies do not invest in financial instruments, such as derivatives, that carry significant investment risks. To minimize risks associated with fund management, the Companies manage funds in accordance with internal rules that stipulate strict investment rules (including rules for maximum investment amounts, restrictions on investment periods, and rating standards).

Moreover, while the Companies maintain sufficient funds to make payments for obligations arising from unexpected developments, they also maintain an appropriate level of funds for working capital. To meet their needs for working capital, the Companies raise funds, when necessary, but establish limits for borrowings from financial institutions and limits for the sale of their accounts receivable. The Companies adapt their policies each fiscal year by

taking into account factors such as their business performance, their funding requirements, and the efficiency of different methods of funding.

(ii) Details and risks of financial instruments

Cash and deposits are mainly deposited in the current accounts at the Companies' banks, primarily for use as working capital. These banks present almost no credit or liquidity risks as their credibility is very high and they do not demand collateral.

Notes and accounts receivable and trade receivables are exposed to the credit risk of customers. In the year under review, 92.9% of the operating receivables at the end of the consolidated fiscal year (94.8% as at the end of the previous consolidated fiscal year) were attributable to major customers. Considering their operating results and credit status, the credit risk associated with these receivables is believed to be very low.

Investment securities are categorized as available-for-sale securities and mainly consist of stocks held for investment and investment securities associated with investment partnerships. All of these investments have been made to collect information on present and future business partners about investments and future business development, with the aim of achieving synergies and improving corporate value. Consequently, if the business policies of the Companies or those of the issuing companies change, there is a risk that the initial plans may not be realized.

In addition, among shares held by the Companies, listed equity securities are exposed to market risk, while unlisted equity securities may become subject to

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accounting for impairment loss if the actual value of the issuing companies falls because of poor business performance or a deteriorating financial situation. Of all investment securities held as of the end of the consolidated fiscal year under review, shares held by subsidiaries accounted for 84.4% (82.1% as at the end of the previous consolidated fiscal year).

All trade payable are due in one year or less.

(iii) Risk management system

a. Credit risk

Credit risk is the risk of the Companies incurring loss as a result of a decline in or loss of value of their assets, due to credit events (reasons) such as dishonored checks or bankruptcy as a result of a deterioration in the financial conditions of business partners or issuing companies.

To maintain sound assets, the Accounting Department, the Finance Department and the Operating Department of the Companies control the due dates associated with and the outstanding balance of individual customers. The Companies have also developed a system in which credit screening, credit control and asset control are consistently carried out in accordance with the relevant accounting and sales management rules. In addition, the Companies evaluate their assets in accordance with the accounting standards and accounting and other related rules and adopt impairment accounting and post allowances when necessary.

b. Market risk

Market risk is the risk of the Companies incurring loss due to changes in the fair market value of financial instruments, as a result of fluctuations in interest rates, foreign exchange rates, and stock prices. It is a general term for risks associated with the assets or liabilities of the Companies associated with the interest rate fluctuation risk, exchange rate fluctuation risk, and

stock price fluctuation risk.

In accordance with the accounting rules and cash management rules, the Finance Department regularly monitors the fair market value and the financial condition of issuing companies. It also continuously reviews its investment policies by obtaining information about business plans and other relevant matters. The Finance Department also monitors trends in interest rates, foreign exchange rates and stocks in an effort to reduce the market risks associated with the Companies' assets and liabilities.

c. Liquidity risk

Liquidity risk is the risk of the Companies incurring loss due to a shortage of available cash, as a result of the Companies' inability to raise funds, because of a deterioration in their financial situation or other reason, or incurring loss because they are forced to accept significantly worse-than-usual funding conditions.

By constantly monitoring the management of funds and continuously preparing and updating funding plans, the Finance Department ensures that the Companies maintain funds sufficient to meet obligations that arise from unexpected developments, and that the Companies maintain an appropriate level of funds. As a measure to respond to liquidity risk, the Companies have also established credit lines (overdraft agreements) with their banks. No financial covenants are attached to the above overdraft agreements.

(iv) Supplementary explanation concerning the fair market value, etc. of financial instruments

In addition to values based on market prices, the fair market values of financial instruments include the values that are reasonably computed when there are no market prices available. When making such computations various factors are taken into account and different conditions may be adopted. For these reasons, fair market values may vary.

(2) Matters concerning the fair market values of financial instruments

Information about figures for financial instruments presented in the consolidated balance sheets, related fair values, and their differences as of March 31, 2011 are set forth in the tables below. Items whose fair market values are considered to be very difficult to obtain are not presented in the tables.

(Cash and cash equivalents)

Because cash and cash equivalents are highly liquid, the fair market value is similar to the book value. Consequently, the fair market value of cash and cash equivalents are based on book value.

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Figures presented in the consolidated balance sheets	¥ 7,503,256	¥ 6,585,643	\$ 90,237
Fair value	7,503,256	6,585,643	90,237
Difference	¥ —	¥ —	\$ —
Due in one year or less	¥ 7,503,256	¥ 6,585,643	\$ 90,237

(Trade receivables)

Because trade receivables are highly liquid, the fair market value is similar to the book value. Consequently, the fair market value of trade receivables is based on book value. Allowance for doubtful receivables associated with trade receivables has been deducted.

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Figures presented in the consolidated balance sheets	¥ 15,158,759	¥ 11,874,706	\$ 182,306
Fair value	15,158,759	11,874,706	182,306
Difference	¥ —	¥ —	\$ —
Due in one year or less	¥ 15,158,759	¥ 11,874,706	\$ 182,306

(Investment securities)

The fair values of shares, etc. are based on prices established on exchanges.

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Figures presented in the consolidated balance sheets	¥ 4,020,169	¥ 4,389,677	\$ 48,348
Fair value	4,020,169	4,389,677	48,348
Difference	¥ —	¥ —	\$ —

(Note) The above table includes securities which are included in investments in business partnerships.

Financial instruments whose fair value is considered to be very difficult to obtain are shown below. These financial instruments do not have a fair market value, and it is considered to be very difficult to obtain one because future cash flows cannot be estimated. As a result, these financial instruments are not included among investment securities above.

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Available-for-sale securities			
Non-listed equity securities	¥ 123,053	¥ 177,838	\$ 1,479
Non-listed bonds	4,026	2,235	48
Others	39,972	41,693	480

(Note) The above table includes securities which are included in investments in business partnerships.

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(Trade payables)

Because trade payables are highly liquid, the fair value is similar to the book value. Consequently, the fair values of trade payables are based on book value.

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Figures presented in the consolidated balance sheets	¥ 1,987,687	¥ 1,435,794	\$ 23,904
Fair value	1,987,687	1,435,794	23,904
Difference	¥ —	¥ —	\$ —

8. Securities

(1) The following tables summarize the costs, carrying amounts (the fair values), and unrealized gains and losses of equity securities classified as available-for-sale securities for which fair values were available at March 31, 2010 and 2011:

(i) Securities with unrealized gains

(Equity securities)

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Cost	¥ 1,506,845	¥ 1,646,428	\$ 18,122
Carrying amount	4,020,169	4,389,677	48,348
Unrealized gains	¥ 2,513,324	¥ 2,743,248	\$ 30,226

(Note) The above table includes securities which are included in investments in business partnerships.

(ii) Securities with unrealized losses

There were no equity securities classified as available-for-sale securities for which fair values were available with unrealized losses.

(2) Total sales of available-for-sale securities for the years ended March 31, 2010 and 2011 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Amount of sales	¥ 620,546	¥ 247,908	\$ 7,462
Total gain on sales	371,050	126,658	4,462
Total loss on sales	—	—	—

(3) The following table summarizes book values of securities with no available fair values at March 31, 2010 and 2011:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Available-for-sale securities:			
Non-listed equity securities	¥ 123,053	¥ 177,838	\$ 1,479
Non-listed bonds	4,026	2,235	48
Others	39,972	41,693	480

(Note) The above table includes securities which are included in investments in business partnerships.

9. Derivative transactions

The Companies do not use derivative transactions.

10. Retirement benefits

The Companies have adopted the prepaid retirement benefit system and the defined contribution plan system. Retirement benefit expenses associated with the above systems for the years ended March 31, 2010 and March 31, 2011 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Retirement benefit expenses	¥ 77,225	¥ 75,948	\$ 928

11. Inventories

(1) Inventories at March 31, 2010 and 2011 consisted of the following:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Finished products	¥ 282,662	¥ 366,934	\$ 3,399
Raw materials	104,227	208,757	1,253
Work-in-process	250,519	370,274	3,012
Supplies	317	264	3
Total	¥ 637,726	¥ 946,231	\$ 7,669

(2) Reduction of book value due to a decline in the profitability of inventories held for the purpose of ordinary sale for the years ended March 31, 2010 and 2011 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Cost of sales	¥ 52,927	¥ 218,425	\$ 636
Loss on liquidation of business	25,553	—	307

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12. Provision for loss on construction contracts

(1) 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 loss on construction contracts included in inventories related to construction contracts that are likely to incur losses was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Inventories	¥ 41,943	¥ 14,641	\$ 504

(2) The provision for loss on construction contracts included in the cost of sales for the consolidated fiscal year ended March 31, 2011 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Cost of sales	¥ 49,251	¥ 25,246	\$ 592

13. Intangible assets

Intangible assets at March 31, 2010 and 2011 consisted of the following:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Computer software	¥ 60,864	¥ 72,360	\$ 731
Others	2,775	2,775	33
Total	¥ 63,639	¥ 75,135	\$ 765

14. Short-term debt

(1) In order to achieve more efficient financing, the Companies have entered into overdraft agreements with certain financial institutions. The status of these agreements at March 31, 2010 and 2011 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Maximum overdraft amount	¥ 23,500,000	¥ 21,500,000	\$ 282,621
Credit used	—	—	—
Available credit	¥ 23,500,000	¥ 21,500,000	\$ 282,621

15. Research and development expenses

Research and development expenses are charged to income when incurred. Research and development expenses for the years ended March 31, 2010 and 2011 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Research and development expenses	¥ 1,217,416	¥ 1,374,064	\$ 14,641

16. Income taxes

The Companies are subject to a number of taxes based on income, which in the aggregate indicate a statutory rate in Japan of approximately 41% for the years ended March 31, 2010 and 2011.

(1) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2010 and 2011 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Accrued bonuses	¥ 114,908	¥ 94,389	\$ 1,381
Provision for loss on construction contracts	20,010	10,257	240
Enterprise taxes	69,892	—	840
Accrued legal welfare expenses	16,974	14,999	204
Valuation loss on inventory	40,389	98,731	485
Excess software costs	88,014	77,224	1,058
Excess long-term prepaid expenses costs	170,446	176,577	2,049
Directors' and corporate auditors' severance benefits	15,452	15,452	185
Loss on write-down of investment securities	40,600	47,419	488
Others	16,994	14,225	204
Offset with deferred tax liabilities	—	(9,552)	—
Total deferred tax assets	593,684	539,724	7,139
Valuation allowance	—	(11,920)	—
Deferred tax assets	593,684	527,804	7,139
Deferred tax liabilities:			
Accrued enterprise tax	—	(9,552)	—
Net unrealized gains on securities	(134,242)	(233,294)	(1,614)
Offset with deferred tax assets	—	9,552	—
Total deferred tax liabilities	(134,242)	(233,294)	(1,614)
Net deferred tax assets	¥ 459,442	¥ 294,510	\$ 5,525

(2) The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for the year ended March 31, 2010 and 2011, after tax effect accounting was applied.

	%	
	2011	2010
Statutory tax rate	40.6	40.6
(Adjustment)		
Expenses permanently non-deductible	2.5	2.1
Revised self-assessment and payment of income taxes	—	(3.5)
Tax credit for experiment and research expenses	(2.4)	(3.2)
Inhabitants per capita taxes	0.2	0.2
Increase (decrease) in valuation allowance	(0.3)	(0.1)
Others	(6.2)	(3.0)
Effective tax rate	34.4	33.1

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17. Net assets

Under the Japanese Corporate Law (“the Law”), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized by a resolution of the shareholders’ meeting.

The Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula.

Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

The directors, corporate auditors, employees and external collaborators of the Company and the Company’s subsidiaries may be granted options to purchase the Company’s common stock. Information related to these options is as follows:

(1) Granted at the general shareholders’ meeting held on June 24, 2005

A resolution to grant options to purchase the Company’s common stock (60,800 shares) to certain directors, corporate auditors and employees of the Company and the Company’s subsidiaries, and external collaborators of the Company and its subsidiary was approved at the general shareholders’ meeting held on June 24, 2005.

	Number of shares	Exercise price	
		Yen	U.S. dollars
Balance at March 31, 2009	47,200	¥ 2,586	
Exercised	(—)	—	
Forfeited	(—)	—	
Balance at March 31, 2010	47,200	2,586	\$ 31
Exercised	(—)	—	—
Forfeited	(47,200)	—	—
Balance at March 31, 2011	—	¥ —	\$ —

Remaining life: — years

18. Segment information

(1) Overview of reportable segments

The reportable segments of the Company are those units for which separate financial statements can be obtained among the constituent units of the Company and which are regularly examined by the Board of Directors for decisions on the allocation of management resources and for assessing business performance.

The Company conducts its business activities by establishing multiple business divisions depending on the types of products. Therefore, the Company creates segments by product based on business divisions. These segments are consolidated into segments with similar product characteristics, manufacturing processes, targeted markets and marketing methods. The Company has two reportable segments: the LSI business and the Systems business.

In the LSI business, the Company develops, manufactures, and sells products including customer-specific system LSI used for certain devices in the

digital home appliance field and electronic devices mounted with its system LSI. The Company employs a build-to-order system as its selling method and manufacturing is outsourced.

In the Systems business, the Company develops, manufactures, and sells products including customer-specific video surveillance systems used in the field of security. The Company employs a build-to-order system as its selling method and manufacturing is outsourced.

(2) Methods for calculating net sales, profit and loss, the value of assets, and amounts for other items by reportable segment

The accounting treatment for reportable segments is basically the same as the treatment for important matters fundamental to the preparation of the consolidated financial statements. Segment profits and losses are adjusted with operating income in the consolidated financial statements.

(3) Information about net sales, profit and loss by business segment of the Company for the years ended March 31, 2010 and 2011 is as follows:

	Thousands of yen			
	2011			
	LSI	System	Adjustment	Consolidated
Net sales:				
Customers	¥ 33,080,947	¥ 3,178,499	¥ —	¥ 36,259,447
Intersegment	—	—	—	—
	33,080,947	3,178,499	—	36,259,447
Segment profit (loss)	¥ 3,728,640	¥ (574,454)	¥ (99,048)	¥ 3,055,137

	Thousands of yen			
	2010			
	LSI	System	Adjustment	Consolidated
Net sales:				
Customers	¥ 36,124,876	¥ 2,371,018	¥ —	¥ 38,495,895
Intersegment	8,497	—	(8,497)	—
	36,133,374	2,371,018	(8,497)	38,495,895
Segment profit (loss)	¥ 4,212,587	¥ (1,141,782)	¥ (35,870)	¥ 3,034,934

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	Thousands of U.S. dollars			
	2011			
	LSI	System	Adjustment	Consolidated
Net sales:				
Customers	\$ 397,846	\$ 38,226	\$ —	\$ 436,072
Intersegment	—	—	(—)	—
	397,846	38,226	(—)	436,072
Segment profit (loss)	\$ 44,842	\$ (6,908)	\$ (1,191)	\$ 36,742

Corporate expenses included in the adjustment amount of segment profit but not allocated to each reportable segment were ¥27,372 thousand for the fiscal year ended March 2010 and ¥99,048 thousand (\$1,191 thousand for the year ended March 31, 2011), and mainly consist of general, selling and administrative expenses and research and development expenses that were not attributable to reportable segments.

(4) Information about assets and amounts for other items by business segment of the Company for the years ended March 31, 2010 and 2011 is as follows:

Depreciation and amortization include an amortized amount of long-term prepaid expenses. The increase in property, plant and equipment and intangible assets includes an increased amount of long-term prepaid expenses.

	Thousands of yen			
	2011			
	LSI	System	Adjustment	Consolidated
Segment assets	¥ 15,275,561	¥ 1,299,580	¥ 12,628,117	¥ 29,203,259
Others				
Depreciation and amortization	113,239	917,338	—	1,030,578
Increase in property, plant and equipment, and intangible assets	75,378	251,137	105,200	431,716

	Thousands of yen			
	2010			
	LSI	System	Adjustment	Consolidated
Segment assets	¥ 12,283,428	¥ 2,298,023	¥ 12,030,762	¥ 26,612,215
Others				
Depreciation and amortization	133,941	1,120,049	64,733	1,318,723
Increase in property, plant and equipment, and intangible assets	52,257	203,881	28,972	285,111

	Thousands of U.S. dollars			
	2011			
	LSI	System	Adjustment	Consolidated
Segment assets	\$ 183,710	\$ 15,629	\$ 151,871	\$ 351,211
Others				
Depreciation and amortization	1,361	11,032	—	12,394
Increase in property, plant and equipment, and intangible assets	906	3,020	1,265	5,192

Overall assets of the Company included in the adjustment for segment assets and undistributed to reportable segments amounted to ¥12,030,762 thousand for the fiscal year ended March 2010 and ¥12,628,117 thousand (\$151,871 thousand) for the fiscal year ended March 2011. They consisted of surplus working funds (cash and securities) at the Company and assets, etc., in connection with its administrative divisions.

The increase in property, plant and equipment and intangible assets includes capital investments, etc., in

connection with its administrative divisions. Depreciation and amortization in connection with equipment of its administrative divisions are distributed to each reportable segment.

Changes in significant accounting policies

Change in standards for recording revenue related to engineering contracts

As described in Note 3(3), the Company has adopted new standards for recording revenue related to engineering contracts from the fiscal year ended March 2010. As a result of this change, compared with the amounts that would have been recorded with the previous method, net sales from the LSI business segment increased by ¥8,008 thousand, operating expenses increased by ¥13,253 thousand, and operating income decreased by ¥5,245 thousand. Net sales from the Systems business segment increased by ¥20,135 thousand, operating expenses increased by ¥17,590 thousand, and operating loss

decreased by ¥2,544 thousand.

Provision for loss on construction contracts

As described in Note 3(4), when the aggregate cost of construction is likely to exceed the aggregate revenue of construction and the amount can be reasonably estimated, effective from the fiscal year ended March 2010, the Company records any amount estimated to exceed aggregate construction revenue as a provision for loss on construction contracts. As a result of this change, compared with the amounts that would have been recorded with the previous method, operating expenses from the LSI business segment increased by ¥25,246 thousand, and operating income decreased by the same amount.

(5) Information by geographic segment of the Companies for the years ended March 31, 2010 was as follows:

	Thousands of yen			
	2010			
	Japan	Asia	Corporate and eliminations	Consolidated
Net sales:				
Customers	¥ 38,490,900	¥ 4,995	¥ —	¥ 38,495,895
Intersegment	—	—	—	—
	38,490,900	4,995	—	38,495,895
Costs and expenses	35,452,961	7,999	—	35,460,961
Operating income (loss)	¥ 3,037,938	¥ (3,003)	¥ —	¥ 3,034,934
Assets	¥ 22,068,078	¥ 4,544,136	¥ —	¥ 26,612,215

Changes in significant accounting policies

Change in standards for recording revenue related to engineering contracts

As described in Note 3(3), the Company has adopted new standards for recording revenue related to engineering contracts from the fiscal year ended March 2010. As a result of this change, compared with the amounts that would have been recorded with the previous method, net sales from the Japan segment increased by ¥28,143 thousand, operating expenses increased by ¥30,843 thousand, and operating income decreased by ¥2,700 thousand.

Provision for loss on construction contracts

As described in Note 3(4), when the aggregate cost of construction is likely to exceed the aggregate revenue of construction and the amount can be reasonably estimated, effective from the fiscal year ended March 2010, the Company records any amount estimated to exceed aggregate construction revenue as a provision for loss on construction contracts. As a result of this change, compared with the amounts that would have been recorded with the previous method, operating expenses from the Japan segment increased by ¥25,246 thousand and operating income decreased by the same amount.

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(6) Net sales to major customers for the consolidated fiscal year ended March 31, 2010 and March 31, 2011 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Nintendo Co.,Ltd.	¥ 30,608,408	¥ 33,479,509	\$ 368,110

(Additional information)

The Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17, March 27, 2009) and the Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20, March 21, 2008) were applied from the consolidated fiscal year under review.

19. Other income (expenses)

(1) Loss on liquidation of business for the years ended March 31, 2011 depends on the review of a systems business.

(2) Other income (expenses): others net in the consolidated statements of income comprised the following:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Loss on investments in partnerships	¥ (18,874)	¥ (19,468)	\$ (226)
Exchange losses	(39,583)	(31,282)	(476)
Loss on valuation of investment securities	(—)	(28,880)	(—)
Others, net	33,182	20,980	399
Total	¥ (25,276)	¥ (58,651)	\$ (303)

20. Related party transactions

Transactions with a corporate auditor, who is also the Company's lawyer, for the years ended March 31, 2010 and 2011 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2011	2010	2011
Legal advisory fees	¥ 17,400	¥ 8,900	\$ 209

21. Subsequent events

(1) Dividend distribution of surplus

On May 10, 2011, the Company's Board of Directors resolved a dividend distribution as follows:

	Thousands of yen	Thousands of U.S. dollars
Cash dividends — ¥29 (\$0.34) per share	¥ 696,243	\$ 8,373

(2) Acquisition of treasury stock

A resolution was made on May 17, 2011 in accordance with Article 370 of the Japanese Corporate Law (“the Law”) (resolution in writing by omitting the resolution of the Board of Directors) on the acquisition of treasury stock and specific acquisition methods based on the provisions stipulated in Item 1 of Article 459 of the Law and the Company's Articles of Incorporation. As a result, treasury stock was acquired in the manner described below:

(i) Details of the resolution of the Board of Directors regarding the acquisition of treasury stock

- Purpose of acquisition: Improving the capital efficiency and returning profits to shareholders
- Type of stock to be acquired: Common stock of the Company
- Total number of shares to be acquired: 60,000 shares (maximum)
- Acquisition date: May 18, 2011
- Total acquisition amount: ¥100,000 thousand (\$1,202 thousand) (maximum)
- Acquisition method: Acquisition of treasury stock through ToSTNet – 3 of the Tokyo Stock Exchange.

(ii) Others

As a result of the acquisition through ToSTNet – 3 as described above, the Company acquired 54,000 shares of common stock for a total acquisition amount of ¥67,392 thousand (\$810 thousand).