

MegaChips Corporation
Annual Report 2011

Year Ended March 31, 2011

Manufacturing innovation



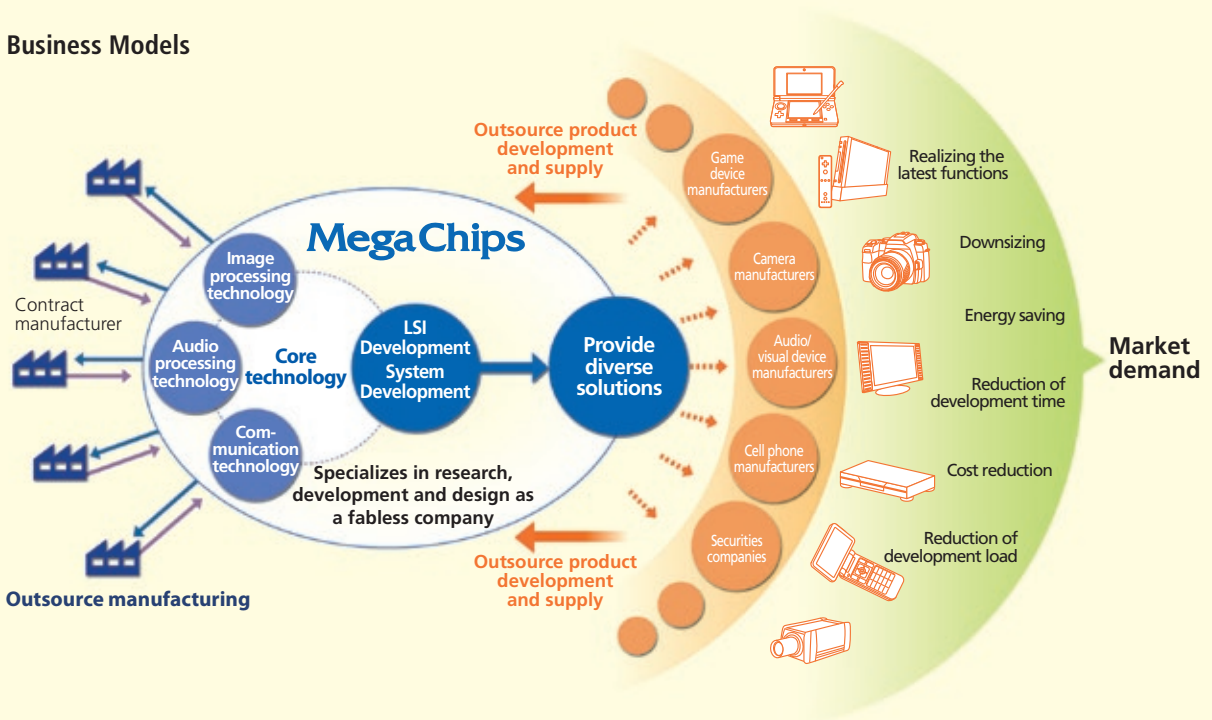
Offering State-of-the-Art Technologies for the Future of People and Society

MegaChips Corporation has developed original LSIs and system products and provided them to customers in the image, audio, and communications fields, based on a mission of helping people achieve safety, security and fulfilling lives, while protecting the global environment, based on sophisticated technological capabilities.

The emergency of the digital equipment environment in recent years has brought to Japan the advanced information society, in which product functionality improves rapidly and product types are diversifying. With these changes, manufacturing customers are asking MegaChips to provide increasingly sophisticated and diverse products.

MegaChips aspires to play a role in creating an affluent and highly fulfilling society, by supplying to its manufacturing customers a broad range of original solutions that large corporations find difficult to provide. The Company aims to offer these solutions by accurately identifying ongoing social changes, taking advantage of its characteristics as an R&D-oriented and fabless high-tech firm, and creating new value that has never existed before, applying its sophisticated technological capabilities.

Business Models



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Note:

This annual report includes forward-looking statements, with the exception of historical data that is noted as such. These statements are based on management's assumptions and projections in light of information currently available to the Company. These assumptions involve risks and uncertainties that may cause actual results, performance or achievements to be materially different from those expressed or implied in the forward-looking statements.

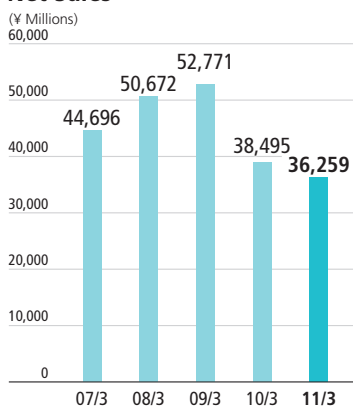
Financial Highlight

MegaChips Corporation and Consolidated Subsidiaries
For the five years ended March 31

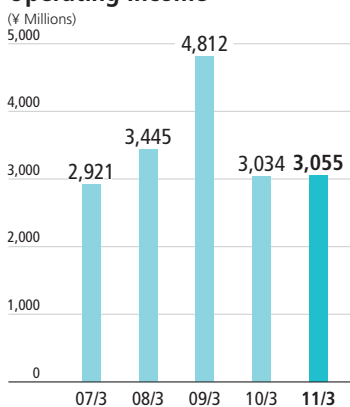
	Millions of yen except for per share information, and number of shares issued at year end					Thousands of U.S. dollars
	2007	2008	2009	2010	2011	2011
For the Year:						
Net sales	¥ 44,696	¥ 50,672	¥ 52,771	¥ 38,495	¥ 36,259	\$ 436,072
Cost of sales	37,867	42,833	43,671	31,833	29,731	357,563
Operating income	2,921	3,445	4,812	3,034	3,055	36,742
Net income	1,519	2,612	2,672	2,140	2,288	27,521
At Year-End:						
Total assets	32,342	35,329	33,115	26,612	29,203	351,211
Net assets	19,694	21,437	20,564	24,439	25,453	306,113
	Yen					U.S. dollars
Per Share Information:						
Net income — basic	61.34	105.60	110.21	88.19	94.64	1.13
Net income — diluted	61.07	105.22	110.11	88.07	—	—
	Shares					Shares
Number of Shares Issued at Year End	25,939,217	24,904,517	24,667,317	24,353,900	24,038,400	24,038,400

Note: The U.S. dollar amounts are provided solely for the convenience of the readers at the rate of ¥83.15 US\$1, the rate prevailing on March 31, 2011.

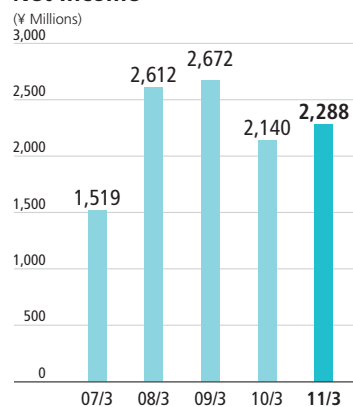
Net Sales



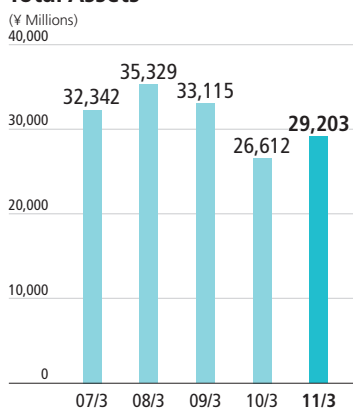
Operating Income



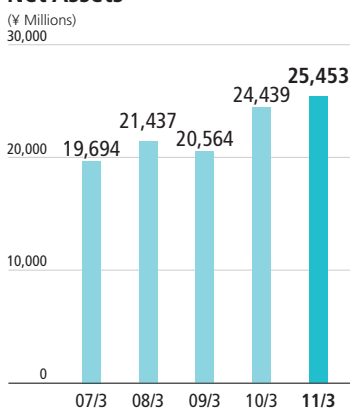
Net Income



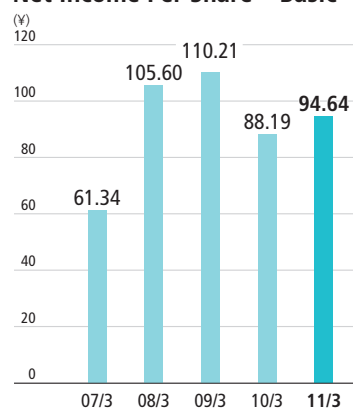
Total Assets



Net Assets



Net Income Per Share—Basic



By anticipating change, MegaChips seeks to achieve sustainable growth under a new management structure



Akira Takata

President and Representative Director

Profile

May	1990	Joined the Company
Jan	1994	General Manager, Product Division
Jun		Director, General Manager, Business Division
Apr	1998	Deputy General Manager of Systems Business Division
Jun	2001	Retired as Director
Apr	2003	Officer, Systems Business Unit
May	2005	Officer responsible for Chinese Business President of Shun Yin Investment Ltd. (incumbent)
Jan	2008	Officer, General Manager, Strategic Management Office
Feb	2009	Officer, General Manager, Strategic Alliance Office, Administrative Headquarters
Oct		Officer, Manager, Production Management Department
Jun	2010	Director
Dec		Officer, General Manager, LSI Business Division
Jun	2011	Appointed President and Representative Director (incumbent)

Thank you for the continued support and confidence you have shown for MegaChips.

We wish to convey our deepest condolences for the victims of the Great East Japan Earthquake that took place in March 2011, and offer our prayers for all our shareholders and their families in the afflicted areas.

My name is Akira Takata, and I became President and Representative Director of MegaChips following a resolution at the meeting of the Board of Directors held after the 21st Ordinary General Meeting of Shareholders.

The market is likely to evolve radically with the recent advances in the information society and the rapid expansion of the digital equipment market. In this changing environment, we are determined to take advantage of business opportunities and achieve further growth by developing forward-looking business models.

Yukihiro Ukai, the former President and Representative Director, will be supporting the new management as Senior Advisor.

We hope that we can continue to count on the support and understanding of our shareholders.

Operating results and dividends for the fiscal year ended March 2011

Despite the severe business environment, we achieved higher earnings, reflecting an increase in income from research and development expenses and a decline in losses in the systems business.

During the fiscal year ended March 2011, the electronic machinery and equipment industry in which we operate expanded on a year-on-year basis, albeit modestly. However, the economic recovery was slow, and the outlook remained uncertain.

Under these difficult operating conditions, net sales for the fiscal year under review amounted to ¥36,259 million (down 5.8% from the previous fiscal year ended March 31, 2010). However, the Company achieved higher earnings with operating income of ¥3,055 million (up 0.7%) and net income of ¥2,288 million (up 6.9%).

Looking at results by segment, in the LSI business, demand declined for mainstay LSIs for storing game software (custom memories). Demand also remained weak for image processing LSIs for digital single-lens reflex cameras. However, income from research and development expenses related to image processing technologies contributed to net sales. As a result, sales for the LSI business amounted to ¥33,080 million in the fiscal year under review (down 8.4% from the fiscal year ended March 31, 2010). Segment operating income totaled ¥3,728 million (down 11.5%).

In the systems business, demand remained strong for customer-specific digital image monitoring systems for security and monitoring applications. As a result, consolidated net sales for the systems business rose year on year, to reach ¥3,178 million (up 34.1%). The segment operating loss improved significantly to ¥574 million (compared with an operating loss of ¥1,141 million posted in the previous fiscal year).

With respect to dividend distribution to shareholders, the Company regards the return of profits to its shareholders as an important management policy. Consequently, it determines the amount of dividend distribution based on, in principle, either a dividend payout ratio of about 30% or a consolidated dividend on equity (DOE) of about 2%, whichever is

greater. The Company paid an annual dividend of ¥29 per share as an ordinary dividend (¥27 for the previous period) to shareholders as of March 31, 2011.

Medium-Term Management Plan

With earnings strengthened by a more focused business approach, MegaChips has developed strategies for growth five and ten years from now.

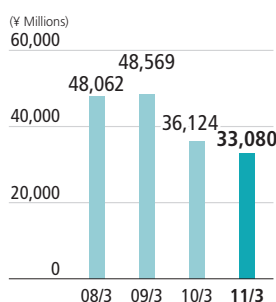
Since the fiscal year ended March 2010, Company has refined its business focus, concentrating on customer-orientated business and providing diverse technological solutions by using its images, audio, and communications technologies, areas in which it has a proven record, to major equipment manufacturers, in addition to system LSIs. As a result, the Company has steadily developed and launched new products in the game consoles and digital home appliances fields, and attracted new customers. Meanwhile, it has taken steps to lay the foundations for its medium-term growth. These initiatives included the joint development of technologies that contribute to household energy saving by focusing on eco-friendly energy as the new growth market.

In addition to the restructuring of its business portfolio, the Company has sought to achieve appropriate cost management, reduce production periods, and bolster operating efficiency. As a result, it achieved an operating margin of 8% for the fiscal year ended March 2011, solidifying its earnings foundation for sustainable future growth.

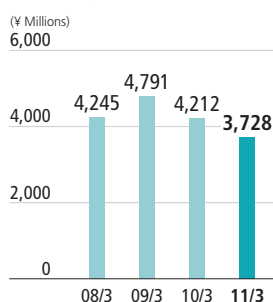
Segment Results

LSI Business

Net Sales

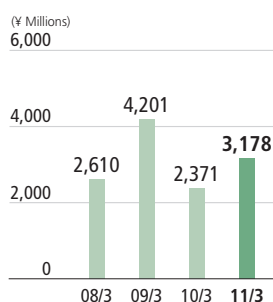


Operating Income

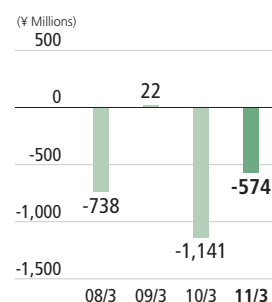


Systems Business

Net Sales



Operating Income



Based on these results, the Company has set the following three targets as the basic policies of the new medium-term management plan for growth five or ten years from now.

(i) In addition to strengthening customer-oriented business, take steps to develop a general-purpose solution business that provides platforms using the Company's unique technologies to a large number of customers, and achieve a sound business portfolio

In customer-oriented business, where it has a proven track record, the Company is determined to continue strengthening its business foundations by bolstering the technological and development capabilities that enable it to manage a wide range of products, including system LSIs and system products, and further improve its abilities to respond to requests of specific customers.

Moreover, the Company is committed to providing highly competitive solutions developed based on its own technologies to a large number of customers in the future. In doing so, it will provide platforms that use the Company's unique technologies as a technological base to customers in creating new high value-added products and services. Through these initiatives, the Company believes that it will be able to contribute to a range of customers in the creation of new businesses.

The Company regards this general-purpose

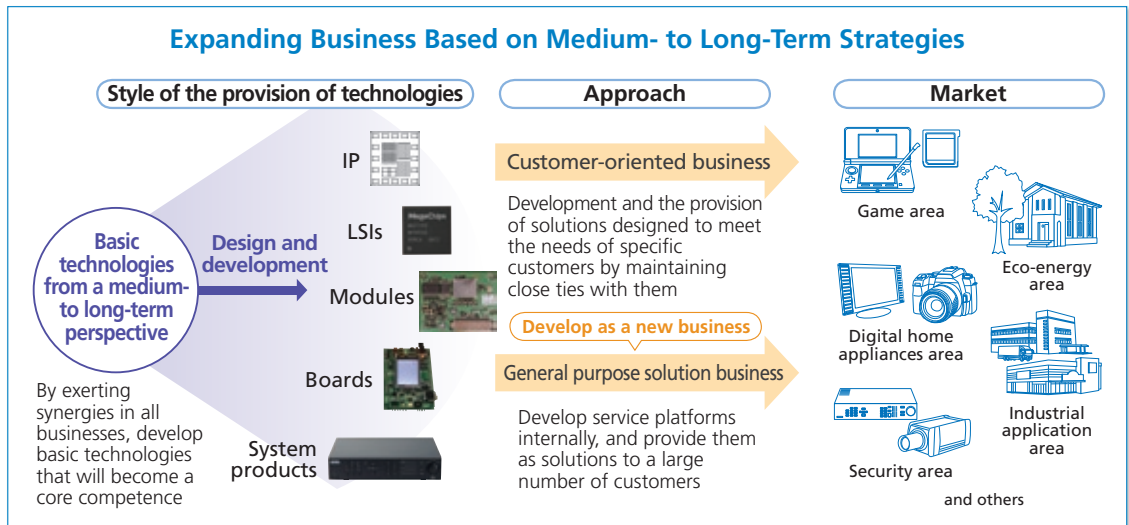
solution business as a critical business portfolio in expanding its operations over the medium and long terms, in addition to strengthening the customer-oriented business, its business foundation.

(ii) Strive to develop basic technologies from a medium-to long-term perspective, becoming a core technology to create new businesses

To create new businesses that become robust business portfolios in the future, the Company needs to possess superior technologies that out-shine its competitors, with basic technologies at the core. To achieve this, over the medium and long terms, the Company will allocate approximately 10% of its resources to basic technologies that will become the core technologies of the future. By achieving synergies in all businesses, the Company will strive to create forward-looking businesses.

(iii) Bolster business efficiency by boosting the profitability of operations

To continue to grow in a severe business environment, the Company needs to transform its businesses into highly profitable operations. To improve operating efficiency, the Company will continue to take steps such as developing global alliances, imposing cost control from the development stage, shortening production periods,



and maintaining appropriate inventory levels. Through these initiatives, it is determined to bolster its profitability.

Outlook of the fiscal year ending March 2012

The Company will achieve growth over the medium to long terms by balancing earnings from existing businesses with R&D investments for the future.

The market environment that the Company will face during the fiscal year ending March 2012 is likely to remain severe. Despite this, the customer-oriented business—an area of focus for the Company—has been progressing as planned and net sales are expected to reach ¥39.5 billion (up 8.9% year on year) on a consolidated basis. Operating income is expected to stand at ¥3.2 billion (rising 4.7%), while net income should be ¥2.2 billion (down 3.9%). The reason for the more modest rises in income compared with growth in net sales is that the Company will step up investments in research and development to ensure that growth is sustainable over the medium and long terms. All employees are united in their pursuit of the goals of the medium-term management plan, and the Company will seek to rapidly establish a business model that is responsive to future market changes, while taking steps to achieve growth five or ten years from now.

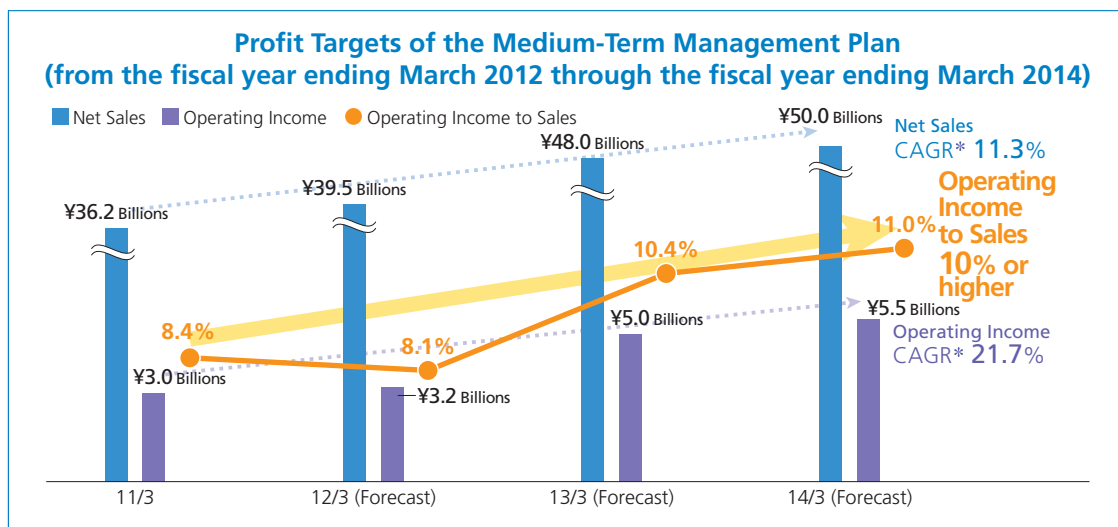


The effects of the Great East Japan Earthquake on the Company's operations are likely to be limited. While the production of mainstay LSI products has been outsourced to overseas semiconductor manufacturers, the impact on the output of certain products that are outsourced to manufacturers in Japan is expected to be limited since restoration of production capacity is making steady progress.

We hope that we can continue to count on the support and understanding of our shareholders.

July 2011

President and Representative Director



* CAGR: Compound Annual Growth Rate

R&D and Intellectual Property Strategy

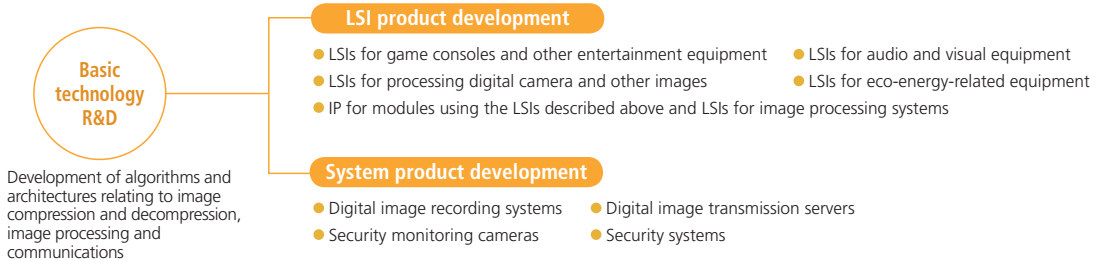
Pursuing and Harnessing Technical Innovation

R&D Policy and Development Themes

R&D Policy:

Provide the system LSI and the system products, as well as the service solutions using the applicable system products in the fields of images, audio, and communications.

Major R&D Themes



Intellectual Property Strategy

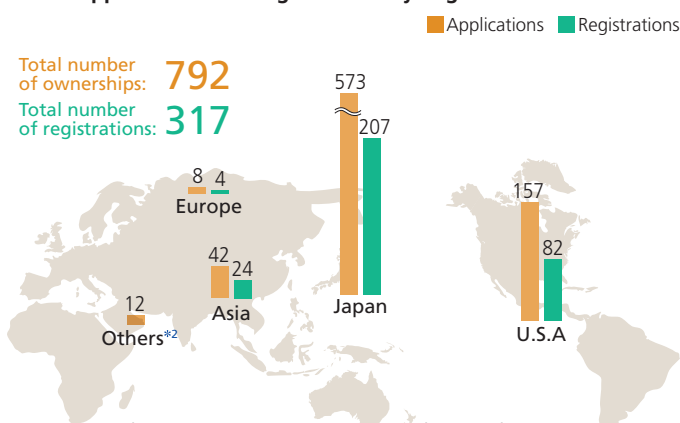
MegaChips protects its rights to technologies and other knowledge that it derives from its R&D activities. These intellectual assets make us even more competitive and underpin our distinctive products and services in the image, audio and communication fields, where technological progress is rapid.

Since we are a fabless technology company focused on R&D, our ideas at the R&D stage, know-how and other intellectual property centered on core and basic technologies constitute the foundation of our competitive advantage. We therefore define efforts to secure rights for intellectual property as a source of competitiveness

and pursue a strategy of obtaining intellectual property in line with the strategies of individual business segments.

In the fiscal year ended March 31, 2011, MegaChips continued to execute the initiatives that it had launched in the previous fiscal year to develop communications technologies, a traditional area of strength for us, seeking applications in ecology-related businesses. We have swiftly applied for the patents on these technologies. We have also submitted the patent applications on the image processing circuit technologies for developing new businesses related to digital cameras that are currently under development.

Patent Applications and Registrations by Region *1



*1 The number of cases shown are the cumulative total as of the end of March 2011.

*2 "Others" denotes the number of applications for patents that are valid under international patent treaties in multiple countries where MegaChips may begin operations in the future.

Major Patent Applications

(the Fiscal Year Ended March 31, 2011)

LSI Business

- Technologies to enhance the reliability of semiconductor memory
- Technologies to enhance the confidentiality of semiconductor memory
- Image processing and circuit technologies for digital cameras
- Facial (movement) recognition algorithms
- GPS-related technologies and applications
- Technologies for video image compression and decompression
- Mounting technologies for still image compression and decompression (JPEG XR)

Systems Business

- Image detection method of surveillance cameras

CSR Activities

As a Responsible Member of Society

Environmental Activities (fiscal year ending March 31, 2011)

MegaChips understands the importance of protecting the planet for future generations. Based on this understanding, we are committed to achieving symbiosis between our business and the environment, contributing to a greener and cleaner Earth. To achieve this, we have developed an environmental management system complying with ISO14001.

We are working on protecting the environment by manufacturing eco-friendly and recyclable products by developing lower-power-consuming and downsized products, reducing chemical substances that impact on the environment, and conducting green procurement by adopting our unique Green Procurement Guidelines, promoting eco-office activities that focus on conserving energy and resources in our offices, and conforming to laws, regulations, and other environmental policies from a compliance perspective.

Targets and Achievements of Environmental Conservation Activities for the Fiscal Year Ended March 2011

- A means the result was at least 110% of the target;
- B means the target was achieved;
- C means the result was at least 90% of the target;
- D means that the result was less than 90% of the target

Eco-Office Activities

	Activity	Goal	Result	Result/Goal
Energy saving	Reduce electricity consumption in offices	1%	3%	A
Resource conservation	Reduce copy/print paper in offices	1%	11%	A

Environmental Activities for LSI Products

	Activity	Goal	Result	Result/Goal
Eco products	Reduce the board surface by developing two layers of image processing LSIs for digital cameras *1	70%	70%	B
Green procurement	Promotion of the Green procurement *2	100%	100%	B

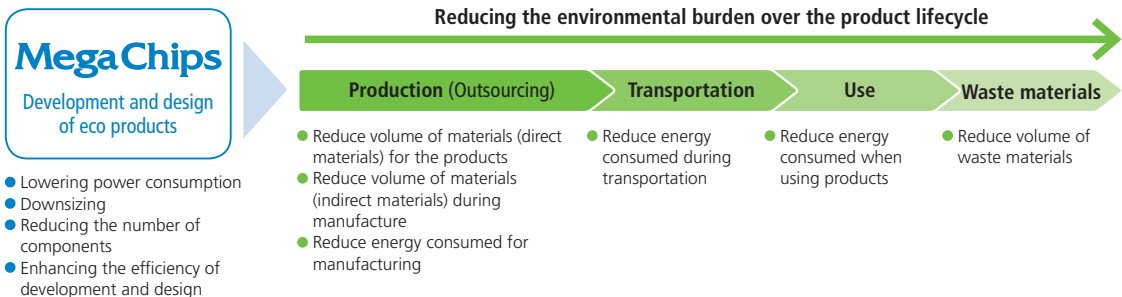
Environmental Activities for Systems Products

	Activity	Goal	Result	Result/Goal
Eco products	Downsize security products (design specification for one type of customer-specific product)	25%	27%	B
Green procurement	Promotion of the Green procurement *2	100%	100%	B

*1 LSI design method in which memories and other external components are installed on main chips.

*2 MegaChips achieved compliance with its Green Procurement Guidelines in all of its mass-produced products in the fiscal year ended March 31, 2011.

Major reduction in environmental burden with the development of eco products



Major social activities in the fiscal year ended March 31, 2011

Supporting Entrepreneurial Education for Students

Students at universities in the Kansai area are invited each year to take part in a new business idea contest called the Campus Venture Grand Prix Osaka. Based on our belief that young entrepreneurs are vital to the growth of Japan's economy, we have been supporting this contest from our inception. The director of MegaChips was on the jury at the new technology category of the 12th Campus Venture Grand Prix Osaka.

We intend to continue to support the contest in future years.



Awards ceremony at the 12th Campus Venture Grand Prix Osaka

Corporate Governance

Raising Corporate Value and Practicing Sound Corporate Management

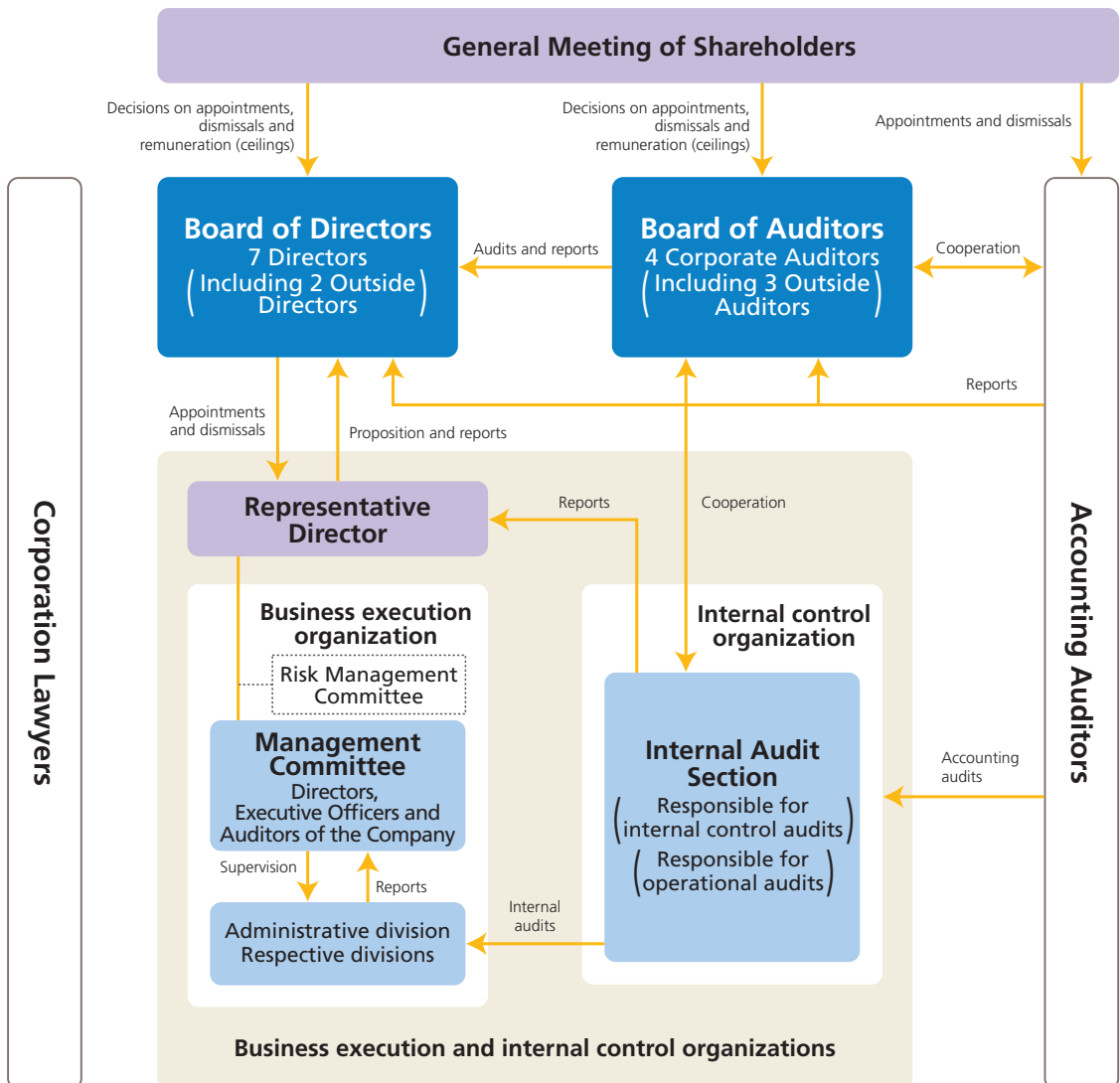
Our Basic View

We define our corporate social responsibilities as encompassing maintaining compliance, committing to the timely disclosure of important information, developing and supplying high-quality products that take full advantage of our own technologies, practicing comprehensive quality control and protecting the environment. In our view, consistently fulfilling these responsibilities is essential if we are to increase corporate value and if our directors and employees are

to continually recognize that only by faithfully meeting the expectations of society with sophisticated and unique technologies and earning public trust will the Company achieve sustained growth.

Based on this attitude, we seek to continuously improve our corporate governance to ensure that we make appropriate decisions, that our management is transparent and efficient, and that we convincingly demonstrate accountability.

Corporate Governance Structure



■ Governance Structure

● Board of Directors

The Board of Directors, which consists of seven Directors appointed at General Meetings of Shareholders, discusses strategies, makes decisions, and provides overall supervision of the operations of the Company. The Board of Directors, which meets once each month, has established a scheme that permits the eight Directors to examine management from diverse perspectives and to make the necessary decisions as the Company's ultimate business decision-making body, with a small number of directors enabling fast action.

Among the Directors, two* Outside Directors act to ensure management objectivity and transparency by asking questions, stating opinions and offering advice as may be necessary from external viewpoints.

■ Internal Control System

To achieve the objective of (1) increasing management effectiveness and efficiency, (2) ensuring the reliability of financial reports, (3) ensuring full compliance and (4) protecting assets, as required by law, the Board of Directors of the Company has established a basic policy covering internal control that reflects the provisions of the Company Law. Based on this policy, the Company strives to build and operate an internal control system in compliance with the rules set out in the Company Law and the Financial Instruments and Exchange Law.

The Company's Representative Director is responsible for establishing, executing and supervising internal control in accordance with the basic policy on internal control. The Representative Director supplies the Company's stakeholders with financial reports that are highly reliable and transparent, as required by law. In addition, the Representative Director puts mechanisms in place and makes arrangements to ensure that important internal tasks associated with financial reporting comply with laws and regulations and that those tasks are efficiently performed by "establishing" an internal control system and monitoring and evaluating the appropriate "application" of the system.

Specifically, the Internal Audit Section, which reports directly to the Representative Director,

● Auditors and the Board of Auditors

The Company has established a Board of Auditors. Three* of the Company's four Auditors appointed at General Meetings of Shareholders are Outside Auditors. The Company emphasizes the independence of its Auditors from Directors.

Each of the Auditors conducts audits to determine whether or not the Board of Directors is making decisions on basic management policies and important matters for the Company, and is executing operations appropriately.

The Board of Auditors monitors the compliance of executed tasks with laws, the Articles of Incorporation and internal regulations and determines their legality.

* None of the Outside Directors and Outside Auditors has been employed by the Company prior to the current appointments. The Company has no personnel, financial, technical, trade or any other relationship with any company for which any of its Outside Directors or Outside Auditors, or any of their close relatives serves as a director, with the exception of an advisory contract with a law firm to which one of the Outside Auditors belongs.

performs internal audits in cooperation with Auditors and examines whether or not the internal check system is functioning properly among the Company's divisions on a day-to-day basis.

The Internal Audit Section reports its audit findings to the Representative Director. The Section issues improvement orders based on the Representative Director's instructions and checks the state of improvement when there are items in need of improvement.

In addition, the Internal Audit Section undertakes internal control audits in accordance with the Financial Instruments and Exchange Law. The Section submits reports to the Representative Director after evaluating the status of establishment and application with respect to internal control. The Internal Audit Section also makes recommendations concerning improvements to managers as it sees fit.

Using the procedures described above, the Company examines and evaluates its internal control system.

No "serious flaw" or "inadequacy" was identified in the internal control report for the fiscal year ended March 31, 2011. The Company has also received from its Accounting Auditors an internal control audit report with an unqualified opinion for the same fiscal year.

(As of June 24, 2011)

Directors and Auditors

Directors



Akira Takata
President and Representative
Director



Yoshimasa Hayashi
Vice President and Representative
Director



Shigeki Matsuoka
Vice President and Representative
Director



Masayuki Fujii
Director and Officer



Tetsuo Furuichi
Director and Officer



Hiroyuki Mizuno
Director



Kunihiro Yamada
Director

Auditors



Tadashi Sumi
Standing Statutory Auditor



Nozomu Ohara
Auditor



Keiichi Kitano
Auditor



Hisakazu Nakanishi
Auditor

Financial Section

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Five-Year Summary

MegaChips Corporation and Consolidated Subsidiaries
For the five years ended March 31

	Millions of yen except for employees					Thousands of U.S. dollars*1	
	2007	2008	2009	2010	2011	2011	
For the Year							
Operating Results:							
Net sales	¥ 44,696	¥ 50,672	¥ 52,771	¥ 38,495	¥ 36,259	\$ 436,072	
Operating income	2,921	3,445	4,812	3,034	3,055	36,742	
Net income	1,519	2,612	2,672	2,140	2,288	27,521	
R&D expenses	1,293	1,361	1,606	1,374	1,217	14,641	
Segment Information:							
Net sales							
LSI Business	¥ 42,021	¥ 48,062	¥ 48,569	¥ 36,124	¥ 33,080	\$ 397,846	
Systems Business	2,675	2,610	4,201	2,371	3,178	38,226	
Operating income							
LSI Business	¥ 3,173	¥ 4,245	¥ 4,791	¥ 4,212	¥ 3,728	\$ 44,842	
Systems Business	(187)	(738)	22	(1,141)	(574)	(6,908)	
At Year-End							
Financial Position:							
Total assets	¥ 32,342	¥ 35,329	¥ 33,115	¥ 26,612	¥ 29,203	\$ 351,211	
Net assets	19,694	21,437	20,564	24,439	25,453	306,113	
Other Information:							
Employees	212	235	253	259	269	269	
	Yen except for PER and market capitalization					U.S. dollars*1	
Per Share Information							
Net income — basic	¥ 61.34	¥ 105.60	¥ 110.21	¥ 88.19	¥ 94.64	\$ 1.13	
Net income — diluted	61.07	105.22	110.11	88.07	—*3	—*3	
Net assets	794.84	876.66	849.02	1,006.08	1,060.19	12.75	
Cash dividends	18	32	33	27	29	0.34	
Stock Information (March 31)							
Stock price	¥ 2,385	¥ 1,258	¥ 1,563	¥ 1,400	¥ 1,484	\$ 17.84	
PER (Times)	38.88	11.91	14.18	15.87	15.68	15.68	
Market capitalization (Millions of yen, Thousands of U.S. dollars)	¥ 61,865	¥ 31,330	¥ 38,555	¥ 34,095	¥ 35,672	\$ 429,019	
Ratio							
Operating income to sales (%)	6.5	6.8	9.1	7.9	8.4		
ROE (%)	8.3	12.7 ^{*2}	12.7	9.5	9.2		
ROA (%)	5.4	7.7 ^{*2}	7.8	7.2	8.2		
Shareholders' equity ratio (%)	60.9	60.7	62.1	91.8	87.2		
Sales to total assets ratio (Times)	1.59	1.50	1.54	1.29	1.30		
Operating income per employee(Millions of yen)	¥ 14	¥ 15	¥ 20	¥ 12	¥ 12		

*1 The U.S. dollar amounts are provided solely for the convenience of the readers at the rate of ¥83.15 US\$1, the rate prevailing on March 31, 2011.

*2 Income for the fiscal year ended March 31, 2008 was increased approximately 770 million by the tax effects of a loss carried forward, which resulted from the absorption of a consolidated subsidiary on April 1, 2007.

*3 No details are presented as there are no residual securities with dilution effect.

Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

Analysis of Business Results

● Net Sales

The MegaChips Group recorded net sales of ¥36,259 million (down 5.8% year-on-year) for the consolidated fiscal year under review. Net sales for each business segment are as follows.

In the LSI business, demand declined for mainstay LSIs for storing game software (custom memories) and also remained weak for LSIs for digital single-lens reflex cameras. However, net sales benefited from revenue generated from previous research and development efforts.

As a result, consolidated net sales for the LSI business amounted to ¥33,080 million in the fiscal year under review (down 8.4% from the fiscal year ended March 31, 2010).

In the systems business, demand remained strong for customized digital image monitoring systems used for security checks. As a result, consolidated net sales for the systems business rose year on year, to reach ¥3,178 million (up 34.1%).

● Cost of Sales, SG&A Expenses and Operating Income

The consolidated cost of sales for the fiscal year was ¥29,731 million. The consolidated cost of sales ratio improved 0.7 percentage points from the previous fiscal year, to 82.0%. As a result, the consolidated gross profit fell 2.0% from the previous fiscal year, to ¥6,528 million.

Consolidated selling, general and administrative (SG&A) expenses declined ¥154 million from the previous fiscal year, to ¥3,472 million, reflecting initiatives taken to strengthen human resources and

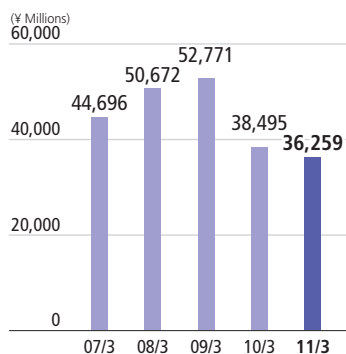
R&D, as well as those to streamline operations. SG&A expenses consisted mainly of personnel expenses of ¥1,242 million (up 3.0% from the previous fiscal year), including salaries, allowances for bonuses and other items, and R&D expenses of ¥1,217 million (falling 11.4% from the previous fiscal year). As a fabless company dedicated to research and development, MegaChips is proactive in its R&D activities. We invested ¥1,042 million and ¥87 million in such activities in the LSI Business and Systems Business, respectively.

As a result of the developments described above, consolidated operating income for the fiscal year under review rose 0.7% from the previous fiscal year, to ¥3,055 million. By business segment, consolidated segment profits for the LSI Business fell 11.5% from the previous fiscal year, to ¥3,728 million. Meanwhile, the consolidated segment losses for the Systems Business were ¥574 million (compared with a consolidated operating income of ¥1,141 million posted in the previous fiscal year).

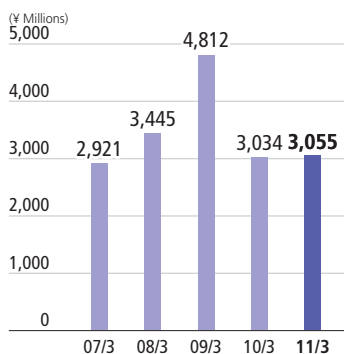
● Income Before Income Taxes and Minority Interests

The difference between non-operating income and non-operating expenses for the consolidated fiscal year under review stood at income of ¥265 million. The difference between extraordinary income and extraordinary losses was income of ¥168 million, mainly reflecting the recording of a gain on sales of investment securities of ¥371 million as extraordinary income. As a result, net income before taxes was ¥3,489 million (up 9.1% from the previous year).

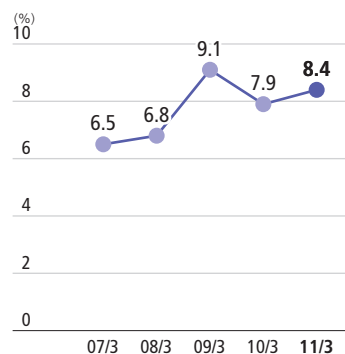
Net Sales



Operating Income



Operating Income to Sales



Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

● Net Income

Consolidated net income rose 6.9% from the previous fiscal year, to ¥2,288 million, the result of income, inhabitant and enterprise taxes totaling ¥1,266 million (a rise of 60.2% from the previous fiscal year) and adjustments for income taxes amounting to negative ¥65 million (compared with positive ¥378 million posted in the previous fiscal year).

● Dividends

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

(1) 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 fabless company dedicated to research and development), aiming to continuously improve our corporate value.

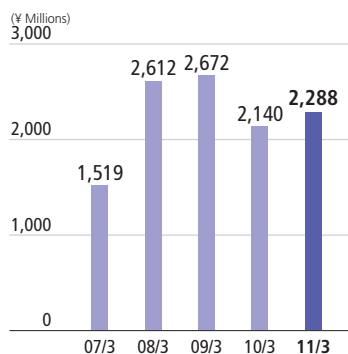
(2) The distribution of retained earnings shall be determined by taking into consideration such factors as consolidated operating results, financial

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 when 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.

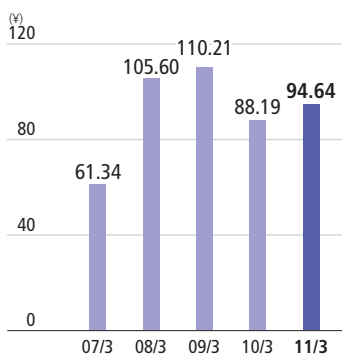
- a. Calculate the aggregate amount of dividends as an amount equivalent to about 30% of the consolidated net income, and divide this amount by the number of shares that have been issued at the end of the period, minus the number of shares held by the Company at the end of the period.
- b. Calculate 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.

(3) 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.

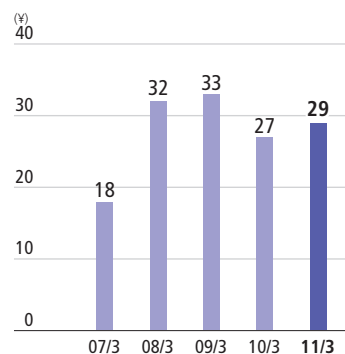
Net Income



Net Income Per Share—Basic



Dividends



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 ¥29 per share as an ordinary dividend (¥27 for the previous period) to shareholders as of March 31, 2011.

High Liquidity and Outstanding Reserves

● Cash Flow

Cash and cash equivalents (“net cash”) at the end of the fiscal year ended March 31, 2011 came to ¥7,503 million on a consolidated basis, up ¥1,017 million from the end of the year ended March 31, 2010 (down ¥7,780 million in the year ended March 31, 2010). The status of cash flows at the end of the year ended March 31, 2011 was as follows:

Net cash provided by operating activities was ¥1,761 million (compared with net cash used of ¥431 million in the year ended March 31, 2010), mainly reflecting net income before taxes of ¥3,489 million (up 9.1% year on year), the amortization of long-term prepaid expenses of ¥898 million, increased trade notes and trade accounts payable (up ¥486 million), and increased trade notes and trade accounts receivable (up ¥3,284 million).

Net cash provided by investment activities was ¥381 million (compared with net cash provided of ¥358 million in the year ended March 31, 2010), primarily reflecting income of ¥620 million from sales of investment securities and the purchase of long-term prepaid expenses of ¥177 million. As a result, free cash flow, which is the sum of the net cash provided

by operating activities and the net cash provided by investment activities, resulted in cash provided of ¥2,142 million (compared with ¥72 million of net cash used in the year ended March 31, 2010).

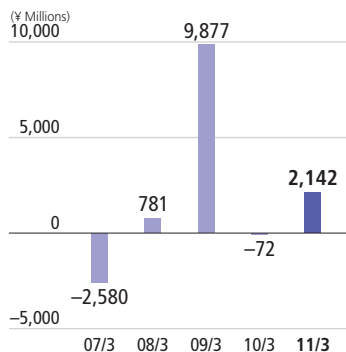
Net cash used in financing activities was ¥1,080 million (compared with net cash used of ¥7,701 million in the year ended March 31, 2010). This was due to cash dividends paid of ¥649 million, and the purchase of treasury stock of ¥430 million.

● Financial Policy

We borrow funds from financial institutions to raise working capital, when necessary. However, there were no borrowings from financial institutions during the consolidated fiscal year under review, and there was no outstanding balance of borrowings from financial institutions as at the end of the consolidated fiscal year under review.

We believe we can raise the funds we need for growth as required by selling accounts receivable on hand, borrowing from banks, or increasing capital, given our sound asset composition, financial position, and ability to generate cash flows through operating activities.

Free Cash Flow



Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

Financial Position

Total assets at the end of the fiscal year amounted to ¥29,203 million (an increase of ¥2,591 million from the end of the previous fiscal year). By asset item, current assets, centered on cash and cash equivalents, trade notes and accounts receivable, and inventories, rose ¥3,741 million from the previous fiscal year, to ¥23,745 million. The main contributing factors behind this change were increases in cash and deposits of ¥917 million from the end of the previous consolidated fiscal year, and in trade notes and trade accounts receivable of ¥3,284 million, offsetting a decline in inventories of ¥308 million. High liquidity characterizes the MegaChips balance sheet, as shown in the asset breakdown. Current assets accounted for 81.3% of total assets. The current ratio was 640.8%.

Quick assets, obtained by deducting an inventory of ¥637 million from these current assets, were ¥23,107 million. They accounted for 79.1% of consolidated total assets. This asset structure is a result of MegaChips operating as a fables company, which

does not have assets, such as production facilities, in which the Company makes long-term capital investments. We will continue striving to maintain sound and highly liquid assets in the future.

Total liabilities at the end of the fiscal year under review amounted to ¥3,749 million (a rise of ¥1,577 million year-on-year). The main contributing factors for this change from the end of the previous fiscal year were a rise in income taxes payable of ¥844 million and increases in notes and accounts payable-trade of ¥551 million. Liabilities consisted mainly of trade payables of ¥1,987 million, which were primarily outstanding payments to companies that manufacture LSIs for MegaChips as its contractors.

Net assets amounted to ¥25,453 million, up ¥1,013 million year-on-year. Net assets rose on the strength of factors, such as a 6.9% year-on-year increase in consolidated net income, to ¥2,288 million. The resulting shareholders' equity ratio for the end of the fiscal year under review was 87.2%.

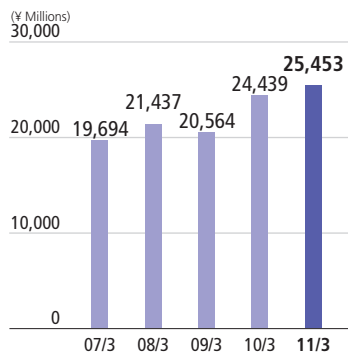
Research and Development, Patents and Other Intellectual Property Rights

MegaChips invested a consolidated total of ¥1,217 million in R&D expenses during the fiscal year under review, principally reflecting ¥1,042 million outlaid for the LSI Business and ¥87 million disbursed for R&D in the Systems Business.

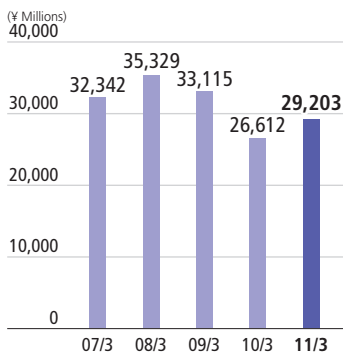
In the LSI Business, we are allocating our resources to research and development in the fields of images, audio and communications, targeting a wide

array of products, including entertainment equipment, such as game consoles, digital TV-related equipment, digital cameras, and environmental- and energy-related equipment. We are developing system LSIs that resolve issues identified in the equipment, module boards that use the system LSIs, and intellectual property for the system LSIs by integrating our systems expertise with our LSI knowledge.

Net Assets



Total Assets



In the Systems Business, we are developing technologies and products principally in the field of security monitoring.

We emphasize the protection of intellectual property rights in the form of patents and other industrial property rights as part of our management strategies. We had acquired a total of 317 patents,

three utility model patents and 50 trademark rights by the end of the fiscal year. MegaChips is currently applying for 475 patents. The combined number of patents and industrial rights both acquired and currently the subjects of application are 847, including 625 in the LSI Business and 222 in the Systems Business.

LSI Business

Industrial Property Rights (As of March 31, 2011)

	Patents	Utility Model Rights	Trademarks	IC Design Rights	Total
Acquired	245	3	9	2	259
Applied for	366	—	—	—	366
Total	611	3	9	2	625

Patents by Country (As of March 31, 2011)

	Japan	USA	Taiwan	China (including Hong Kong)	Korea	EU	Other	Total
Acquired	141	80	8	7	5	4	—	245
Applied for	259	75	3	9	6	4	10	366
Total	400	155	11	16	11	8	10	611

Systems Business

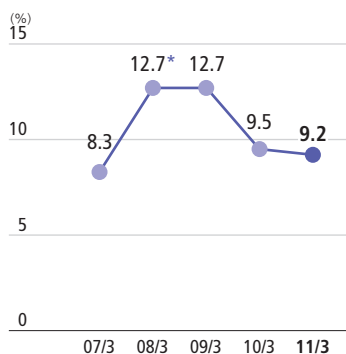
Industrial Property Rights (As of March 31, 2011)

	Patents	Utility Model Rights	Trademarks	IC Design Rights	Total
Acquired	72	—	41	—	113
Applied for	109	—	—	—	109
Total	181	—	41	—	222

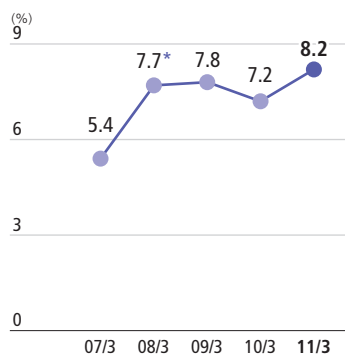
Patents by Country (As of March 31, 2011)

	Japan	USA	Taiwan	China (including Hong Kong)	Korea	EU	Other	Total
Acquired	66	2	1	2	1	—	—	72
Applied for	107	—	—	—	—	—	2	109
Total	173	2	1	2	1	—	2	181

ROE



ROA



* Income for the fiscal year ended March 31, 2008 was increased approximately 770 million by the tax effects of a loss carried forward, which resulted from the absorption of a consolidated subsidiary on April 1, 2007.

Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

Business and Other Risks

MegaChips has identified the following risks pertaining to its operations and other matters that may seriously affect investors' judgment.

Forward-looking statements in this section represent the judgment of MegaChips as of June 24, 2011.

● Dependence on Specific Customers

(1) Purchasers

MegaChips principally sells LSIs for storing game software (custom memories) for use in game consoles, LSIs for game consoles and their peripherals, LSIs for digital cameras image processing, and digital video monitoring systems for security and monitoring applications. However, the proportion of net sales that involves providing LSIs for game software (custom memories) to Nintendo Co., Ltd. ("Nintendo") is particularly high.

Accordingly, our operating results may be impacted by market trends for game software and the game consoles that use these products, and may also be influenced by the extent to which Nintendo adopts our products among other factors.

Net sales to Nintendo amounted to ¥30,608 million in the fiscal year under review. They accounted for 84.4% of consolidated net sales.

(2) Contract Manufacturers (Suppliers)

Since its foundation, MegaChips has adopted a business model in which it operates as an R&D-oriented fabless enterprise, concentrating its management resources on research and development. Consequently, MegaChips contracts the manufacturing of products to third parties, enabling it to develop products that best meet customer needs based on its unique technological capabilities and expand its business without the need to invest in plant and equipment that require substantial investments. We work with a number of different manufacturers in Japan and overseas, although a very significant percentage of purchases are made from Macronix International Co., Ltd. ("Macronix"), which manufactures on our behalf LSIs for storing game software (custom memories) supplied to our major customer Nintendo and LSIs for game consoles and their peripherals.

Hence, should Macronix cease manufacturing, our operating results may be impacted.

We have entered into contract manufacturing agreements with Nintendo and Macronix, respectively. We intend to build good and close ties with these companies to ensure a constant supply of products.

● Business

(1) Risks in the LSI Business

MegaChips has adopted a fabless model in which it owns neither manufacturing plant nor equipment of its own and instead contracts manufacturing to third parties. In the LSI business, manufacturing of products is contracted to semiconductor manufacturers.

Hence, demand and supply in the semiconductor market may affect the quantities and prices of products that we procure, and we may not be able to procure products in the quantities and at the prices that we have anticipated.

Our 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. Moreover, as equipment mounted with our LSIs is exposed to intense competition and demand volatilities, demand for our LSIs may fluctuate.

(2) Risks in the Systems Business

In the systems business, we mainly sell digital video monitoring systems that facilitate the development of digitization in the security and monitoring area. Demand for products in the security and monitoring area fluctuates based on trends in capital investment in this area and, accordingly, demand for our system products may be affected.

In addition, we have sought to maintain our technological edge in areas such as digital image processing and network technologies, and our competitive edge by supplying optimized specific video monitoring systems for customer services. However, technological change in this area is rapid and technological trends and developments in the services of other companies may affect demand for our system products.

Moreover, in the event that a totally new market is created, the market may not grow as we foresee and our operating results may be affected.

(3) Risks in Strategic Investment

In the event that we engage in strategic tie-ups, including equity participation, to accelerate the growth of our businesses, there is a possibility that the benefits that we anticipate, such as the creation of business synergies or increased earnings, may not materialize.

(4) Research and Development

Under the philosophy of expanding our business through "Innovation," remaining coexistent with customers

through “Credibility,” and continuing to contribute to society through “Creation,” we have operated based on our technological development capabilities. Our competitiveness derives from “Specialization” in products for specific customers and for specific areas of application in the growing image, audio, and communication-related markets, a “Concentration” of our resources on research and development activities to provide the most advanced technologies and products to our customers, and the showing of our “Uniqueness”.

We believe that we can continue to develop and introduce to the market innovative and attractive products. However, our industry is exposed to constant technological change, and new technologies, new services, or other changes may quickly emerge. There is no assurance that we can always respond quickly to these changes and we may be required to invest a large sum in research and development. This could in turn affect our operating results.

(5) Recruitment

MegaChips operates based on its technological development capabilities in the areas of images, audio, and communication, each of which demands excellent engineers. We have take steps to establish a personnel management policy necessary for that purpose and have maintained excellent technological development capabilities in our business. However, if many excellent engineers were to leave MegaChips or new engineers can not be recruited in the future, we could become less competitive.

● Management

(1) Defending against Acquisitions

MegaChips believes that defending against acquisitions that are not in the best interests of its shareholders is an important management issue. For this reason, we have been collecting information on recent acquisitions.

(2) Accounting Auditors

For any reason attributable to us or in the event that the accounting auditors violate or contravene laws or ordinances or we believe that the accounting auditors have offended public order or morals, the Board of Auditors shall deliberate on the dismissal or non-reappointment of the accounting auditors. In the event that we consider it appropriate to dismiss or not reappoint the accounting auditors, we shall request the Board of Directors to submit the “dismissal or non-reappointment of the account auditors” as a proposition to our General Meeting of Shareholders, and

the Board of Directors shall deliberate.

(3) Risk Concerning the Establishment of Internal Control Systems

MegaChips has recognized the emphasis on legal compliance and the establishment of a corporate governance system as important managerial issues. We have consequently taken steps to strengthen and enhance risk management.

We also instituted fundamental policies at the meeting of the Board of Directors on internal control pursuant to the provisions of the Company Law. Based on these policies, we have been improving our internal control systems, including those associated with financial statements, pursuant to the Financial Instruments and Exchange Law, carrying out our operations in accordance with the rules, and evaluating the results. In this way, we ensure that we manage our businesses properly and lawfully.

However, if any extraordinary event not assumed under the internal control systems that we have established were to occur, the credibility and comprehensiveness of financial reporting and information disclosure by us may not be assured. In this case, we may lose the trust of our stakeholders and we may experience a material adverse effect on our financial position and operating results.

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

(4) Intellectual Property Rights

As an R&D-oriented fabless enterprise, MegaChips recognizes that the protection of its intellectual property rights is material to its business development.

In addition, we have concentrated on building an internal system for intellectual property rights and strengthening cooperation with patent law offices to actively file applications to register patents and trademarks and protect the products and services we offer. We simultaneously investigate the rights of other companies thoroughly, to prevent any infringements.

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

As of June 24, 2011, no litigation had been filed against us in respect to any intellectual property right.

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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MegaChips Corporation and its Consolidated Subsidiaries

(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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MegaChips Corporation and its Consolidated Subsidiaries

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

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

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

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

	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.

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

(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).

Corporate Data/Stock Information

Corporate Data (As of June 24, 2011)

Company Name: MegaChips Corporation

Business Activities:

Design, development and sales of systems LSIs, and electronic devices and systems products with LSIs manufactured by the Company

Head Office:

4-1-6, Miyahara, Yodogawa-ku, Osaka 532-0003, Japan
Phone: +81-6-6399-2884 FAX: +81-6-6399-2886

Tokyo Sales Office:

17-6, Ichibancho, Chiyoda-ku, Tokyo 102-0082, Japan
Phone: +81-3-3512-5080 FAX: +81-3-3262-3598

Representative:

Akira Takata, President and Representative Director

Capital Stock: ¥4.84 billion

Total Assets: ¥29.20 billion (as of March 31, 2011)

Date of Settlement of Accounts: March 31 of each year

Established: April 4, 1990

Consolidated Subsidiaries:

Shun Yin Investment Ltd.

Stock Information (As of March 31, 2011)

Authorized Stock: 100,000,000

Shares of Common Stock Outstanding: 24,038,400

Listing of Stock:

Listed on the No.1 Section of the Tokyo Stock Exchange

Securities Code Number: 6875

Number of Shareholders: 26,220

Settlement Date: March 31

General Shareholders' Meeting: June

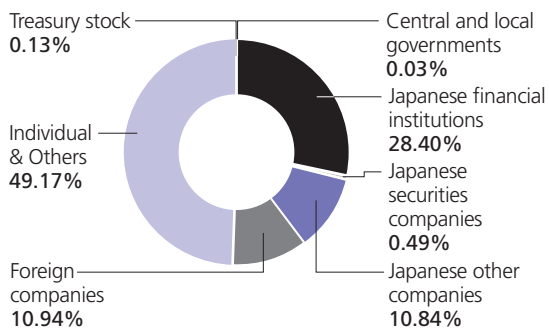
Shareholders' List Closing Date: March 31

Share Trading Unit: 100

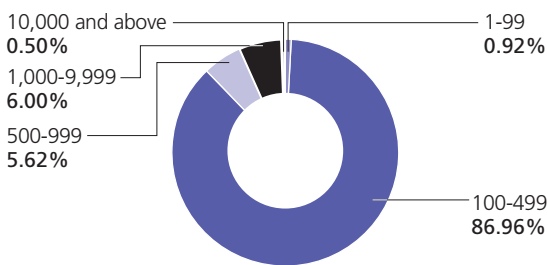
Shareholder registry administrator:

Mitsubishi UFJ Trust and Banking Corporation

Shareholders Breakdown by Type

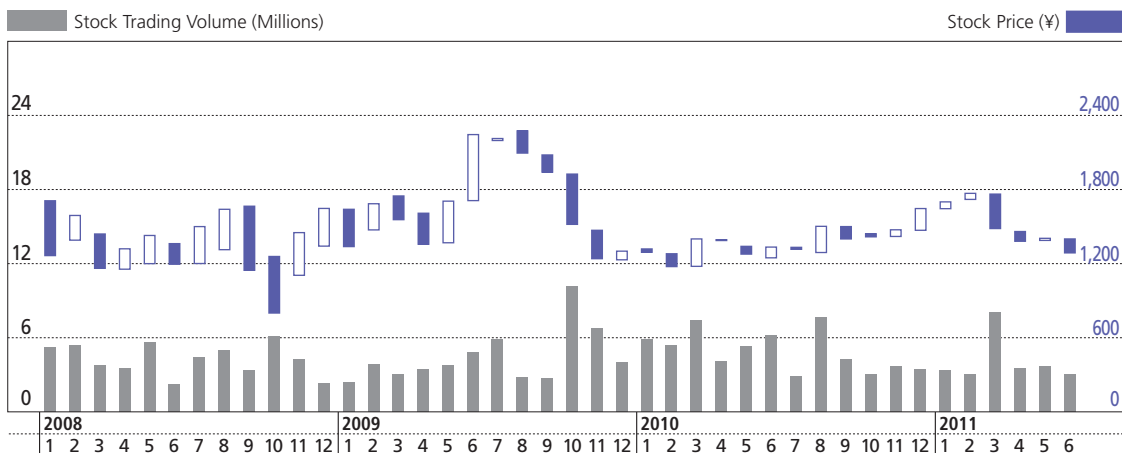


Shareholders Breakdown by Number of Shares Held*



* Shares of treasury stock are excluded from the scope of the graph.

Stock Price Trend



MegaChips

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