

## Summary of Consolidated Financial Results (Japanese Accounting Standards) for the Fiscal Year Ended March 31, 2014

May 9, 2014

**MegaChips Corporation**

Code number: 6875

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Scheduled date of the Ordinary General Meeting of Shareholders: June 20, 2014

Scheduled date of payment of dividends: May 30, 2014

Scheduled date of filing of securities report: June 20, 2014

Supplementary documents for financial results: Yes

Financial results briefing: Yes (for institutional investors and analysts)

(Amounts less than one million yen are omitted)

**1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2014**

(From April 1, 2013 to March 31, 2014)

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

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2014	58,469	9.0	4,173	5.3	4,277	3.8	4,725	16.9
Year ended March 31, 2013	53,623	51.6	3,962	30.6	4,120	26.3	4,044	90.1

(Note) Comprehensive income: ¥5,014 million (19.1%) for the first three quarters of the year ended March 31, 2014

¥4,208 million (—%) for the first three quarters of the year ended March 31, 2013

	Net income per share	Net income per share (fully diluted)	Ratio of profit to shareholders' equity for the year	Ratio of ordinary income to total assets	Ratio of operating income to sales
	Yen	Yen	%	%	%
Year ended March 31, 2014	202.40	—	15.9	9.6	7.1
Year ended March 31, 2013	170.23	—	15.4	11.2	7.4

(Reference): Gain or loss on equity method investment: ¥— million yen for the year ended March 31, 2014

¥— million yen for the year ended March 31, 2013

**(2) Consolidated financial condition**

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
Year ended March 31, 2014	44,867	31,816	70.9	1,362.64
Year ended March 31, 2013	44,075	27,595	62.6	1,181.89

(Reference) Shareholders' equity: Year ended March 31, 2014: ¥31,816 million

Year ended March 31, 2013: ¥27,595 million

**(3) Consolidated cash flow condition**

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	Million yen	Million yen	Million yen	Million yen
Year ended March 31, 2014	5,484	-2,411	-3,623	10,440
Year ended March 31, 2013	6,748	-9,672	5,496	10,431

**2. Dividends**

	Dividend per share					Aggregate dividends (annual)	Dividend propensity (consolidated)	Ratio of dividends to net assets (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Year ended March 31, 2013	—	—	—	34.00	34.00	793	20.0	3.1
Year ended March 31, 2014	—	—	—	34.00	34.00	793	16.8	2.7
Year ending March 31, 2015 (forecast)	—	—	—	—	—	—	—	—

With respect to dividends for the fiscal year ending March 2014, as stated in the basic principles concerning the distribution of profits, (ii) (refer to page 4 of the Accompanying Materials), the aggregate amount of dividends has been determined to be approximately 30% of the amount calculated by deducting a ¥2,374 million income tax adjustment (income on a consolidated basis) due to the recording of deferred tax assets associated with the merger of Kawasaki Microelectronics, Inc., as a special factor related to accounting and the settlement of accounts, from consolidated net income. Since a specific dividend forecast for the fiscal year ending March 2015 has yet to be decided, “—” is shown for the annual dividend forecast.

3. Forecast of Consolidated Operating Results  
(From April 1, 2014 to March 31, 2015)

(Percentages denote the rate of increase or decrease from the previous year in "Full-year" and from the same quarter of the previous year in "Six-month period ending September 30, 2014.")

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six-month period ending September 30, 2014	31,500	0.5	1,000	-59.8	900	-65.6	400	-89.5	17.13
Full-year	63,000	7.7	3,200	-23.3	3,100	-27.5	1,700	-64.0	72.81

\* Notes

- (1) Changes in key subsidiaries during the term  
(changes in specific subsidiaries resulting in changes in the scope of consolidation): Yes  
New: 1 company (MegaChips Taiwan Corporation)  
Exception: 1 company (Kawasaki Microelectronics, Inc.)
- (2) Changes in accounting policies and changes or restatement of accounting estimates:
  - 1) Changes in accounting policies due to revised accounting standards: None
  - 2) Changes in accounting policies other than that described above: None
  - 3) Changes in accounting estimates: None
  - 4) Restatement: None
- (3) Number of shares outstanding (common stock)
  - 1) Number of outstanding shares at the end of the period (including treasury stock)
 

Year ended March 31, 2014	24,038,400 shares
Year ended March 31, 2013	24,038,400 shares
  - 2) Number of shares of treasury stock at the end of the period
 

Year ended March 31, 2014	689,450 shares
Year ended March 31, 2013	689,486 shares
  - 3) Average number of shares outstanding during the period (or the cumulative consolidated accounting period as of the end of the term)
 

Year ended March 31, 2014	23,348,972 shares
Year ended March 31, 2013	23,757,542 shares

**(Reference) Summary of Non-Consolidated Financial Results**

1. Non-Consolidated Financial Results for the Fiscal Year Ended March 31, 2014  
(From April 1, 2013 to March 31, 2014)

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

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2014	58,286	49.5	4,221	27.6	4,362	31.9	5,810	177.7
Year ended March 31, 2013	38,991	10.2	3,306	8.9	3,308	5.0	2,092	8.7

  

	Net income per share	Net income per share (fully diluted)
	Yen	Yen
Year ended March 31, 2014	248.85	—
Year ended March 31, 2013	88.08	—

(2) Non-consolidated financial condition

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
Year ended March 31, 2014	41,909	29,097	69.4	1,246.21
Year ended March 31, 2013	35,127	24,128	68.7	1,033.37

(Reference) Shareholders' equity: Year ended March 31, 2014: ¥29,097 million  
Year ended March 31, 2013: ¥24,128 million

\* Statement Relating to the Execution Status for Audit Procedures

This financial summary falls outside the scope of audit procedures based on the stipulations of the Financial Instruments and Exchange Act. The audit procedures for financial statements based on the stipulations of said Act were not completed at the time this financial summary was disclosed.

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

(Note on the description of the future and other matters)

Forward-looking statements, such as the operating results forecast included in this document, are based on information available to the Company and certain assumptions that are considered reasonable as of the date of the publication of this release. The Company does not guarantee the projected results. Actual results could differ materially depending on various factors that may arise in the future.

(Method to acquire supplementary documents for financial results)

Supplementary documents for financial results will be presented on the Company's website immediately after disclosure of the summary of consolidated financial results.

Accompanying Materials

Accompanying Materials – Contents

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## 1. Operating Results

### (1) Analysis of operating results

#### (i) General financial results condition

During the consolidated fiscal year under review, corporate earnings showed improvement, centering on large companies, as production increased modestly and capital spending also picked up due mainly to an improvement in the export environment brought about by the new phase of monetary easing and effective economic policy. Coupled with steady consumer spending on the back of last-minute demand at the end of the fiscal year under review before the consumption tax hike, the economy is showing signs of mild recovery. However, a potential slowdown of overseas economies remain the risk factor for downward pressures on the domestic economy.

In the electronic machinery and equipment industry, in which the MegaChips Group operates, demand for consumer and industrial electronic equipment declined despite year-on-year growth in markets for certain electronic components and devices. As a result, demand for the electronic machinery and equipment continuously decreased on a year-on-year basis.

The Company merged with Kawasaki Microelectronics, Inc. (hereinafter “Kawasaki Micro”) and began operating as the new MegaChips Corporation effective April 1, 2013. The MegaChips Group is pursuing the businesses described below by focusing on applications, systems planning, and the provision of solutions, using its stable support system, which covers upstream logical design, downstream physical design, manufacturing operations and quality assurance for product planning and supply as its new source of strength, in addition to offering diverse LSI products and original solutions based on its unique technologies for compressing and decompressing images, audio and music and telecommunications that comprise its expertise.

The Group is developing and selling LSIs, such as memory for specific-use applications, system LSIs, and electronic components mounting the Group’s own LSIs, for leading customers both inside and outside Japan, mainly in the areas of amusement, digital cameras, office machines, liquid crystal panels, and home networking equipment.

In the field of security monitoring, the Group is promoting the development and sale of the system devices and equipment on which its system LSIs are mounted, centering around the transmission and recording of digital video.

Both consolidated revenues and profits increased year on year for the consolidated fiscal year under review, mainly reflecting the contributions made by new LSIs for digital cameras and steady sales of LSIs for liquid crystal panels and office equipment. As a result, consolidated net sales for the fiscal year under review totaled ¥58,469 million (up 9.0% year on year). Consolidated operating income stood at ¥4,173 million (rising 5.3%). Consolidated ordinary income was ¥4,277 million (an increase of 3.8%). Consolidated net income amounted to ¥4,725 million (up 16.9%), thanks primarily to a ¥588 million gain on sales of investment securities.

Because the MegaChips Group operates under the one business segment, no statement related to segment information has been presented.

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

In the next fiscal year, with a recovery in exports and positive effects of stimulus measures, it is expected that consumer spending will recover and corporate earnings will increase, and the economy will stage a gradual recovery. However, risk factors that could negatively impact on the economy, such as constraints on consumption following the consumption tax hike and a slump in the overseas economy, are also likely to continue to persist.

In the electronic machinery and equipment industry, in which the MegaChips Group operates, given the positive market developments, including a recovery in the domestic economy and the continued depreciation of the yen, demand is expected to grow, centered on the market for electronic components.

Looking at social trends, communications and broadcasting are digitizing and diversifying at a rapid pace, which indicates a move toward an even more advanced information society. In addition, the efforts toward the realization of Symbiosis Society, Low Carbon Society and Recycling Society for the global environment maintenance are likely to continue.

In this environment, based on the concept of integrating LSIs and application knowledge, the MegaChips Group will take steps to bolster its market competitiveness and achieve further growth as a global company that continually provides its own unique and attractive solutions. To achieve these goals, the Group will focus on strengthening the foundation of the ASIC business, aiming to develop new ASSP (application-specific LSI) and standard LSI businesses in growth sectors, and establishing overseas operation bases and developing them into core business hubs in its efforts to enter the global market. With these initiatives, the Group will strive to expand earnings opportunities.

In businesses of amusement, digital cameras, office equipment, liquid crystal panels and home networking equipment, with the aim of expanding LSI sales to major customers, the Group will focus on developing core technologies and applied technologies and providing solutions that meet the requirements of individual customers.

In the security business, the Group will work on improving profits by giving priority to the streamlining of the development of systems equipment especially designed for use by specific customers.

In overseas bases, the Group will focus on developing new markets and customers by striving to develop an operational structure and improve it while placing priority on developing the technologies and solutions that local customers need.

In the fiscal year ending March 31, 2015, the Company forecasts consolidated net sales of ¥63,000 million (up 7.7% from the fiscal year under review), consolidated operating income of ¥3,200 million (down 23.3%), consolidated ordinary income of ¥3,100 million (a decrease of 27.5%) and consolidated net income of ¥1,700 million (down 64.0%).

## (2) Analysis of the financial position

### (i) Changes in the financial position (consolidated)

Total assets for the consolidated fiscal year under review amounted to ¥44,867 million (up ¥792 million from the end of the previous consolidated fiscal year). Comparing major asset items with the previous consolidated fiscal year, notes and accounts receivable-trade decreased by ¥1,987 million, while inventories climbed by ¥508 million, deferred tax assets (current assets) increased by ¥368 million, deferred tax assets (non-current assets) rose by ¥578 million, and other investments and other assets increased by ¥1,493 million.

Total liabilities were ¥13,051 million (down ¥3,427 million from the end of the previous consolidated fiscal year). Comparing major items with the previous consolidated fiscal year, notes and accounts payable-trade increased by ¥711 million, while long-term loans payable declined by ¥2,833 million, income taxes payable fell by ¥387 million and other current liabilities decreased by ¥520 million.

Total net assets stood at ¥31,816 million (up ¥4,220 million from the end of the previous consolidated fiscal year). As a result, the shareholders' equity ratio at the end of the consolidated fiscal year came to 70.9% (up 8.3 percentage points from the end of the previous fiscal year).

### (ii) Cash flow status

Cash and cash equivalents ("net cash") reached ¥10,440 million at the end of the consolidated fiscal year under review, increasing ¥9 million from the previous consolidated fiscal year (compared with an increase of ¥3,203 million in the same period of the previous consolidated fiscal year). The status of cash flows at the end of the fiscal year under review was as follows:

Net cash provided by operating activities was ¥5,484 million (compared with net cash of ¥6,748 million provided by such activities in the same period of the previous consolidated fiscal year). This was chiefly attributable to net income before taxes of ¥4,413 million (down 18.8% year on year), the amortization of long-term prepaid expenses of ¥985 million, a ¥2,027 million decrease in notes and accounts receivable-trade and a ¥626 million increase in notes and accounts payable-trade, offsetting a ¥954 million decrease in other current liabilities and income taxes paid of ¥1,297 million.

Net cash used in investment activities was ¥2,411 million (compared with net cash of ¥9,672 million used in such activities in the same period of the previous fiscal year). This was chiefly attributable to a ¥405 million expenditure for the purchase of property, plant, and equipment, an outlay for the purchase of long-term prepaid expenses of ¥652 million and outgoings of ¥2,066 million for other investment activities from the purchase of IP and overseas business acquisitions, offsetting proceeds from sales of investment securities of ¥1,052 million. As a result, free cash flow, which is the sum of net cash provided by or used in operating activities and net cash provided by or used in investment activities, resulted in a net cash provided by ¥3,072 million (compared to net cash used of ¥2,924 million in the same period of the previous fiscal year).

Net cash used in financing activities was ¥3,623 million (compared with net cash of ¥5,496 million provided by such activities in the same period of the previous consolidated fiscal year). This was chiefly attributable to the repayment of long-term loans payable of ¥2,833 million, and cash dividend payments of ¥790 million.

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

Terms	20th term	21st term	22nd term	23rd term	24th term
Settlement dates	March 2010	March 2011	March 2012	March 2013	March 2014
Shareholders' equity ratio (%)	91.8	87.2	85.4	62.6	70.9
Shareholders' equity ratio on a market value basis (%)	128.1	122.2	134.6	79.5	64.8
Ratio of interest-bearing debt to cash-flow (%)	—	—	—	105.0	77.5
Interest coverage ratio	—	—	759.6	134.5	94.4

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

Shareholders' equity ratio: Shareholders' equity/Total assets

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

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

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

2. Each of the indices is calculated based on financial data on a consolidated basis.

3. The aggregate market value of listed stock is calculated based on the closing stock price at the end of each fiscal year multiplied by the total number of shares issued as of the end of each fiscal year.

4. Interest-bearing debt covers all debt with interest being paid which is stated in the balance sheet.

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

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

- (i) Aiming at sustainable improvements in its corporate value, the Company will allocate funds to fundamental research to create innovative new technologies, the development of unique products, the achievement of a suitable business portfolio, and the securing of competent human resources to achieve medium-to long-term growth. It will also maintain the internal reserves required to maintain a sound financial position that can withstand variations in the business environment.
- (ii) The distribution of retained earnings shall be determined by taking into consideration such factors as the consolidated operating results, financial circumstances, and investment plans, but in principle the amount to be distributed shall be either a dividend payout ratio of about 30% or about 2% of the consolidated dividend on equity (DOE), whichever is greater. (However, this amount may, following due consideration, be increased or decreased in cases where there are special factors affecting the financial results.) Specifically, the annual dividend to be distributed per share shall be determined as either (a) or (b) below, whichever is greater.
  - a. Calculate the aggregate amount of dividends as an amount equivalent to about 30% of the consolidated net income, and divide this amount by the number of shares that have been issued at the end of the period, minus the number of shares held by the Company at the end of the period.
  - b. Calculate the aggregate amount of dividends as an amount equivalent to about 2% of the consolidated dividend on equity (DOE), and divide this amount by the number of shares that have been issued at the end of the period, minus the number of shares held by the Company at the end of the period.
- (iii) The Company shall endeavor to return profits to shareholders by acquiring its own shares expeditiously, taking into consideration such as market conditions, movements of stock prices, and the Company's financial circumstances in order to improve the efficiency of capital.

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

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

With respect to the distribution of retained earnings for the fiscal year under review, the Company decided to pay an annual dividend of ¥34 per share as an ordinary dividend (¥34 for the previous period) to shareholders as of March 31, 2014. As for the calculation of dividends, as stated in the basic principles, (ii) above, the aggregate amount of dividends has been determined to be approximately 30% of the amount calculated by deducting a ¥2,374 million gain on a tax adjustment due to the posting of deferred tax assets associated with making Kawasaki Micro the Company's subsidiary, a special factor related to accounting and the settlement of accounts, from consolidated net income. The annual dividend per share for the next fiscal year is still undecided, but the Company intends to distribute dividends in accordance with the above policy.

The distribution of retained earnings for the fiscal year under review is as follows:

Resolution date	Total dividend payments (Thousand yen)	Dividend per share (Yen)
May 9, 2014 Resolution made by the Board of Directors	793,864	34

The Company did not carry out the acquisition of treasury shares from the capital markets (following a resolution of the Board of Directors) and it did not retire treasury shares during the fiscal year under review.

## 2. Business Policy

### (1) Basic corporate management policy

The MegaChips Group has been advancing as a unique fabless manufacturer focused on R&D by engaging system LSI development as its core business since its foundation in 1990. It has followed a philosophy of expanding its business through “innovation,” coexisting with customers through “trust” and constantly contribute to society through “creation”.

Under its mission -- contribution to human safety and security, realization of affluent lifestyles, and conservation of the global environment based on its sophisticated technical capabilities, the MegaChips Group is committed to achieving further growth as a global company that will continually create new applications and provide system solutions.

The Group will realize this vision through the creation of new markets, new products and new customers, M&A and strategic alliances. To achieve these missions, the Group will aim to become the No.1 ASIC vendor in the ASIC business in Japan. The Group will create a business in a specific sector of the ASSP business and expand it into overseas markets. Moreover, the Group will aggressively seek to capture business opportunities by developing a product lineup of strategic standard ICs, promoting to major domestic and overseas customers, and enhance its visibility worldwide.

In taking these initiatives, the MegaChips Group will also strengthen human resources for applications and marketing while expanding its global operations. It is also committed to maintain robust financial strength and shifting its business structure and improving operating profitability by concentrating management resources on the LSI business, the Group’s mainstay operation.

The Group drives forward to achieve sustainable growth by improving its performance, and it will carry out operations under the basic policy of distributing returns to its investors in accordance with its operating results.

### (2) Targeted management indices

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

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

- (i) The MegaChips Group aims to provide customers with a broad range of unique solutions that big businesses are unable to offer by accurately understanding the social changes that are discontinuously taking place around the world and creating new value that has never existed before with its sophisticated technological capabilities. In this way, the Group strives to contribute to the creation of a prosperous society in which people are able to enjoy their lives in the future.

To achieve these aspirations, the MegaChips Group will drive its businesses forward by adopting the following strategies.

- i. The Group will take steps to strengthen the LSI business in a focused manner. It will also establish businesses that are engaged in application specific standard products (ASSPs) and standard IC products by reforming the existing business structure in which it relies on the application specific integrated circuit (ASIC) business for specific customers.
- ii. The Group will strengthen its marketing capabilities (product planning capabilities) and applied technologies (system technology capabilities) to establish an ASSP business, the Group’s target business. In particular, it will proactively develop overseas markets by planning, developing and acquiring products that are competitive in global markets.
- iii. The Group will further improve its capabilities in providing total solutions to the application side based on the integration of LSIs and application knowledge.
- iv. The Group will emphasize prompt management decision making.

By revitalizing its business activities as described above, the MegaChips Group will aim to enter the top 15 global fabless semiconductor manufacturers by fiscal 2017.

- (ii) Although the Company has not established a basic policy related to control of the Company, it regards takeover defense measures and protecting the interests of its shareholders from abusive purchasers as an important management issue, and it is continually collecting information about the latest trends in corporate takeovers.

### 3. Consolidated Financial Statements

#### (1) Consolidated balance sheet

(Thousand yen)

	Previous consolidated fiscal year (ended March 31, 2013)	Consolidated fiscal year under review (ended March 31, 2014)
<b>Assets</b>		
Current assets:		
Cash and deposits	10,431,546	10,474,476
Notes and accounts receivable - trade	16,877,890	14,890,803
Merchandise and finished goods	1,298,176	1,907,826
Work in process	1,510,267	1,599,656
Raw materials and supplies	892,883	701,870
Deferred tax assets	1,343,077	1,711,641
Other	734,991	1,303,290
Allowance for doubtful accounts	(924)	(1,059)
Total current assets	33,087,908	32,588,504
Non-current assets		
Property, plant and equipment		
Buildings	3,853,526	3,854,822
Accumulated depreciation	(2,794,865)	(2,807,798)
Buildings, net	1,058,661	1,047,023
Land	289,638	289,638
Other	6,572,651	6,551,873
Accumulated depreciation	(6,027,057)	(6,014,380)
Other, net	545,593	537,493
Total property, plant and equipment	1,893,893	1,874,155
Intangible assets		
Other	689,330	649,081
Total intangible assets	689,330	649,081
Investments and other assets		
Investment securities	2,440,619	1,669,007
Long-term prepaid expenses	1,754,537	1,806,942
Deferred tax assets	2,961,178	3,539,214
Other	1,247,542	2,740,818
Total investment and other assets	8,403,876	9,755,983
Total non-current assets	10,987,100	12,279,220
Total assets	44,075,009	44,867,725

(Thousand yen)

	Previous consolidated fiscal year (ended March 31, 2013)	Consolidated fiscal year under review (ended March 31, 2014)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	3,443,211	4,154,275
Current portion of long-term loans payable	2,833,332	2,833,332
Income taxes payable	529,310	141,461
Provision for bonuses	633,554	660,892
Provision for loss on construction contracts	759,978	462,728
Deferred tax liabilities	—	2,212
Other	2,897,931	2,377,038
Total current liabilities	11,097,317	10,631,940
Non-current liabilities		
Long-term loans payable	4,250,002	1,416,670
Deferred tax liabilities	—	17,866
Other	1,131,944	985,138
Total non-current liabilities	5,381,946	2,419,675
Total liabilities	16,479,263	13,051,615
<b>Net assets</b>		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	6,181,300	6,181,300
Retained earnings	17,364,960	21,296,923
Treasury shares	(1,056,030)	(1,055,975)
Total shareholders' equity	27,330,543	31,262,561
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	267,293	(145,716)
Foreign currency translation adjustment	(2,091)	699,263
Total other accumulated comprehensive income	265,201	553,547
Total net assets	27,595,745	31,816,109
Total liabilities and net assets	44,075,009	44,867,725

## (2) Consolidated statements of income and statements of comprehensive income

(Thousand yen)

	Previous consolidated fiscal year (From April 1, 2012 to March 31, 2013)	Consolidated fiscal year under review (From April 1, 2013 to March 31, 2014)
Net sales	53,623,174	58,469,703
Cost of sales	40,568,191	43,348,786
Gross profit	13,054,982	15,120,916
Selling, general and administrative expenses	9,092,541	10,947,549
Operating income	3,962,441	4,173,367
Non-operating income		
Interest income	8,475	9,549
Dividend income	69,835	7,930
Gain on investments in partnership	228	27,108
Foreign exchange gains	115,845	123,693
Proceeds from miscellaneous income	37,024	15,788
Total non-operating income	231,410	184,070
Non-operating expenses		
Interest expenses	55,677	55,906
Loss on investments in partnership	741	—
Loss on insurance cancellation	12,353	—
Miscellaneous loss	5,055	24,479
Total non-operating expenses	73,828	80,386
Ordinary income	4,120,023	4,277,052
Extraordinary income		
Gain on sales of non-current assets	129	—
Gain on sales of investment securities	—	588,479
Gain on bargain purchase	1,406,607	—
Total extraordinary income	1,406,736	588,479
Extraordinary losses		
Loss on valuation of inventories	—	197,113
Loss on sales of non-current assets	2,100	—
Loss on retirement of non-current assets	5,089	37,080
Loss on sales of investment securities	—	346
Loss on valuation of investment securities	—	120,070
Head office transfer cost	46,382	—
Loss on revision of retirement benefit plan	37,176	—
Loss on liquidation of business	—	97,262
Total extraordinary losses	90,749	451,873
Net income before taxes	5,436,011	4,413,658
Income taxes - current	1,304,995	588,133
Income taxes - deferred	86,873	△900,309
Total income taxes	1,391,868	△312,175
Income before minority interests	4,044,142	4,725,834
Net income	4,044,142	4,725,834

(Thousand yen)

	Previous consolidated fiscal year (From April 1, 2012 to March 31, 2013)	Consolidated fiscal year under review (From April 1, 2013 to March 31, 2014)
Income before minority interests	4,044,142	4,725,834
Other comprehensive income		
Valuation difference on available-for-sale securities	(440,728)	(413,009)
Foreign currency translation adjustment	605,221	701,354
Total other comprehensive income	164,492	288,345
Comprehensive income	4,208,635	5,014,179
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,208,635	5,014,179
Comprehensive income attributable to minority interests	—	—

## (3) Consolidated statement of changes in equity

Previous consolidated fiscal year (From April 1, 2012 to March 31, 2013)

(Thousand yen)

	Shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury shares	
Balance at the beginning of the period	4,840,313	6,181,300	13,967,586	(112,777)	24,876,422
Changes of items during the period					
Dividends of surplus			(646,768)		(646,768)
Net income			4,044,142		4,044,142
Purchase of treasury shares				(943,253)	(943,253)
Disposal of treasury shares					—
Net changes of items other than shareholders' equity					—
Total changes of items during the period			3,397,374	(943,253)	2,454,121
Balance at the end of the period	4,840,313	6,181,300	17,364,960	(1,056,030)	27,330,543

	Other accumulated comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total other accumulated comprehensive income	
Balance at the beginning of the period	708,021	(607,313)	100,708	24,977,131
Changes of items during the period				
Dividends of surplus				(646,768)
Net income				4,044,142
Purchase of treasury shares				(943,253)
Disposal of treasury shares				—
Net changes of items other than shareholders' equity	(440,728)	605,221	164,492	164,492
Total changes of items during the period	(440,728)	605,221	164,492	2,618,614
Balance at the end of the period	267,293	(2,091)	265,201	27,595,745

Consolidated fiscal year under review (From April 1, 2013 to March 31, 2014)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	4,840,313	6,181,300	17,364,960	(1,056,030)	27,330,543
Changes of items during the period					
Dividends of surplus			(793,863)		(793,863)
Net income			4,725,834		4,725,834
Purchase of treasury shares				(48)	(48)
Disposal of treasury shares			(8)	104	95
Net changes of items other than shareholders' equity					—
Total changes of items during the period			3,931,962	55	3,932,018
Balance at the end of the period	4,840,313	6,181,300	21,296,923	(1,055,975)	31,262,561

	Other accumulated comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total other accumulated comprehensive income	
Balance at the beginning of the period	267,293	(2,091)	265,201	27,595,745
Changes of items during the period				
Dividends of surplus				(793,863)
Net income				4,725,834
Purchase of treasury shares				(48)
Disposal of treasury shares				95
Net changes of items other than shareholders' equity	(413,009)	701,354	288,345	288,345
Total changes of items during the period	(413,009)	701,354	288,345	4,220,363
Balance at the end of the period	(145,716)	699,263	553,547	31,816,109

## (4) Consolidated statements of cash flows

(Thousand yen)

	Previous consolidated fiscal year (From April 1, 2012 to March 31, 2013)	Consolidated fiscal year under review (From April 1, 2013 to March 31, 2014)
<b>Cash flows from operating activities</b>		
Net income before taxes	5,436,011	4,413,658
Depreciation	566,617	640,437
Amortization of long-term prepaid expenses	634,054	985,858
Gain on bargain purchase	(1,406,607)	—
Increase (decrease) in allowance for doubtful accounts	(170)	135
Increase (decrease) in provision for bonuses	184,640	27,338
Increase (decrease) in provision for loss on construction contracts	(35,816)	(297,250)
Interest and dividend income	(78,311)	(17,479)
Interest expenses	55,677	55,906
Loss (gain) on investments in partnership	512	(27,108)
Foreign exchange losses (gains)	(195,163)	(109,019)
Loss on retirement of non-current assets	5,089	37,080
Loss (gain) on sales of investment securities	—	(588,133)
Loss (gain) on valuation of investment securities	—	120,070
Loss on liquidation of business	—	10,428
Decrease (increase) in notes and accounts receivable - trade	2,573,627	2,027,343
Decrease (increase) in inventories	766,084	(210,306)
Increase (decrease) in notes and accounts payable - trade	(180,602)	626,870
Decrease (increase) in other current assets	427,399	71,940
Increase (decrease) in other current liabilities	(473,037)	(954,131)
Other	(9,729)	(4,188)
Subtotal	8,270,275	6,809,451
Interest and dividend income received	78,449	17,496
Interest expenses paid	(50,186)	(58,114)
Income taxes refund	198	12,446
Income taxes paid	(1,550,056)	(1,297,226)
Net cash provided by (used in) operating activities	6,748,681	5,484,053
<b>Cash flows from investing activities</b>		
Payments into time deposits	—	(33,807)
Purchase of property, plant and equipment	(588,725)	(405,197)
Purchase of intangible assets	(152,187)	(176,058)
Proceeds from sales of investment securities	—	1,052,753
Purchase of investment securities	—	(30,726)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(6,752,303)	—
Collection of loans receivable	2,280	7,149
Payments of loans receivable	(573,120)	(98,590)
Purchase of long-term prepaid expenses	(1,208,086)	(652,899)
Proceeds from collection of guarantee deposits	179,566	3,357
Payments for guarantee deposits	(112,755)	(10,448)
Other	(467,634)	(2,066,614)
Net cash provided by (used in) investing activities	(9,672,965)	(2,411,079)

(Thousand yen)

	Previous consolidated fiscal year (From April 1, 2012 to March 31, 2013)	Consolidated fiscal year under review (From April 1, 2013 to March 31, 2014)
Cash flows from financing activities		
Proceeds from long-term loans payable	8,500,000	—
Repayments of long-term loans payable	(1,416,666)	(2,833,332)
Proceeds from disposal of treasury shares	—	95
Purchase of treasury shares	(943,253)	(48)
Cash dividends paid	(643,313)	(790,167)
Net cash provided by (used in) financing activities	5,496,767	(3,623,452)
Effect of exchange rate change on cash and cash equivalents	631,043	559,601
Net increase (decrease) in cash and cash equivalents	3,203,527	9,122
Cash and cash equivalents at beginning of period	7,228,018	10,431,546
Cash and cash equivalents at end of period	10,431,546	10,440,669

(5) Notes relating to consolidated financial statements

(Note on going concern assumptions)

None

(Segment information)

Segment information

The MegaChips Group is mainly engaged in the design, development, manufacture (on an outsourcing basis) and sale of system LSIs, based on its basic image, audio and communications technologies, and electronic devices and system equipment that contain its system LSIs under the one business segment. As a result, the presentation of segment information has been omitted.

(Per share information)

(Unit: yen)

	Previous consolidated fiscal year (From April 1, 2012 to March 31, 2013)	Consolidated fiscal year under review (From April 1, 2013 to March 31, 2014)
Net assets per share	1,181.89	1,362.64
Net income per share	170.23	202.40

(Notes) 1. Diluted net income per share has not been shown because there were no latent shares.

2. The following shows the basis of calculation of net income per share.

	Previous consolidated fiscal year (From April 1, 2012 to March 31, 2013)	Consolidated fiscal year under review (From April 1, 2013 to March 31, 2014)
Net income per share		
Net income (thousand yen)	4,044,142	4,725,834
Amount that does not belong to ordinary shareholders (thousand yen)	—	—
Net income related to common shares (thousand yen)	4,044,142	4,725,834
Average number of common shares during the period	23,757,542	23,348,972

(Material subsequent events)

Based on the resolution that the Company adopted on April 21, 2014 in accordance with Article 370 of the Companies Act, the Company's consolidated subsidiary, MegaChips Taiwan Corporation (Main Office: Taipei, Taiwan / hereinafter "MegaChips Taiwan") subscribed for new shares issued by Modiotek Co., Ltd. (Main Office: Hsinchu, Taiwan / hereinafter "Modiotek") and made Modiotek its subsidiary on April 23, 2014.

1. The purpose of investment

In an effort to expand its business in East Asia, by making Modiotek one of its group companies, the MegaChips Group aims to expand the channels to customers and enhance its capabilities in marketing, sales, development and customer support in Asia, mainly in Taiwan and China.

2. Outline of the subsidiary that subscribed for new shares (MegaChips Taiwan)

(1) Name	MegaChips Taiwan Corporation
(2) Location	RM. B 2F, Worldwide House, No.129, Min Sheng E. Rd., Sec. 3, Taipei 105 Taiwan
(3) Title and name of representative	Chairman: Shigeki Matsuoka (Executive Vice President of the Company and the Officer of the Corporate Business Management Office)
(4) Business details	Marketing, production management, development and technical support and other related activities mainly in Taiwan as the business control base for East Asia, excluding Japan
(5) Capital	NT\$610,000,000
(6) Established	September 2013
(7) Major shareholders and their shareholding ratio	MegaChips Corporation: 59.0%; Shun Yin Investment Ltd.: 41.0%

3. Outline of the acquired second tier subsidiary (Modiotek)

(1) Name	Modiotek Co., Ltd.		
(2) Location	4F, No.3, Creation Road III, Science Park, HsinChu, Taiwan		
(3) Title and name of representative	Chairman: Miin Wu (Chairman & CEO of Macronix International Co., Ltd.)		
(4) Business details	Fabless solution provider which develops and outsources the manufacture of semiconductor products for 3D remote controllers for smart TV and audio/music processing for portable devices		
(5) Capital	NT\$80,810,000 (as of March 12, 2014) (Note)		
(6) Established	August 16, 2006		
(7) Major shareholders and their shareholding ratio	Macronix International Co., Ltd.: 74.2%		
(8) Relations between MegaChips Corporation and Modiotek	Capital relations	There are no applicable matters to be stated.	
	Personnel relations	There are no applicable matters to be stated.	
	Commercial relations	There are no applicable matters to be stated.	
(9) Consolidated business performance and financial conditions of Modiotek for the last three financial years			
	FY2011	FY2012	FY2013
Net assets	NT\$226,047,000	NT\$101,535,000	NT\$80,543,000
Total assets	NT\$244,521,000	NT\$117,628,000	NT\$96,583,000
Net sales	NT\$23,035,000	NT\$23,760,000	NT\$16,841,000
Operating income (loss)	(NT\$121,725,000)	(NT\$124,809,000)	(NT\$122,125,000)
Net income (loss)	(NT\$107,409,000)	(NT\$124,220,000)	(NT\$119,755,000)
Dividends	—	—	—

(Note) Modiotek carried out a capital reduction on March 12, 2014, the record date, to eliminate all the existing cumulative losses. As a result, capital now stands at NT\$80,810,000. Modiotek also carried out a capital increase of NT\$210,000,000 on April 23, 2014, the record date of the issuance of new shares, for all of which Megachips Taiwan subscribed. As a result, Modiotek's capital after the capital increase stands at NT\$290,810,000.

4. Method of stock purchase

Modiotek increased its capital by issue of new shares in the amount of NT\$210 million, and MegaChips Taiwan subscribed for all of the increased shares. As a result, MegaChips Taiwan acquired 72.2% of outstanding shares of Modiotek.

Because Modiotek's capital is more than one-tenth of the Company's capital, Modiotek is a specified subsidiary of the Company.

5. Number and value of shares purchased and the shareholding ratio before and after the stock purchase

(1) Number of shares owned before stock purchase	0 shares (Number of voting rights: -) (Shareholding ratio: -%)
(2) Number and value of shares purchased	21,000,000 shares (Number of voting rights: 21,000,000) (Proportion to outstanding shares: 72.2%) (Purchase value: NT\$210,000,000)
(3) Number of shares owned after stock purchase	21,000,000 shares (Number of voting rights: 21,000,000) (Shareholding ratio: 72.2%)

6. Schedule

(1) Date of decision at MegaChips Corporation	April 21, 2014
(2) Payment date	April 22, 2014
(3) Acquisition date	April 23, 2014