MegaChips

MegaChips Corporation

Annual Report 2015

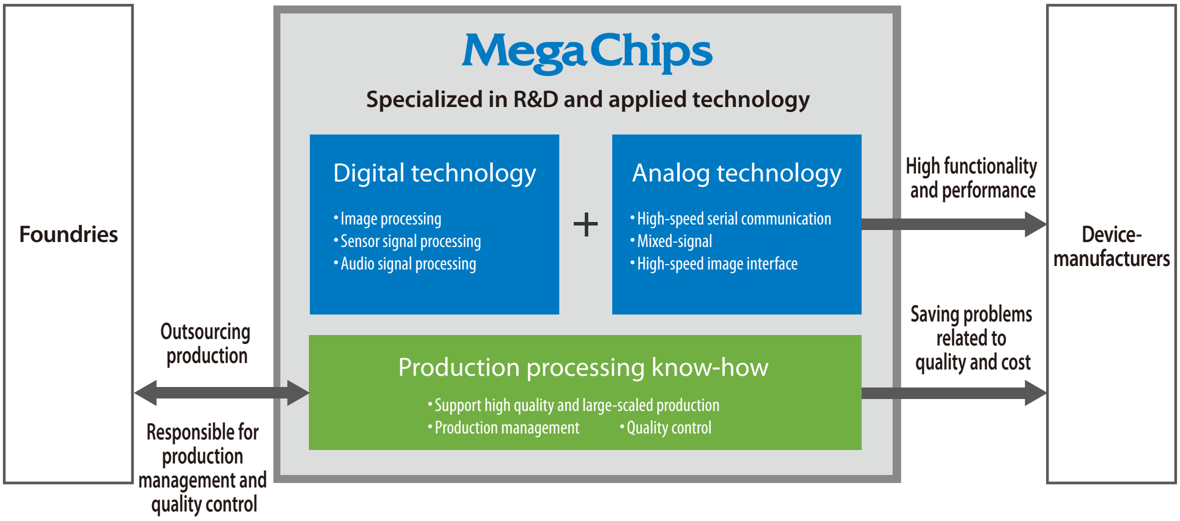
Year Ended March 31, 2015

A Global Fabless Company Providing System Solutions Using Core Technologies in Images, Voice, and Telecommunications

Established as Japan's first fabless LSI company in 1990, MegaChips has developed numerous world-first technologies. We focus on cutting-edge algorithm research and LSI solution development. Working closely with customers in the imaging, audio and communications fields, we introduce timely, original solutions designed to give clients a competitive edge. We also hold a number of patents in both digital and analog technologies.

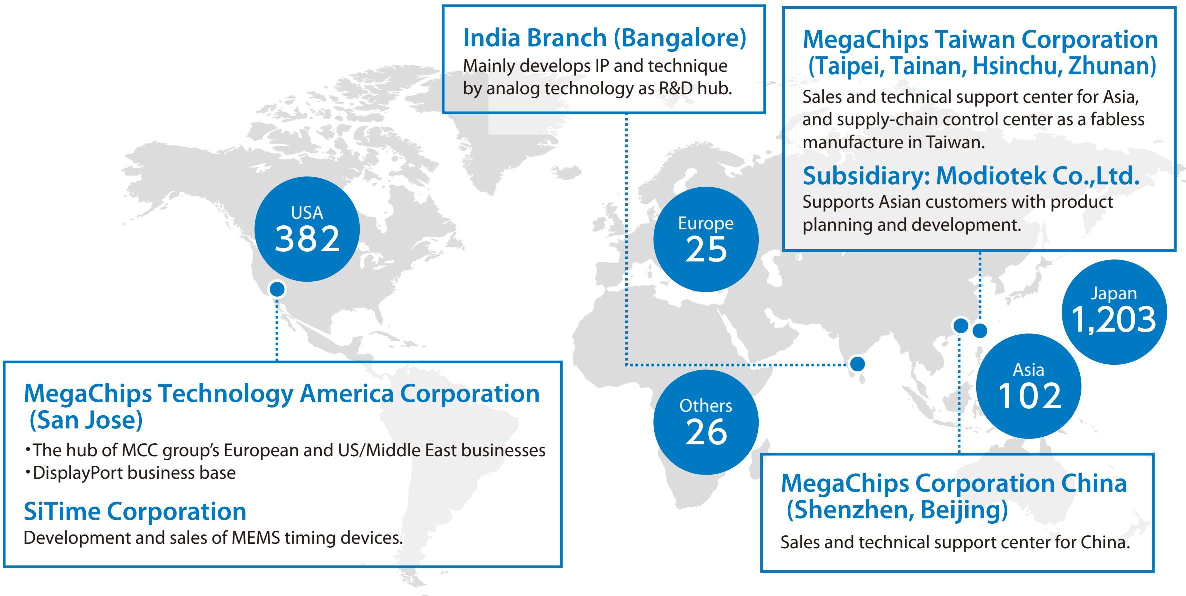
MegaChips is enhancing the structure of its overseas bases to achieve further growth as a global fabless company providing unique solutions for leading companies around the world.

Our Business Model



Global Network / The Number of Patent Registrations and Applications

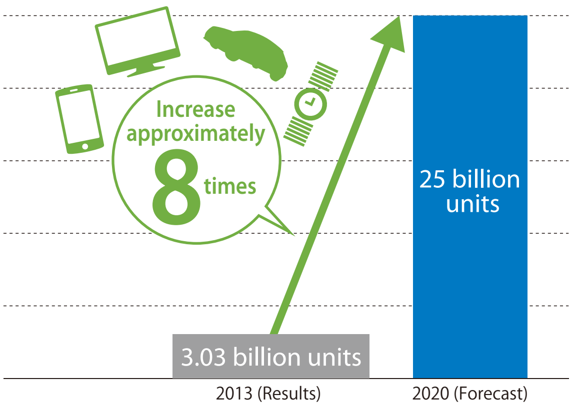
Note: Numbers represent totals as of March 31, 2015.



Providing Key Devices as Platforms for Diverse Applications in the Fields of Mobile Communications and the IoT

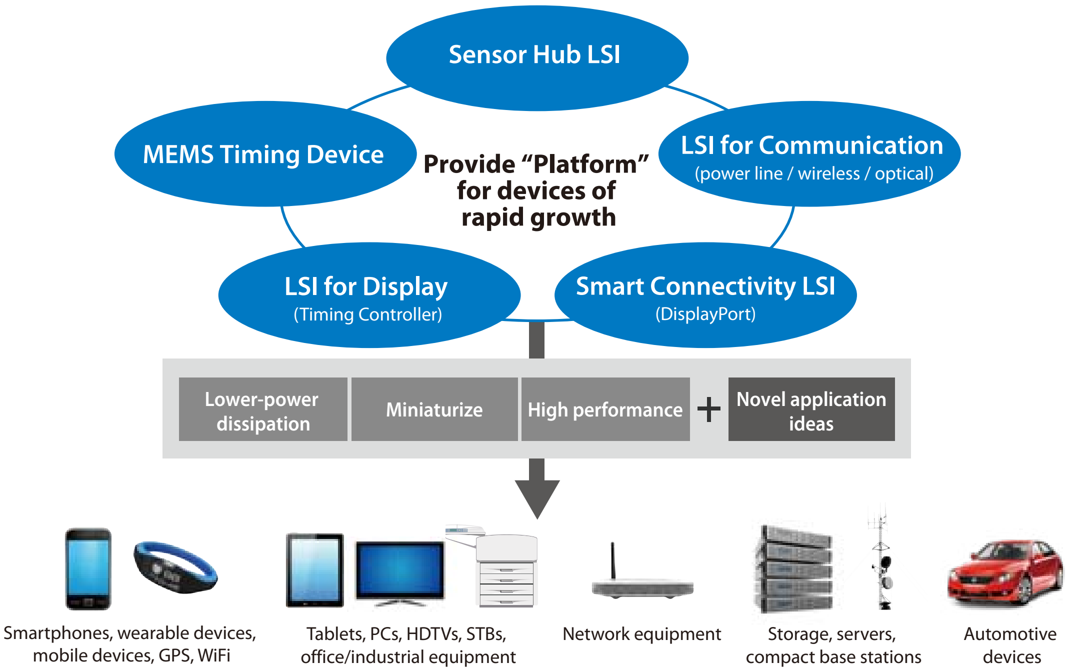
Humankind is becoming increasingly interconnected via wearable devices, in-vehicle equipment, medical instruments and industrial equipment as well as PCs and mobile devices. MegaChips is an important player in this evolution, providing LSIs essential for the advancement of ASSPs (Application Specific Standard Products). MegaChips will continue to explore the cutting-edge equipment market around the world, accelerating R&D activities and enhancing the platforms to assist its customers.

Number of Things connected through the IoT (forecast, worldwide)



Source: Charts / graphics created by MegaChips based on Gartner research.
Gartner "Forecast: Internet of Things, Endpoints and Associated Services, Worldwide, 2014" 20 October 2014*

ASSP Solutions of MegaChips



* The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Prospectus) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

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
	2011/3	2012/3	2013/3	2014/3	**2015/3**	**2015/3**
For the Year:						
Net sales	¥ 36,259	¥ 35,366	¥ 53,623	¥ 58,469	**¥ 64,237**	**$ 534,557**
Cost of sales	29,731	28,687	40,568	43,348	**45,263**	**376,661**
Operating income	3,055	3,033	3,962	4,173	**4,895**	**40,739**
Net income	2,288	2,127	4,044[*1]	4,725[*2]	**1,251**	**10,414**
At Year-End:						
Total assets	29,203	29,247	44,075	44,867	**77,830**	**647,672**
Net assets	25,453	24,977	27,595	31,816	**32,355**	**269,246**
	Yen					U.S. dollars
Per Share Information:						
Net income	94.64	88.80	170.23	202.40	**55.64**	**0.46**
Net assets	1,060.19	1,042.70	1,181.89	1,362.64	**1,438.09**	**11.97**
	Shares					Shares
Number of Shares Issued at Year End:	24,038,400	24,038,400	24,038,400	24,038,400	**24,038,400**	**24,038,400**

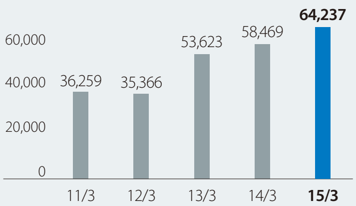
*1 The U.S. dollar amounts are provided solely for the convenience of the readers at the rate of ¥120.17 US$1, the rate prevailing on March 31, 2015.

*2 The extraordinary income of ¥1,406 million was recognized in the term ended March 2013 as "negative goodwill," because the market net book value exceeded the acquisition value at the time of MegaChips' purchase of all shares owned by Kawasaki Microelectronics, Inc. (hereinafter "Kawasaki Micro").

*3 In the fiscal year ended March 31, 2014, the Company posted deferred tax assets for a recoverable tax loss carried forward etc. that it succeeded to in association with the merger of Kawasaki Micro and posted in income taxes-deferred a tax adjustment (profit) of ¥2,374 million associated with the deferred tax assets.

Net Sales

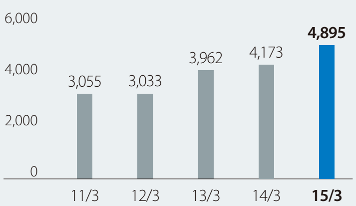
(¥ Millions)



¥64.2billion Up9.9% year on year

Operating Income

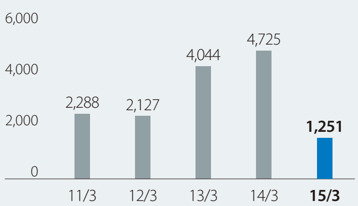
(¥ Millions)



¥4.89billion Up17.3% year on year

Net Income

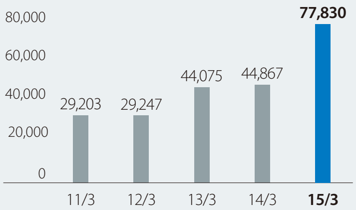
(¥ Millions)



¥1.25billion Down73.5% year on year

Total Assets

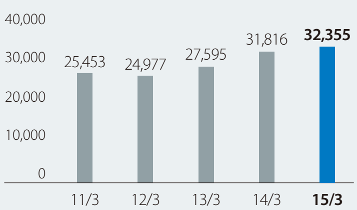
(¥ Millions)



¥77.8billion Up73.5% year on year

Net Assets

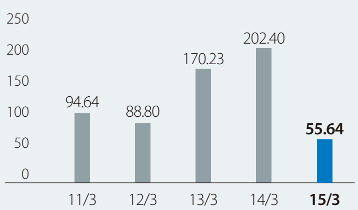
(¥ Millions)



¥32.3billion Up1.7% year on year

Net Income Per Share

(¥)



¥55 Down72.5% year on year

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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.

From Strategic Investment to a Growth Path: We Will Continue to Explore the Global Market.

President and CEO **Akira Takata**

Business Results

While we made strategic investments, net sales and operating income hit record highs.

During the fiscal year ended March 31, 2015, we strengthened our LSI business in game consoles, digital cameras, office machines, liquid crystal panels, and telecommunications equipment. At the same time, we accelerated the expansion of our global operations. We promoted the Smart Connectivity LSI (DisplayPort) business, which we acquired from STMicroelectronics in February 2014, and strengthened our marketing and customer support structure in the Chinese and Taiwanese markets through the acquisition of Modiotek Co., Ltd. of Taiwan in April 2014. We also enhanced ASSP (LSI for specific purposes) in the IoT field through the acquisition of SiTime Corporation in the United States in November 2014.

As a results of these efforts, in the fiscal year ended March 31, 2015, shipments of LSIs for digital cameras increased, and demand for LSIs for office equipment, communications, and liquid crystal panels remained strong. Demand for Smart Connectivity LSI (DisplayPort) contributed to our results. Sales increased with the depreciation of yen against the U.S. dollar and the Taiwan dollar. On the other hand, prior investments for the aggressive development of global operations increased operating expenses.

Net sales stood at ¥64,237 million (up 9.9% from the previous fiscal year), and operating income reached ¥4,895 million (up 17.3%). Ordinary income was ¥3,400 million (down 20.5%), chiefly reflecting a foreign exchange loss of ¥1,172 million mainly due to the adjustment of operating income, which increased by exchange rate effects in the consolidated financial settlement with overseas subsidiaries. Net income was ¥1,251 million (down 73.5%) primarily due to prior investments associated with acquisitions overseas. Net income in the preceding fiscal year was raised by ¥2,374 million due to an adjustment of tax resulting from the recording of deferred tax assets associated with a merger.

Results for Fiscal Year Ended March 2015 (¥ Millions)

	15/3 (Results)	15/3 (Initial Forecast)
Net Sales	64,237	63,000
Operating Income	4,895	3,200
Ordinary Income	3,400	3,100
Net Income	1,251	1,700

Medium-Term Management Plan for the Fiscal Year Ending March 31, 2016

Continuing to develop new products centered on ASSP, and to strengthen our overseas business foundation to enhance the corporate structure in the medium to long term

We expect that the Internet of Things (IoT) society, where everything is connected to network, will develop and the demand for semiconductors will expand worldwide. We regard this trend as a golden opportunity for growth and create new value by providing a range of ingenious solutions based on advanced technologies, and help to make an enriched society where people will feel happy.

To realize this vision, we will change significantly. In addition to the ASIC (LSI for specific customers) business for major domestic customers, we will greatly expand our competitive ASSP (LSI for specific purposes) business. In the growing IoT device market including mobile and wearable equipment, we will aggressively promote business for major customers around the world.

Our ASIC business has provided the LSIs optimal for individual applications for major customers in Japan and overseas in the fields of game consoles, digital cameras, office machines, and telecommunications equipment Our advantages are based on ability to develop algorithms and architecture and to design, develop, and supply system LSIs with superior performance and cost competitiveness, as well as our deep understanding of customers' applications on the basis of our own core technologies.

However, considering changes in the market and society, we believe that it is necessary to restructure our business portfolio that does not depend solely on the ASIC business to achieve further growth. We have therefore begun to very actively expand our ASSP business to create platforms for the growing market that focuses of IoT and network fields.

As part of this initiative, we acquired a team including the key talent behind the standardization of DisplayPort in the Smart Connectivity LSI (DisplayPort) business. DisplayPort is a video interface standard that requires versatility, scalability, and a broadband audio-video data transmission function. DisplayPort technology is vital to users of computers and mobile equipment requiring advanced audio-video functions.

Following the acquisition of SiTime Corporation of the United States, we will provide silicon MEMS timing device that outperforms quartz oscillators. MEMS timing

Mid-Term Management Policy (the fiscal year ending March 2016)

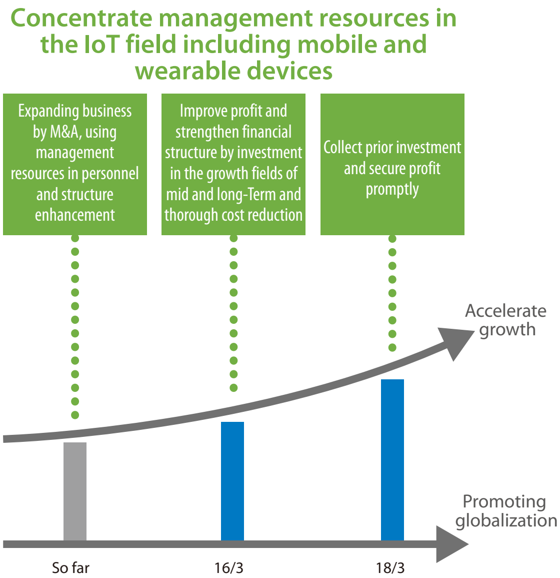
We target at the growing device market, concentrate management resources in the businesses aimed at leading global customers and accelerate mid and long-term growth.

1) Expand the lineup of products to construct platforms centering on ASSP products for IoT field including mobile and wearable devices.

2) Build the stronger relations with leading global companies by enhancing application and marketing capabilities, and enriching the service to the customers.

3) Work on aggressively to achieve high profit return ratio considering the operation conditions, while increasing operating margins and pursuing changes to high growth and high profit constitution by strengthening the financial base.

Image of Medium-term Business Growth



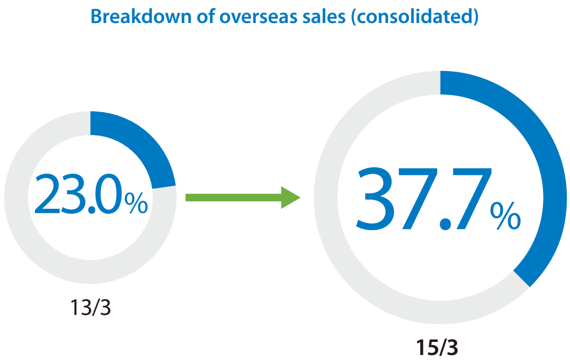
device is used in all kinds of electronic devices in which space and power are at a premium. They are small in size, low in power consumption and cost, and enables very short lead times.

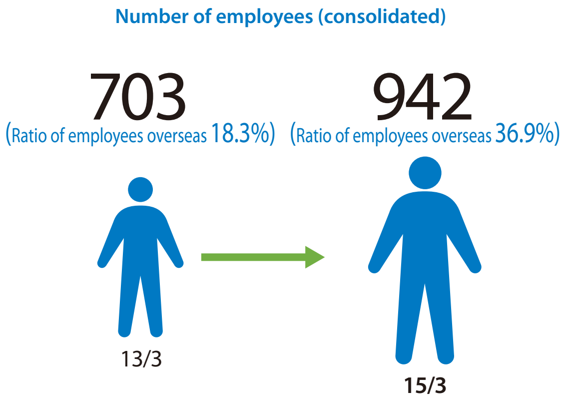
Our new ASSP product Sensor Hub LSI offers high performance with indoor navigation (where GPS fails) in as low as 1/20 of power consumption compared to conventional products. (Refer to page 8) We have introduced Sensor Hub LSI to the Chinese smartphone and wearable devices market and it has been adopted in certain wearable devices. The several business negotiations are under way and there are an increasing number of inquiries. Our low-power sub-GHz band wireless communication LSI is optimal for the IoT and sensor network communications and has been used in the BEMS (Building Energy Management System) market.

Meanwhile, we will cultivate human resources and promote globalization to expand business relationships with leading global companies in the growing device market. We will develop competent personnel for application technology and marketing, in particular, to identify the needs of local customers, develop technologies and solutions, and enhance support systems. This is because we recognize that technical support and sales systems suited for local areas are the key in Taiwan and China that are major ASSP markets. Aiming primarily at the acquisition of human resources in Asia, we acquired Modiotek in Taiwan, and are working to create synergy with our technical and marketing expertise.

In this way, we aim to be a company that can prevail in the global market in terms of product development, human resources, and business structure. We will seek to improve operating income margin to achieve growth in the medium to long term and to build a structure for high growth and high profitability.

Promoting Globalization





Results Forecast for the Fiscal Year Ending March 31, 2016

We expect to post record sales in the two preceding years, focusing on the ASSP business in the mobile communications and IoT fields.

To carry out business structural reform and place the ASSP business on a growth track, in the fiscal year ending March 31, 2016, we will continue to take steps under the Medium-Term Management Plan. We will increase sales significantly in the ASSP business, which is the focus of the structural reform, and will raise the sales ratio in the business from almost zero in the fiscal year ended March 31, 2012 to around 40% in the fiscal year ending March 31, 2016 and to over 50% in the fiscal year ending March 31, 2018.

In the fiscal year ending March 31, 2016, we expect to post consolidated net sales of ¥70,000 million (up 9.0% from the previous fiscal year). We forecast consolidated operating income of ¥6,700 million (up 36.9%), to pay for the amortization of goodwill and intangible fixed assets, ¥3,500 million, in association with overseas investment. We expect consolidated operating income after amortization of ¥3,200 million (down 34.6%), consolidated ordinary income of ¥3,000 million (down 11.8%), and consolidated net income of ¥1,000 million (down 20.1%).

2016/3 Full – Year Forecast

(¥ Millions)

	16/3 (Forecast)	15/3 (Results)
Net Sales	70,000	64,237
Operating Income Prior to	6,700	4,895
Amortization of Goodwill	3,500*	–
Operating Income After	3,200	4,895
Ordinary Income	3,000	3,400
Net Income	1,000	1,251
Net Income per Share (¥)	44.74	55.64

* Amortization of goodwill and intangible fixed assets associated with aggressive acquisitions of overseas companies.

Change of Policy on Dividend

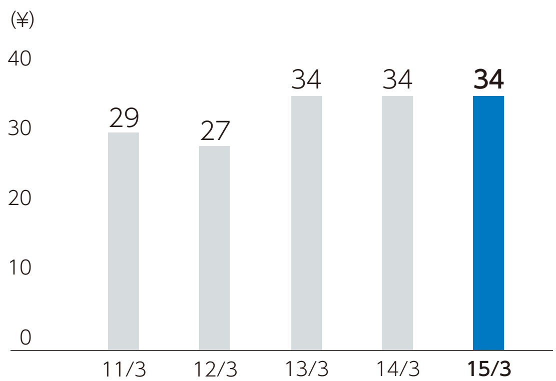
We have decided to change our policy to ensure a sustainable distribution of profits to shareholders.

Finally, we regard the appropriate distribution of profits to shareholders as an important management issue. To sustain the distribution of profits and the Company's growth, we changed our basic policy on the distribution of profits at a meeting of the Board of Directors held on May 13, 2015.

We will distribute 30% or more of net income to shareholders as dividends, taking the outlook for management in the medium term into consideration (dividends may be adjusted in consideration of special factors related to accounting, the settlement of accounts, and tax). The dividend is calculated by the number of outstanding shares (excluding the number of treasury stock) as of the closing of the fiscal year will be distributed once a year. Under this policy, we have decided an annual dividend per share to be ¥34 (the payout ratio is 61.1%) for the fiscal year ended March 31, 2015 following the previous fiscal year. The annual dividend per share for the fiscal year ending March 31, 2016 has yet to be determined but we plan to pay it based on our policy. We will publish a news release on a dividend on our website when it is determined.

We will continue to actively distribute profits to our shareholders, while enhancing our stock value and capital efficiency.

Cash Dividends



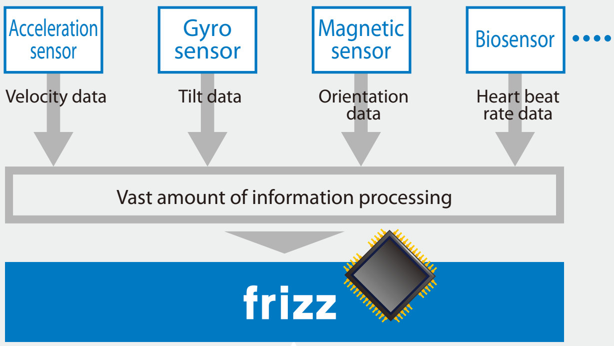
Close Up ASSP Product of MegaChips

Sensor Hub LSI frizz enables smartphones and wearable devices to provide location information and monitor body movements and health conditions.

More and more smartphones and wearable devices can measure steps and moving distance and identify present position. These devices are required to perform complicated data processing from a variety of sensors. However, the complex processing involves causes issues such as high power consumption and short battery life.

Sensor Hub LSI, frizz performs the advanced arithmetic data processing from a number of sensors with low power consumption and contributes to the development of a range of devices that identify the user's present position, movements and physical condition including the pulse rate. The Sensor Hub LSI is expected to be used for a various purposes in an aging society such as healthcare management and monitoring elderly people and children.

Function of Sensor Hub LSI frizz



Challenging issue to reduce power consumption

The power consumption of frizz is one twentieth that of conventional Sensor Hub microcomputers due to its unique design and arithmetic processing.
The Sensor Hub LSI provides strong support for the development of functions using a variety of sensors.

Expected applications of frizz

Navigation
In buildings and underground shopping areas

Sensor Hub LSI frizz helps with navigation, guiding users to their destination in buildings and underground areas where the GPS fails. It processes the data from a number of sensors that determine the user's moving speed and direction and supports Pedestrian Dead Reckoning (PDR), which is expected to find widespread use in the future.

Fitness
A running coach

The Sensor Hub LSI estimates the moving speed and the distance of the user and measures pulse rates. In addition, frizz can be used in devices that issue alerts detecting arm motion and swing speed

Healthcare
Watching elderly people indoors

frizz can be applied in systems for remote monitoring of the health and behavior of elderly people. It provides safety and security by detecting abnormal postures and movements, such as falls.

MegaChips Uses Proprietary Technologies to Create Unique Products in Images, Audio and Communications

MegaChips satisfies customers' needs on the basis of its proprietary technologies, researching and developing applied technologies to differentiate its products from competitors' products.

To ensure our superiority and uniqueness through research and development, we are promoting to secure our own intellectual property rights.

Main Achievements in R&D in Fiscal Year Ended March 31, 2015

Development of LSI products

- LSI for storing game software for portable game consoles
- Intellectual property core for system LSIs for digital cameras
- LSI for digital cameras
- Image processing LSI
- Timing controller LSI for liquid crystal panels
- Intellectual property core and LSI for optical communications
- Photoelectric conversion intellectual property core and LSI
- Analog front-end LSI
- 920MHz wireless LSI Pick Up
- LDO regulator for power supply control
- Intelligent sensor hub LSI
- Smart Connectivity LSI (DisplayPort) products
- MEMS timing devices

Development on basic technologies

- Status estimation technology
- Image recognition technology
- In-vehicle image recognition algorithm

Development of other products

- Expansion of the functionality of and custom development of full digital video recording and transmission systems
- Development of an additional product lineup for surveillance camera systems

Intellectual Property Strategy

Since MegaChips is a fabless manufacturer, our ideas, expertise, and other intellectual property derived from R&D activities constitute the foundation of our competitive advantage. Protecting our intellectual property rights will, therefore, lead to greater competitiveness and growth potential.

In the fiscal year ended March 31, 2015, we filed patent applications for technologies related to products being developed, technologies related to wearable devices and sensors, applied technologies for status estimates, robots, and 3D measurement as well as existing image recognition technology and technology for improving security for game consoles.

R&D Policy:

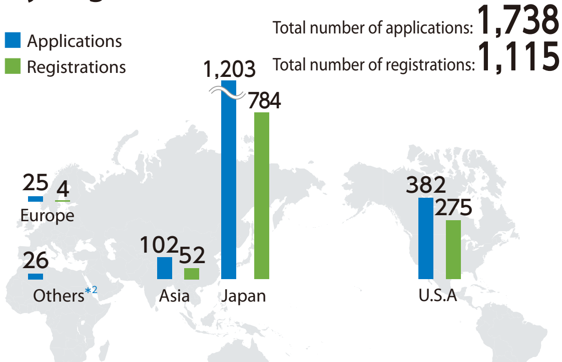
Provide the system LSI in images, audio, and communications, and products for specific purposes in the IoT field, as well as solutions using the applicable products.

Pick Up

BlueChip Wireless is a low-power, sub-GHz band LSI ideal for system construction including lighting and air-conditioning control and power consumption measurement at buildings and plants without wiring work.

In December 2014, BlueChip Wireless was employed by a wireless system to fine tune individual lamps with a light control function with smartphones and tablets in offices (at NTT Facilities).

Patent Applications and Registrations by Region[*1]



*1 The number of cases shown are the cumulative total as of the end of March 2015.
*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.

We Will Contribute to Society by Creating Products and Services that the World Needs, Taking Advantage of Our Advanced Technological Capabilities

Environmental Management System

MegaChips has established an environmental management system based on ISO14001 to achieve “Management in harmony with Environment”.

We are involved in preservation activities under the environmental policies of “eco-friendly and high circulation product manufacturing” that contributes to power consumption reduction and downsizing of products, “reduction of environmental load substances and green procurement” based on our original green procurement guideline, “eco-office promotion” that focuses on conserving energy and resources in our offices. We also working on “observance of laws and other requirements” according to the compliance.

Environmental Load Reduction Effects with the Development of Eco Products

MegaChips
Development and design of eco products

- Power consumption reduction
- Downsizing
- Reducing the number of components
- Enhancing the efficiency of development and design

Reducing the environmental burden over the product lifecycle

Production (Outsourcing)
- Reduce volume of materials (direct materials) for the products
- Reduce volume of materials (indirect materials) during manufacture
- Reduce energy consumed for manufacturing

Transportation
- Reduce energy consumed during transportation

Use
- Reduce energy consumed when using products Waste materials

Waste materials
- Reduce volume of waste materials

Quality Management System

To deliver high quality products and services to customers, we have constructed a quality management system that complies with the international standard ISO9001. We have established a quality policy and thoroughly informed it to all employees. We have set quality goals company-wide as well as by each business division and promoting activities to achieve these goals. We have continually improved our quality management system based on an assessment of its effectiveness. For comprehensive quality management and assurance, we also conduct trials, tests, audits and other checks at every stage, from design to production. We have built a system centered on the Quality Assurance Division in order to provide appropriate guidance and supervision to internal design sections and to contracted production plants.

TOPICS Supporting Entrepreneurial Education for Students

Students at universities in the Kansai area are invited every 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 since startup. The member of MegaChips judged the new technology category of the 16th Campus Venture Grand Prix Osaka.

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

Awards ceremony
at the 16th Campus Venture Grand Prix Osaka

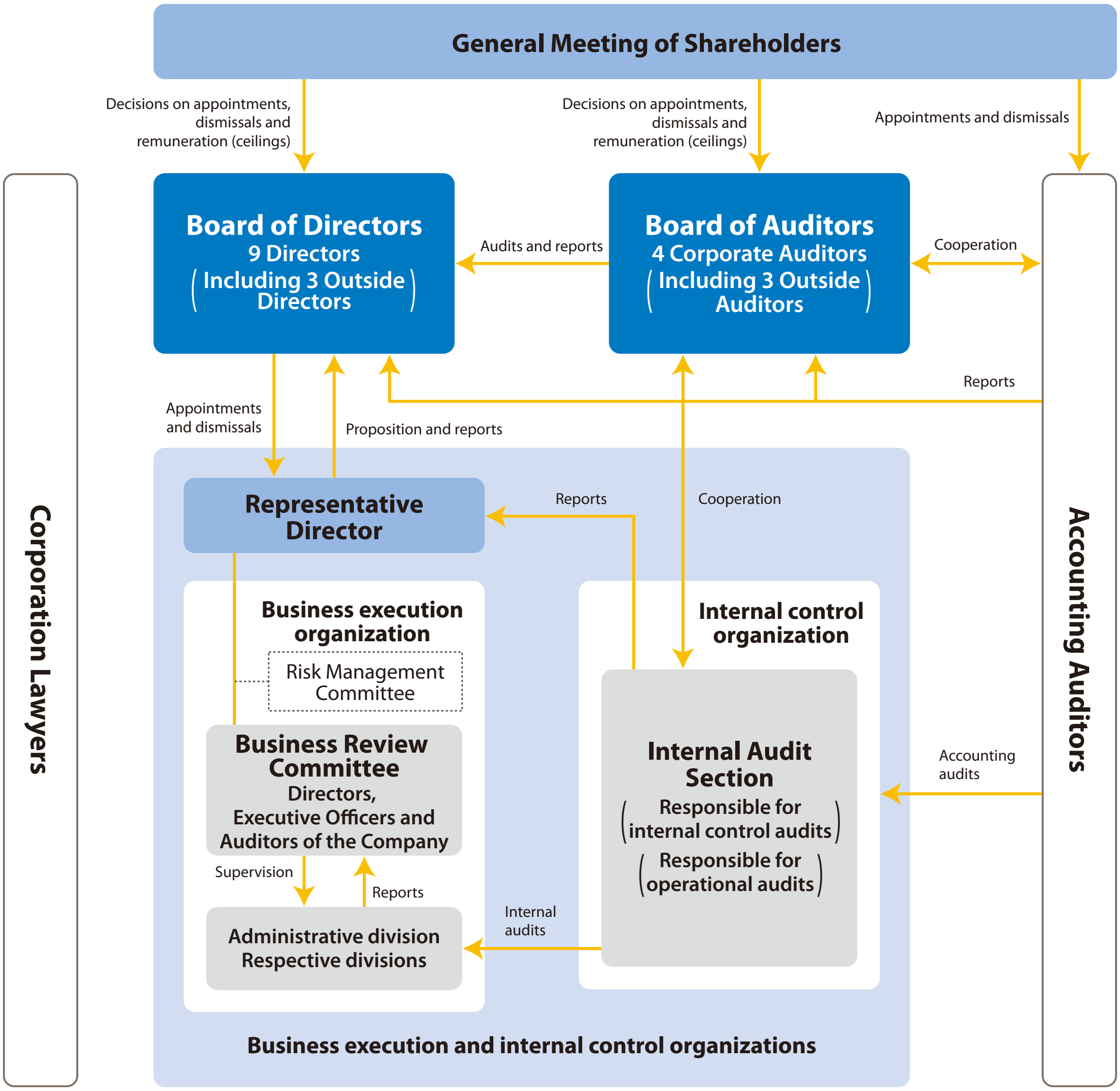
Raising Corporate Value and Practicing Sound Corporate Management

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 Nine 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 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, three* Outside Directors act to ensure management objectivity and transparency by asking questions, stating opinions and offering advices as may be necessary from external viewpoints.

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.

*No Outside Directors or Outside Auditors have been employed by the Company prior to their current appointments. The Company has no personnel, financial, technical, trade or any other relationship with any company for which any Outside Directors or Outside Auditors, or any of their close relatives has served as an officer or an employee over the last ten years, with the exception of manufacturing agreement contracts with Macronix International Co., Ltd. for which one of the Outside Directors acts as senior vice president and an advisory contract with a law firm to which one of the Outside Auditors belongs.

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 on the Company's internal control system 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 the internal control system. 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, 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.

The Company's internal control system covers the companies whose results are consolidated to ensure proper operations at Group companies. Each subsidiary reports the status of its execution of operations and its financial condition regularly to the Company, and the Company's business review meeting and Board of Directors check the appropriateness of their operations.

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, 2015. 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 29, 2015)

Directors and Auditors

Directors

Akira Takata
President and CEO

Shigeki Matsuoka
Executive Vice President

Masayuki Fujii
Senior Managing Director

Kyoichi Kissei
Senior Managing Director

Tetsuo Hikawa
Director

Gen Sasaki
Director

Keiichiro Akahoshi
Outside Director

Dang-Hsing Yiu
Outside Director

Chisato Tominaga
Outside Director

Auditors

Tadashi Sumi
Standing Statutory Auditor

Hisakazu Nakanishi
Outside Auditor

Nozomu Ohara
Outside Auditor

Keiichi Kitano
Outside 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*
	2011	2012	2013	2014	2015	2015
For the Year						
Operating Results:						
Net sales	¥ 36,259	¥ 35,366	¥ 53,623	¥ 58,469	**¥ 64,237**	**$ 534,557**
Operating income	3,055	3,033	3,962	4,173	**4,895**	**40,739**
Net income	2,288	2,127	4,044	4,725	**1,251**	**10,414**
R&D expenses	1,217	1,452	2,879	5,574	**7,320**	**60,916**
At Year-End						
Financial Position:						
Total assets	¥ 29,203	¥ 29,247	¥ 44,075	¥ 44,867	**¥ 77,830**	**$ 647,672**
Net assets	25,453	24,977	27,595	31,816	**32,355**	**269,246**
Other Information:						
Employees	269	277	703	739	**942**	**942**

	Yen except for PER and market capitalization					U.S. dollars*
Per Share Information						
Net income	¥ 94.64	¥ 88.80	¥ 170.23	¥ 202.40	**¥ 55.64**	**$ 0.46**
Net assets	1,060.19	1,042.70	1,181.89	1,362.64	**1,438.09**	**11.96**
Cash dividends	29	27	34	34	**34**	**0.28**
Stock Information (March 31)						
Stock price	¥ 1,484	¥ 1,638	¥ 1,458	¥ 1,210	**¥ 1,392**	**$ 11.58**
PER (Times)	15.68	18.45	8.56	5.98	**25.02**	**25.02**
Market capitalization (Millions of yen, Thousands of U.S. dollars)	¥ 35,672	¥ 39,374	¥ 35,047	¥ 29,086	**¥ 33,461**	**$ 278,450**

Ratio					
Operating income to sales (%)	8.4	8.6	7.4	7.1	**7.6**
ROE (%)	9.2	8.4	15.4	15.9	**3.9**
ROA (%)	8.2	7.3	11.0	10.6	**2.0**
Shareholders' equity ratio (%)	87.2	85.4	62.6	70.9	**41.3**
Sales to total assets ratio (Times)	1.30	1.21	1.46	1.31	**1.05**
Operating income per employee (Millions of yen)	¥ 12	¥ 11	¥ 8	¥ 6	**¥ 6**

* The U.S. dollar amounts are provided solely for the convenience of the readers at the rate of ¥120.17 US$1, the rate prevailing on March 31, 2015.

Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

Analysis of Business Results

● Net Sales

The MegaChips Group (the "Group") recorded net sales of ¥64,237 million (up 9.9% year on year), chiefly reflecting an increase in demand for LSIs for digital cameras due to a rise in the number of mounted models, strong demand for LSIs for office equipment, telecommunications, and liquid crystal panels. Sales of Smart Connectivity (DisplayPort) products that the Group has acquired, and the depreciation of the yen against the U.S. dollar and the Taiwan dollar also contributed to improving performance.

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

The consolidated cost of sales for the fiscal year was ¥45,263 million. The consolidated cost of sales ratio improved 3.6 percentage points from the previous fiscal year, to 70.5%. As a result, the consolidated gross profit rose 25.5% from the previous year, to ¥18,974 million.

Consolidated selling, general and administrative (SG&A) expenses was ¥14,078 million, an increase of ¥3,131 million from the previous fiscal year, reflecting active prior investments for business expansion in the medium to long term. SG&A expenses consisted mainly of personnel expenses of ¥4,763 million (up 39.8% from the previous fiscal year), including salaries, provision for bonuses and other items, and R&D expenses of ¥7,320 million (up 31.3% from the previous fiscal year).

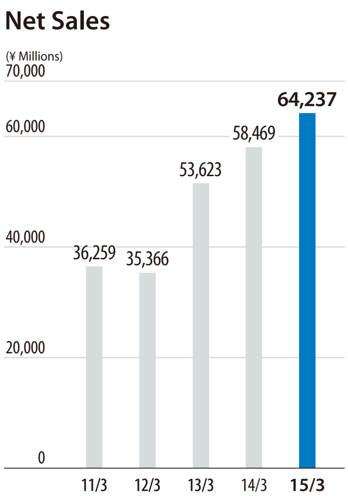
As a result of the developments described above, consolidated operating income for the fiscal year under review rose 17.3% from the previous fiscal year, to ¥4,895 million.

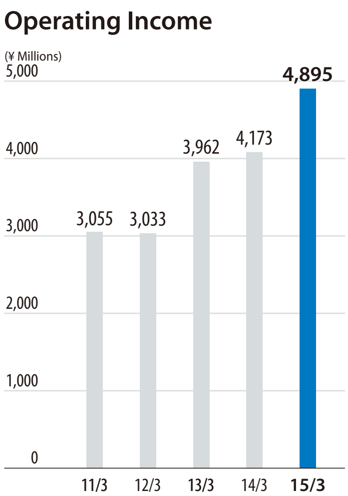
● Income before Income Taxes and Minority Interests

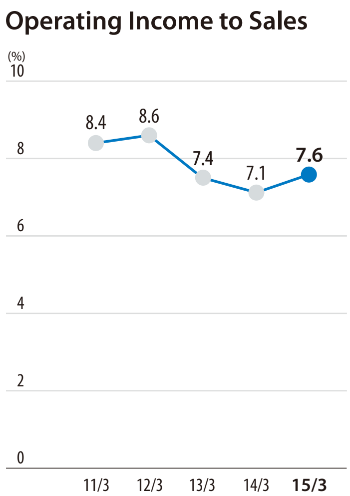
The difference between non-operating income and non-operating expenses stood at ¥1,495 million, as loan origination fees of ¥120 million, provision for loan loss reserve of ¥120 million, and exchange loss of ¥1,172 million as non-operating expenses were included.

The difference between extraordinary income and extraordinary loss of ¥168 million was caused by the posting of a special retirement expense of ¥130 million as an extraordinary loss associated with the closure of the ASIC team at the India Branch.

As a result, net income before taxes was ¥3,231 million (down 26.8% from the previous fiscal year).







Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

Net Income

Consolidated net income declined by 73.5% from the previous fiscal year to ¥1,251 million, as the result of income taxes, inhabitant taxes and enterprise taxes current totaling ¥486 million (a decrease of 17.3% from the previous fiscal year) and income taxes-deferred amounting to positive ¥1,564 million (decreased by ¥900 million over last year).

Dividends

The Company regards the appropriate distribution of profits to its shareholders as an important management issue, and seeks to actively distribute profits, aiming to achieve both the sustainable distribution of profits and the Company's growth and considering the Company's financial condition. The basic policy is as follows:

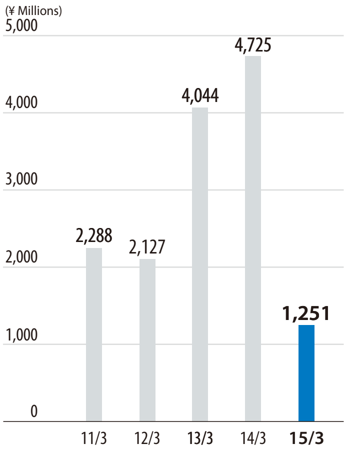
(1) The Company will determine the amount of dividends by taking an amount equivalent to at least 30% of the consolidated net income (with special factors relating to accounting, financial settlement or taxation added or subtracted upon due consideration) as the aggregate amount of dividends, while taking the medium-term business outlook into consideration, and dividing 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.

(2) 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 give consideration to maintaining a sound financial position that can withstand variations in the business environment.

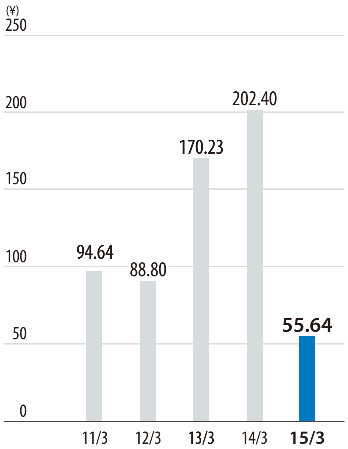
(3) The Company shall endeavor to return profits to shareholders by acquiring its own shares expeditiously, taking into consideration such factors as market conditions, movements of stock prices, and the Company's financial circumstances in order to improve the efficiency of capital.

With respect to the distribution of retained earnings for the fiscal year under review, the Company has 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, 2015 under its basic policy on the distribution of profits.

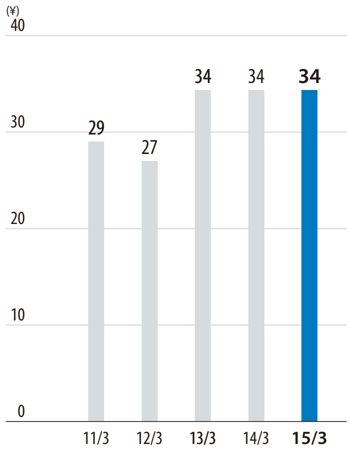
Net Income



Net Income Per Share



Dividends



High Liquidity and Outstanding Reserves

● Cash Flow

Net cash provided by operating activities was ¥5,752 million (compared with net cash of ¥5,484 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 ¥3,231 million (down 26.8% year on year), depreciation of ¥848 million yen, the amortization of long-term prepaid expenses of ¥1,165 million, and a ¥843 million increase in inventories, offsetting a 1,412 million increase in notes and accounts receivable-trade.

Net cash used in investment activities was ¥24,700 million (compared with net cash of ¥2,411 million used in such activities in the same period of the previous fiscal year). This was chiefly attributable to expenditure for the loan of operating funds to subsidiaries of ¥1,218 million, an outlay for the purchase of long-term prepaid expenses of ¥1,067 million, outgoings of ¥19,510 million for the purchase of shares of subsidiaries resulting in a change in the scope of consolidation mainly due to the acquisition of SiTime, and expenditure for business acquisition of ¥1,157 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 net cash used of ¥18,947 million (compared to net cash provided of ¥3,072 million in the same period of the previous fiscal year).

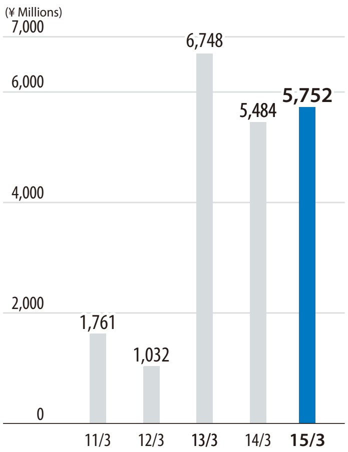
Net cash provided by financing activities was ¥20,814 million (compared with net cash of ¥3,623 million used in such activities in the same period of the previous consolidated fiscal year). This was chiefly attributable to a net increase in short-term loans payable of ¥11,701 million and proceeds from long-term loans payable of ¥14,000 million, which offset the repayment of long-term loans payable of ¥2,833 million and outgoings for the purchase of treasury shares of ¥1,262 million.

As a result, cash and cash equivalents at the end of the fiscal year ended March 31, 2015 reached ¥13,028 million, up ¥2,587 million from the end of the year ended March 31, 2014.

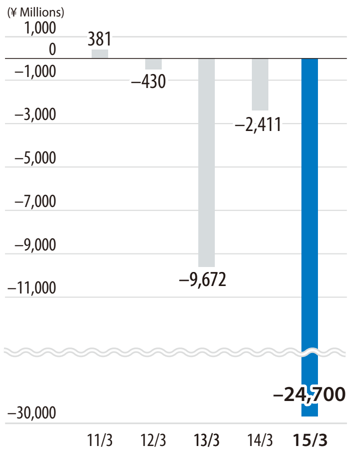
● Capital Requirements

MegaChips' working capital requirements are based on operating expenses such as research and development expenses for its new technologies and new products, the cost of sales, and selling, general and administrative expenses. A major component of the operating expenses is manufacturing outsourcing expenses for LSI products.

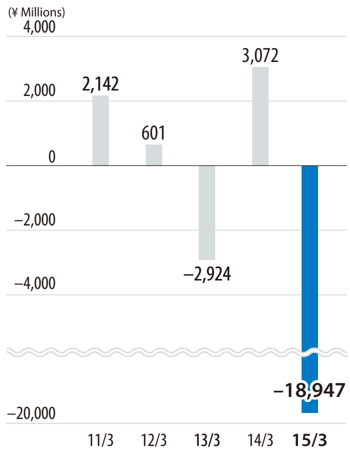
Cash Flows from Operating Activities



Cash Flows from Investing Activities



Free Cash Flow



Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

● Financial Policy

MegaChips borrows funds from financial institutions to raise working capital when necessary.

In the fiscal year under review, it borrowed funds of ¥20,000 million, consisting of short-term loans of ¥6,000 million and long-term loans of ¥14,000 million, from financial institutions for working capital and funds for the acquisition of SiTime Corporation. The outstanding balance of borrowings from financial institutions as of the end of the consolidated fiscal year under review was ¥27,118 million.

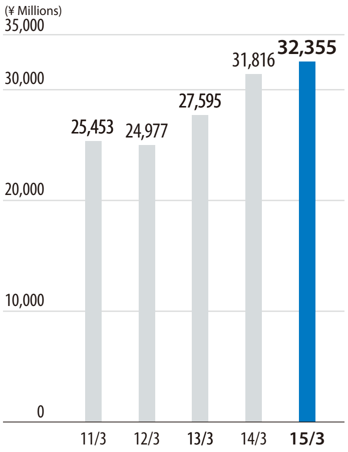
MegaChips believes it can raise the funds it needs for growth as required by selling accounts receivable on hand, borrowing from banks, or increasing capital, given its sound asset composition, financial position, and ability to generate cash flows through operating activities.

Financial Position

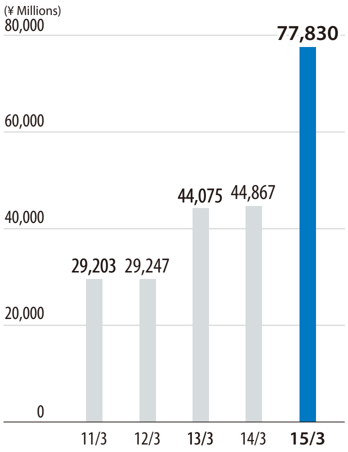
Total assets at the end of the fiscal year amounted to ¥77,830 million (an increase of ¥32,963 million from the end of the previous fiscal year). By asset item, current assets, centered on cash and cash equivalents, trade notes and accounts receivable, and inventories, rose ¥6,310 million from the previous fiscal year, to ¥38,898 million. The main contributing factors to this change included increases in cash and cash equivalents of ¥2,707 million and trade notes and accounts receivable of ¥2,156 million. In non-current assets, goodwill and technology assets rose ¥19,498 million and ¥6,979 million, respectively mainly due to the acquisitions of the Smart Connectivity (DisplayPort) business and SiTime Corporation. High liquidity characterizes the MegaChips Group's balance sheet, as shown in the asset breakdown. After an increase in non-current assets chiefly due to acquisitions of businesses, current assets accounted for 50.0% of total assets. The current ratio was 133.3%.

Quick assets, obtained by deducting an inventory of ¥5,466 million from these current assets, were ¥33,432 million. They accounted for 42.3% of consolidated total assets. This asset structure is a result of the MegaChips Group operating as a fabless manufacturer, which does not have assets such as production facilities, in which the Company makes long-

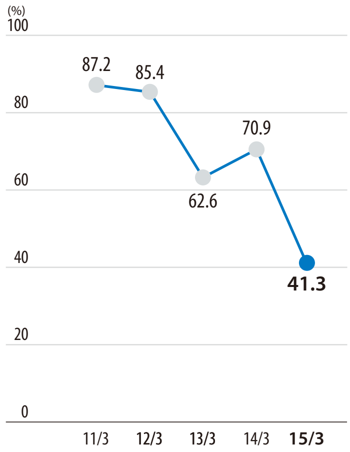
Net Assets



Total Assets



Shareholders' Equity Ratio

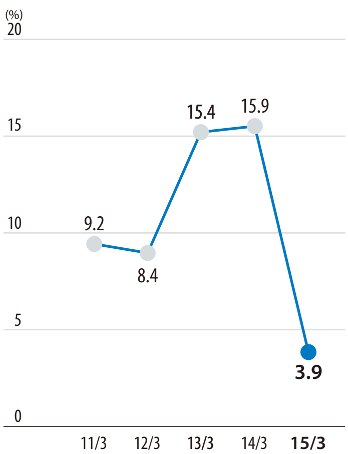


term capital investments. MegaChips will continue striving to maintain a sound and highly liquid asset structure in the future.

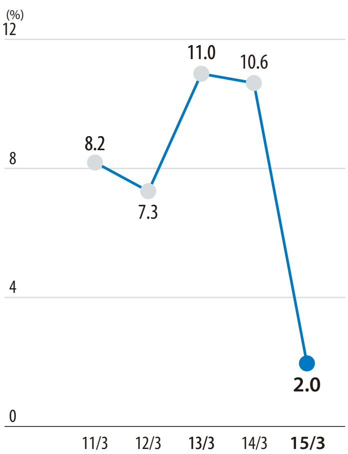
Total liabilities at the end of the fiscal year under review amounted to ¥45,475 million (a rise of ¥32,423 million year on year). The main contributing factors for this change were an increase in accounts payable other of ¥4,407 million, a rise in deferred tax liabilities (non-current liabilities) of ¥2,856 million, and a climb in interest-bearing debt of ¥22,868 million for working capital and the acquisition of SiTime Corporation. Liabilities consisted mainly of short-term loans payable of ¥11,701 million, long-term loans payable (including the current portion of long-term loans payable) of ¥15,416 million and trade payables of ¥5,201 million, which were primarily outstanding payments to companies that manufacture LSIs for the MegaChips Group as its contractors.

Net assets amounted to ¥32,355 million, up ¥539 million year on year. The main contributing factors for this change were a 73.5% year-on-year decrease in consolidated net income, to ¥1,251 million, and a ¥1,059 million increase in the foreign currency translation adjustment, and a ¥1,262 million increase in treasury shares. The resulting shareholders' equity ratio for the end of the fiscal year under review was 41.3%.

ROE



ROA



Research and Development, Patents and Other Intellectual Property Rights

The MegaChips Group invested a consolidated total of ¥7,320 million in R&D expenses for the fiscal year under review.

The Company is allocating its resources to research and development in the fields of images, audio, communications, and the IoT. For many products, including entertainment equipment, such as game consoles, digital cameras, LCD panels, and mobile and wearable devices, the Company is developing LSI products, including system LSIs that resolve issues identified in those products, intellectual property for the system LSIs, and customized products in accordance with customers' specifications and the Company's own standard products based on high-speed, high-precision mixed-signal circuit technology.

The Company also emphasizes the protection of intellectual property rights in the form of patents and other industrial property rights as part of its management strategies. As of the end of the fiscal year under review, the details of the industrial property rights the Company holds and the details of patents among the industrial property rights the Company holds by country are as follows:

Industrial Property Rights (As of March 31, 2015)

	Patents	Trademarks	IC Design Rights	Total
Acquired	1,115	46	2	1,163
Applied for	623	3	—	626
Total	1,738	49	2	1,789

Patents by Country (As of March 31, 2015)

	Japan	USA	Taiwan	China (including Hong Kong)	Korea	EU	Other	Total
Acquired	784	275	10	30	12	4	—	1,115
Applied for	419	107	2	48	—	21	26	623
Total	1,203	382	12	78	12	25	26	1,738

Business and Other Risks

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

Forward-looking statements in this section represent the judgment of the MegaChips Group as of June 24, 2015.

●Dependence on Specific Customers

(1) Purchasers

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

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

(2) Contract Manufacturers (Suppliers)

Since its foundation, we have adopted a business model in which we operate as an R&D-oriented fabless enterprise, concentrating our management resources on research and development and contracting the manufacturing of products to third parties. Consequently, we have been able to develop products that best meet customer needs based on our unique technological capabilities and expand business without the need to invest in plant and equipment that require substantial investments. We work with a number of different foundries and manufacturers in Japan and overseas, although a very significant percentage of purchases are made from Macronix International Co., Ltd. ("Macronix"), which manufactures 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 for whatever reason, our operating results may be impacted.

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

●Business

(1) Risks Associated with LSI Products

We have adopted a fabless model in which we own neither a manufacturing plant nor equipment of our own, and instead outsource manufacturing to third parties. We outsource the manufacturing of LSI products to major foundries both in Japan and overseas.

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 rapid, so there is no guarantee that these products will continue to be used. Moreover, demand may fluctuate due to the effect of the intense completion that the end products using our LSIs are exposed to.

(2) Risks in Other Products

In addition to LSI products, we offer application products including electronic components and system devices based on our LSI technologies in the field of images, audio and communications.

For these products, we have sought to maintain our technological edge in areas such as digital image processing and network technologies, and our competitive edge by supplying unique, optimized solutions for customer services. However, the speed of technological change in this area is rapid, and demand may fluctuate due to technological trends and developments in the services of other companies.

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 seeking to build our business through "Innovation", coexisting with customers over the long term through "Trust", and making an ongoing contribution 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, in our industry, advances in technology occur at a remarkable pace and the market may change rapidly, with technologies that were considered new suddenly becoming obsolete and new technologies and services surging in popularity. 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 will, in turn, likely affect our operating results.

The MegaChips Group makes every effort to develop cutting-edge technologies and to maintain the competitive edge of its technologies and products. However, should another company develop technology that gives it a competitive advantage, our operating results will likely be affected.

(5) Recruitment

The MegaChips Group operates based on its technological development capabilities in the areas of images, audio, and communication, and business growth depends heavily on human resources. It is, therefore, extremely important to recruit and retain excellent engineers and to develop the human resources we need.

We have sought to establish the personnel treatment system necessary for that purpose and have maintained excellent technological development capabilities in our business. However, if many excellent engineers were to leave the MegaChips Group or new engineers could not be recruited or developed as planned in the future, we could become less competitive.

(6) Exchange Rate Fluctuations

A portion of our business transactions are denominated in currencies other than Japanese yen, notably US dollars. Consequently, exchange rate fluctuations, especially fluctuations in the yen/dollar rate, may affect our operating results.

The MegaChips Group uses forward currency contracts where necessary, to hedge the foreign exchange risk.

●Management

(1) Defending against Acquisitions

MegaChips believes that anti-takeover measures and the protection of shareholder interests against abusive acquirers are important management issues, although it has not set out a basic policy on control of the company. 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

The MegaChips Group 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 such corporate governance system 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 Companies Act. 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 Act, 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, the MegaChips Group recognizes that the protection of its intellectual property rights is material to its business development.

Consequently, we have strengthened our internal system for the protection of intellectual property rights and our 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, it is impossible to fully investigate the technologies and rights of other companies prior to publication thereof. If lawsuits are filed against us about infringements of the intellectual property rights of other companies, our operating results may be affected.

Original technologies independently developed by the MegaChips Group may not be fully protected by intellectual property legislation in specific countries and regions. Under such conditions, we may be unable to effectively prevent other companies from using our intellectual property without our permission and from introducing similar products into the market.

As of the date of submission of the securities report (June 24 2015), 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, 2014 and 2015

ASSETS	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Current assets:			
Cash and time deposits (Note 3 and 4)	¥ 13,182,156	¥ 10,474,476	$ 109,695
Receivables			
Trade (Note 4)			
Notes	2,196	45,712	18
Accounts	17,044,629	14,845,090	141,837
Others	639,452	368,332	5,321
Allowance for doubtful receivables	(132,297)	(1,059)	(1,100)
Inventories (Note 8 and 9)	5,466,318	4,209,353	45,488
Deferred tax assets (Note 14)	2,054,508	1,711,641	17,096
Other current assets	641,835	934,958	5,341
Total current assets	38,898,799	32,588,504	323,698
Property and equipment:			
Buildings	3,942,161	3,854,822	32,804
Land	289,638	289,638	2,410
Others	7,504,736	6,551,873	62,450
	11,736,536	10,696,334	97,666
Less accumulated depreciation	(9,528,224)	(8,822,179)	(79,289)
Total property and equipment	2,208,311	1,874,155	18,376
Intangible assets (Note 10):			
Goodwill	19,498,248	—	162,255
Technical assets	6,979,823	—	58,082
Others	1,784,269	649,081	14,847
Total Intangible assets	28,262,342	649,081	235,186
Investments and other assets:			
Investments in securities (Note 4 and 5)	1,808,949	1,669,007	15,053
Long-term prepaid expenses	3,516,785	1,806,942	29,265
Deferred tax assets (Note 14)	1,608,390	3,539,214	13,384
Other investments	1,527,201	2,740,818	12,708
Total investments and other assets	8,461,326	9,755,983	70,411
Total assets	¥ 77,830,780	¥ 44,867,725	$ 647,672

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)
	2015	2014	2015
Current liabilities:			
Short term loans payable (Note 11)	¥ 11,701,700	¥ —	$ 97,376
Current portion of long-term loans payable (Note 4)	3,416,670	2,833,332	28,431
Payables:			
Trade (Note 4)	5,201,778	4,154,275	43,286
Others	6,234,046	1,826,067	51,876
Accrued expenses	1,405,827	1,049,481	11,698
Income taxes payable	253,972	141,461	2,113
Provision for losses on construction contracts (Note 9)	291,442	462,728	2,425
Deferred tax liabilities (Note 14)	304,465	2,212	2,533
Other current liabilities	373,009	162,382	3,104
Total current liabilities	29,182,912	10,631,940	242,846
Long-term liabilities:			
Long-term loans payable (Note 4)	12,000,000	1,416,670	99,858
Deferred tax liabilities (Note 14)	2,873,912	17,866	23,915
Other long-term liabilities	1,418,615	985,138	11,805
Total long-term liabilities	16,292,527	2,419,675	135,578
Total liabilities	45,475,440	13,051,615	378,425
Net assets (Note 16):			
Shareholders' equity			
Common stock			
Authorized - 100,000,000 shares			
Issued			
24,038,400 shares in 2014			
24,038,400 shares in 2015	4,840,313	4,840,313	40,278
Capital surplus	6,181,300	6,181,300	51,437
Retained earnings	21,754,605	21,296,923	181,031
Treasury stock, at cost			
689,450 shares in 2014			
1,689,450 shares in 2015	(2,318,962)	(1,055,975)	(19,297)
Total shareholders' equity	30,457,256	31,262,561	253,451
Accumulated other comprehensive income			
Net unrealized losses on securities	(75,807)	(145,716)	(630)
Foreign currency translation adjustments	1,758,447	699,263	14,632
Total accumulated other comprehensive income	1,682,640	553,547	14,002
Minority interests			
Minority interests	215,442	—	1,792
Total net assets	32,355,339	31,816,109	269,246
Total liabilities and net assets	¥ 77,830,780	¥ 44,867,725	$ 647,672

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, 2014 and 2015

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Net sales	**¥ 64,237,738**	¥ 58,469,703	**$ 534,557**
Cost of sales (Note 8 and 9)	**45,263,445**	43,348,786	**376,661**
Gross profit	**18,974,293**	15,120,916	**157,895**
Selling, general and administrative expenses (Note 7 , 12 and 13)	**14,078,608**	10,947,549	**117,155**
Operating income	**4,895,684**	4,173,367	**40,739**
Other income (expenses):			
Interest and dividend income	**12,091**	17,479	**100**
Interest expense	**(95,465)**	(55,906)	**(794)**
Borrowing fee	**(120,500)**	—	**(1,002)**
Provision of allowance for doubtful accounts	**(120,170)**	—	**(1,000)**
Foreign exchange gains	—	123,693	—
Foreign exchange losses	**(1,172,620)**	—	**(9,758)**
Loss on valuation of inventories (Note 8)	—	(197,113)	—
Gain on sale of investment securities	—	588,479	—
Loss on valuation of investment securities (Note 5)	**(20,372)**	(120,070)	**(169)**
Special retirement expenses	**(130,277)**	—	**(1,084)**
Loss on liquidation of business (Note 8 and 18)	—	(97,262)	—
Others, net (Note 18)	**(16,788)**	(19,009)	**(139)**
	(1,664,103)	240,291	**(13,847)**
Income before income taxes and minority interests	**3,231,581**	4,413,658	**26,891**
Income taxes (Note 14):			
Current	**486,220**	588,133	**4,046**
Deferred	**1,564,228**	(900,309)	**13,016**
Total income taxes	**2,050,448**	(312,175)	**17,062**
Income before minority interests	**1,181,132**	4,725,834	**9,828**
Minority interests in losses	**(70,413)**	—	**(585)**
Net income	**¥ 1,251,546**	¥ 4,725,834	**$ 10,414**
Minority interests in losses	**(70,413)**	—	**(585)**
Income before minority interests	**1,181,132**	4,725,834	**9,828**
Other comprehensive income			
Net unrealized gain (loss) on investment securities	**69,909**	(413,009)	**581**
Foreign currency translation adjustments	**1,084,897**	701,354	**9,028**
Total other comprehensive income	**1,154,806**	288,345	**9,609**
Comprehensive income	**¥ 2,335,939**	¥ 5,014,179	**$ 19,438**

	(Yen)		U.S. dollars (Note 1)
Amounts per share			
Net income - basic	**¥ 55.64**	¥ 202.40	**$ 0.46**
Net income - diluted	—	—	—
Cash dividends	**34.00**	34.00	**0.28**

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, 2014 and 2015

	Number of shares of common stock issued	Thousands of yen							
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gains on securities	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2013	24,038,400	4,840,313	6,181,300	17,364,960	(1,056,030)	267,293	(2,091)	—	27,595,745
Cash dividends paid - ¥34.00 per share				(793,863)					(793,863)
Net income				4,725,834					4,725,834
Acquisition of treasury stock					(48)				(48)
Disposal of treasury stock				(8)	104				95
Net increase in unrealized gains on securities						(413,009)			(413,009)
Foreign currency translation adjustments							701,354		701,354
Balance at March 31, 2014	24,038,400	4,840,313	6,181,300	21,296,923	(1,055,975)	(145,716)	699,263	—	31,816,109
Cash dividends paid - ¥34.00 per share				(793,864)					(793,864)
Net income				1,251,546					1,251,546
Acquisition of treasury stock					(1,262,987)				(1,262,987)
Net increase in unrealized gains on securities						69,909			69,909
Foreign currency translation adjustments							1,059,183		1,059,183
Net increase in minority interests								215,442	215,442
Balance at March 31, 2015	**24,038,400**	**4,840,313**	**6,181,300**	**21,754,605**	**(2,318,962)**	**(75,807)**	**1,758,447**	**215,442**	**32,355,339**

	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	Minority interests	Total
Balance at March 31, 2014	$ 40,278	$ 51,437	$ 177,223	$ (8,787)	$ (1,212)	$ 5,818	$ —	$ 264,759
Cash dividends paid - $ 0.28 per share			(6,606)					(6,606)
Net income			10,414					10,414
Acquisition of treasury stock				(10,510)				(10,510)
Net increase in unrealized gains on securities					581			581
Foreign currency translation adjustments						8,814		8,814
Net increase in minority interests							1,792	1,792
Balance at March 31, 2015	**$ 40,278**	**$ 51,437**	**$ 181,031**	**$ (19,297)**	**$ (630)**	**$ 14,632**	**$ 1,792**	**$ 269,246**

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, 2014 and 2015

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 3,231,581**	¥ 4,413,658	**$ 26,891**
Adjustments for:			
Depreciation and amortization	**2,014,427**	1,626,296	**16,763**
Amortization of goodwill	**128,954**	—	**1,073**
Increase (decrease) in allowance for doubtful accounts	**131,237**	135	**1,092**
Increase (decrease) in accrued employee bonuses	**30,567**	27,338	**254**
Increase (decrease) in provision for losses on construction contracts	**(171,285)**	(297,250)	**(1,425)**
Interest and dividend income	**(12,091)**	(17,479)	**(100)**
Interest expense	**95,465**	55,906	**794**
Foreign exchange losses (gains)	**(64,599)**	(109,019)	**(537)**
Gain on sale of investment securities	**—**	(588,133)	**—**
Loss on valuation of investment securities	**20,372**	120,070	**169**
Change in assets and liabilities:			
Decrease (increase) in:			
Receivables (trade)	**(1,412,280)**	2,027,343	**(11,752)**
Inventories	**843,206**	(210,306)	**7,016**
Other current assets	**499,427**	71,940	**4,156**
Increase (decrease) in:			
Payables (trade)	**269,730**	626,870	**2,244**
Other current liabilities	**293,001**	(954,131)	**2,438**
Other, net	**(31,748)**	16,211	**(264)**
	5,865,966	6,809,451	**48,813**
Interest and dividends received	**12,646**	17,496	**105**
Interest paid	**(78,180)**	(58,114)	**(650)**
Income taxes paid	**(47,585)**	(1,284,780)	**(395)**
Net cash provided by operating activities	**5,752,847**	5,484,053	**47,872**
Cash flows from investing activities:			
Purchase of property and equipment	**(665,270)**	(405,197)	**(5,536)**
Purchase of intangible assets	**(514,072)**	(176,058)	**(4,277)**
Proceeds from sales of investment securities	**—**	1,052,753	**—**
Payment of loans receivable	**(1,218,766)**	(98,590)	**(10,142)**
Payment for long-term prepaid expenses	**(1,067,091)**	(652,899)	**(8,879)**
Proceeds from investments in subsidiaries resulted in consolidation (Note 3)	**86,622**	—	**720**
Purchase of investments in subsidiaries resulted in consolidation (Note 3)	**(19,510,589)**	—	**(162,358)**
Payments for transfer of business (Note 3)	**(1,157,153)**	—	**(9,629)**
Other, net	**(654,241)**	(2,131,088)	**(5,444)**
Net cash used in investing activities	**(24,700,562)**	(2,411,079)	**(205,546)**
Cash flows from financing activities:			
Net increase (decrease) in short term loans payable	**11,701,700**	—	**97,376**
Proceeds from long-term loans payable	**14,000,000**	—	**116,501**
Repayment of long-term loans payable	**(2,833,332)**	(2,833,332)	**(23,577)**
Purchase of treasury stock	**(1,262,987)**	(48)	**(10,510)**
Cash dividends paid	**(790,955)**	(790,167)	**(6,581)**
Other	**—**	95	**—**
Net cash provided by (used in) financing activities	**20,814,424**	(3,623,452)	**173,208**
Effect of exchange rate changes on cash and cash equivalents	720,929	559,601	5,999
Net increase (decrease) in cash and cash equivalents	2,587,638	9,122	21,533
Cash and cash equivalents at beginning of year	10,440,669	10,431,546	86,882
Cash and cash equivalents at end of year (Note 3)	¥ 13,028,308	¥ 10,440,669	$ 108,415

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 accounts of consolidated overseas subsidiaries have been prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, as required under "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18) issued and revised by the Accounting Standards Board of Japan ("ASBJ"). In this case, adjustments for the following five items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP unless the impact is not material.

(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined benefit plans recognized outside profit and loss
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets
(e) Accounting for net income attributable to minority interests

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 as at March 31, 2015, which was ¥120.17 to US$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 2014 consolidated financial statement items have been reclassified in order to conform to the presentation for 2015.

As permitted, amounts of less than 1,000 yen are omitted in the presentations for 2014 and 2015. As a result, the totals shown in the accompanying consolidated financial statements, both in yen and in U.S. dollars, do not necessarily agree with the sum of the individual amounts.

2. Significant accounting policies

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and ten significant subsidiaries over which the Company has power of control through substantial ownership or the existence of certain other conditions evidencing control by the Company (together, referred to as the "Companies").

The names of the significant subsidiaries are Shun Yin Investment Ltd., MegaChips Technology America Corporation, MegaChips Taiwan Corporation, MegaChips Corporation, China, Modiotek Co., Ltd. and SiTime Corporation.

Of these, Modiotek Co., Ltd. and SiTime Corporation were acquired in the fiscal year and are newly included in the scope of consolidation.

There are three non-consolidated subsidiaries. As all of the non-consolidated subsidiaries are small and do not have a significant impact, they are excluded from the scope of consolidation. In addition, as the impact of the non-consolidated subsidiaries on the consolidated financial statements is minor and not significant even if the equity method were applied, they are excluded from applying equity method.

There are no equity method affiliates.

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 carry 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 of certain individual receivables.

(4) Inventories

Work-in-process relating to contract work is stated at cost determined by the specific identification method, while other work-in-process is stated at cost determined by the first-in, first-out method. Other inventories are stated mainly at cost determined by the average method or the first-in, first-out method. Inventories are reviewed for their decrease in profitability, and are written-down as necessary based on the results of the review.

(5) Securities and investments

Available-for-sale securities with readily determinable fair market 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 method. Available-for-sale securities without readily determinable no available fair market value are stated at moving average method.

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

If the market value of equity securities or available-for-sales securities including investments in business partnerships declines significantly and is not expected to recover, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline.

If the fair market value of equity securities or available-for-sales securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly and is not expected to recover.

(6) Property and equipment

Property and equipment are stated at cost. Depreciation is computed principally by 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 declining balance method using fixed percentage of diminishing value.

The principle estimated useful lives are as follows:

	2015	2014
Buildings	**3 to 50 years**	3 to 50 years
Others	**2 to 20 years**	2 to 20 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 software product masters to be sold are amortized by the straight-line method over the estimated period of future sales period of mainly 3 years.

Amortization of other intangible assets is computed by the straight-line method.

(8) Goodwill

Goodwill is amortized by the straight-line method over the estimated period of effect (5 to 10 years).

(9) Long-term prepaid expenses

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

Certain post-development stage expenses related to the initial mass production of new products are amortized by the straight-line method over the estimated future sales period of 3 years.

(10) Bonuses

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

(11) Provision for loss on construction contracts

When total cost of construction is likely to exceed 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.

(12) Basis for recording revenue on engineering contracts

The percentage-of-completion method is applied to engineering contracts for which the outcome is deemed certain by the end of the fiscal year. 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 do not meet the above criteria.

(13) Income taxes

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

The asset / 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.

(14) Translation of foreign currencies

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

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

(15) 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. As there was no dilutive stock outstanding during the years, the computation of diluted net income per share was not calculated.

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. Cash and cash equivalents

(1) The reconciliation 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
	2015	2014	**2015**
Cash and time deposits – balance sheets	**¥ 13,182,156**	¥ 10,474,476	**$ 109,695**
Time deposits with maturity date longer than 3 months	**(153,848)**	(33,807)	**(1,280)**
Cash and cash equivalents – statements of cash flows	**¥ 13,028,308**	¥ 10,440,669	**$ 108,415**

(2) Assets and liabilities of subsidiaries that newly consolidated as a result of an acquisition of shares in the fiscal year ended March 31, 2015

Assets and liabilities of Modiotek Co., Ltd., newly consolidated as of Modiotek Co., Ltd. as a result of the acquisition of its shares, and the relationship between the acquisition cost and the cash proceeds (net amount) due to the acquisition were as follows:

	Thousands of yen	Thousands of U.S. dollars
	2015	2015
Current assets	¥ 816,946	$ 6,798
Fixed assets	36,351	302
Goodwill	129,112	1,074
Current liabilities	(43,628)	(363)
Minority interests	(224,991)	(1,872)
Acquisition cost	713,790	5,939
Cash and cash equivalents of Modiotek Co., Ltd.	800,412	6,660
Difference: Cash proceeds due to the acquisition	¥ 86,622	$ 720

Assets and liabilities of Magic Pixel Inc., newly consolidated as of Magic Pixel Inc. as a result of the acquisition of its shares, and the relationship between the acquisition cost and the expenditure (net amount) were as follows:

	Thousands of yen	Thousands of U.S. dollars
	2015	2015
Current assets	¥ 108,337	$ 901
Fixed assets	35,746	297
Goodwill	53,138	442
Current liabilities	(26,085)	(217)
Long-term liabilities	(3,441)	(28)
Minority interests	(38,603)	(321)
Acquisition cost	129,092	1,074
Cash and cash equivalents of Magic Pixel Inc.	8,875	73
Difference: Expenditure for the acquisition	¥ 120,217	$ 1,000

Assets and liabilities of SiTime Corporation, newly consolidated as of SiTime Corporation as a result of the acquisition of its shares, and the relationship between the acquisition cost and the expenditure (net amount) were as follows:

	Thousands of yen	Thousands of U.S. dollars
	2015	2015
Current assets	¥ 6,489,577	$ 54,003
Fixed assets	7,326,612	60,968
Goodwill	17,506,072	145,677
Current liabilities	(5,117,917)	(42,588)
Long-term liabilities	(2,873,912)	(23,915)
Acquisition cost	23,330,432	194,145
Accounts payable - cost directry related to the acquisition of shares	203,621	1,694
Cash and cash equivalents of SiTime Corporation	3,736,438	31,092
Difference: Expenditure for the acquisition	¥ 19,390,372	$ 161,357

(3) Assets and liabilities that acquired due to the acquisition of business in the fiscal year ended March 31, 2015

Assets and liabilities that acquired due to the acquisition of the "Smart Connectivity business based on DisplayPort technology" at MegaChips Technology America Corporation, a consolidated subsidiary, were as follows:

	Thousands of yen	Thousands of U.S. dollars
	2015	2015
Fixed assets	¥ 678,590	$ 5,646
Goodwill	1,743,462	14,508
Acquisition cost	2,422,052	20,155
Expenditures in the previous consolidated fiscal year	1,286,500	10,705
Translation gain or loss	(21,601)	(179)
Difference: Expenditure due to the acquisition of business	¥ 1,157,153	$ 9,629

4. 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 basic policies where they concentrate the use of funds on its main business activities, refrain from speculative fund management, and invest in financial instruments only after the details of the products and risks involved are clearly understood and fully evaluating the historical performance and any potential impact.

The financial Instruments in the Companies invest are limited to bank deposits and governmental and corporate bond investment trusts, in which the principal is appropriately protected and for which the liquidity is high, with lower credit and market risks. 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 those for limiting investment amounts, restrictions on investment periods, and rating standards).

Furthermore, to reduce risks of fluctuations in foreign exchange rates due to certain receivables and payables denominated in foreign currencies, which are as a result of normal business transactions, the Company uses foreign exchange forward contracts in accordance with internal rules that stipulate the risk management structure and policies.

While the Companies maintain sufficient funds to make payments on 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 within established limits for borrowings from financial institutions and limits for the sale of their accounts receivable. The Companies determine their funding strategies 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 checking accounts at banks, primarily for use as working capital. These banks present almost no credit risks as their credibility is very high.

Notes and accounts receivable and trade receivables are exposed to the credit risk of customers. 53.0% of the operating receivables at the end of the fiscal year ended March 31, 2015, (59.5% as at the end of the previous fiscal year) were attributable to Nintendo Co.,Ltd.. Considering their operating results and credit status, the credit risk associated with these receivables is believed to be minimal.

Investment securities are categorized as available-for-sale securities and consist mainly of stocks held for investment and investment securities held for maintaining partnerships. All of these investments have been made to collect information on present and future business partners about future business development with the aim of achieving synergies and improving corporate value. Therefore, 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 be impaired 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 current fiscal year, shares held by subsidiaries accounted for 85.6% (83.6% as at the end of the previous fiscal year).

All trade payables are due within one year.

Short-term loans payable mainly comprise funds borrowed to finance business transactions, while the current portion of long-term loans payable and long-term loans payable comprise mainly funds borrowed to finance investment.

Trade receivables and trade payables denominated in foreign currencies recognized as a result of normal business transactions are exposed to the risks of fluctuations in foreign exchange rates. The Company seeks to reduce these risks by using foreign exchange forward contracts when necessary for the amount after considering the net position of accounts receivable-trade and accounts payable-trade denominated in the same foreign currency.

(iii) Risk management system

a. Credit risk

Credit risk is defined as the risk of incurring losses 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 balances 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 other related rules for impairment and valuation allowances as necessary.

b. Market risk

Market risk is defined as the risk of the Companies incurring losses 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 with the interest rate fluctuation risk, exchange rate fluctuation risk and stock price fluctuation risk.

In accordance with its accounting rules and cash management rules, the Finance Department regularly monitors the fair market value and the financial condition of issuing companies. It also regularly 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 stock prices in an effort to reduce the market risks associated with the Companies' assets and liabilities.

In general, the Company does not make investments as part of fund management in financial products that involve risks related to fluctuations in stock prices or foreign exchange rates. However, in accordance with foreign exchange risk management rules, the Company uses foreign exchange forward contracts and other derivatives when necessary in managing risks of fluctuations in foreign exchange rates related to certain receivables and payables denominated in foreign currencies related to normal business transactions.

c. Liquidity risk

Liquidity risk is defined as 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 if they are forced to accept significantly worse than usual funding conditions. By constantly monitoring the management of funds and regularly preparing and updating funding plans, the Finance Department ensures that the Companies maintain an appropriate level of funds, including sufficiency to meet obligations that may arise from unexpected developments. As a measure to respond to liquidity risk, the Companies have also established credit lines or overdraft agreements with their banks. No financial covenants are attached to these 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. When these conditions change, 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, 2014 and March 31, 2015 are set forth in the tables below. Items whose fair market values were considered very difficult to determine 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 is based on book value.

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Figures presented in the consolidated balance sheets	**¥ 13,182,156**	¥ 10,474,476	**$ 109,695**
Fair value	**13,182,156**	10,474,476	**109,695**
Difference	**¥ —**	¥ —	**$ —**
Due in one year or less	**¥ 13,182,156**	¥ 10,474,476	**$ 109,695**

(Trade receivables)

Because trade receivables are due in short period of time, 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
	2015	2014	**2015**
Figures presented in the consolidated balance sheets	**¥ 17,034,699**	¥ 14,889,743	**$ 141,755**
Fair value	**17,034,699**	14,889,743	**141,755**
Difference	**¥ —**	¥ —	**$ —**
Due in one year or less	**¥ 17,035,857**	¥ 14,890,803	**$ 141,764**

(Note) Claims provable in bankruptcy, claims provable in rehabilitation and other are not included in due in one year or less as the expected amount of redemption cannot be anticipated.

(Investment securities)

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

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Figures presented in the consolidated balance sheets	**¥ 1,709,333**	¥ 1,519,112	**$ 14,224**
Fair value	**1,709,333**	1,519,112	**14,224**
Difference	**¥ —**	¥ —	**$ —**

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

Financial instruments whose fair value was considered to be very difficult to obtain are shown below. These financial instruments do not have a fair market value, and it is considered 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
	2015	2014	2015
Available-for-sale securities			
Non-listed equity securities	¥ 69,216	¥ 107,128	$ 575
Non-listed bonds	682	1,227	5
Others	29,717	41,538	247

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

(Trade payables)

Because trade payables are due in short period of time, the fair value is similar to the book value. Consequently, the fair value of trade payables is based on book value.

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	2015
Figures presented in the consolidated balance sheets	¥ 5,201,778	¥ 4,154,275	$ 43,286
Fair value	5,201,778	4,154,275	43,286
Difference	¥ —	¥ —	$ —

(Short-term loans payable)

Because short-term loans payable are due in short period of time, the fair value is similar to the book value. Consequently, the fair value of short-term loans payable is based on book value.

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	2015
Figures presented in the consolidated balance sheets	¥ 11,701,700	¥ —	$ 97,376
Fair value	11,701,700	—	97,376
Difference	¥ —	—	$ —
Due in one year or less	¥ 11,701,700	¥ —	$ 97,376

(Accounts payable - other)

Because accounts payable - other are due in short period of time, the fair value is similar to the book value. Consequently, the fair value of accounts payable - other is based on book value.

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	2015
Figures presented in the consolidated balance sheets	¥ 6,234,046	¥ 1,826,067	$ 51,876
Fair value	6,234,046	1,826,067	51,876
Difference	¥ —	¥ —	$ —

(Note) Accounts payable - other are separately presented on balance sheet starting from the fiscal year ended March 31, 2015, as they become material. This change in the presentation is also reflected to the balance sheet for fiscal year ended March 31, 2014.

(Long-term loans payable, including current portion of long-term loans payable)

The fair value of long-term loans payable is calculated by discounting the sum of principal and interest using the hypothetical interest rate assumed applicable to new borrowing on similar conditions.

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	2015
Figures presented in the consolidated balance sheets	¥ 15,416,670	¥ 4,250,002	$ 128,290
Fair value	15,483,938	4,254,753	128,850
Difference	¥ 67,268	¥ 4,751	$ 559
Long-term loans payable due within one year	¥ 3,416,670	¥ 2,833,332	$ 28,431
Long-term loans payable due after one year but within two years	2,000,000	1,416,670	16,643
Long-term loans payable due after two years but within three years	2,000,000	—	16,643
Long-term loans payable due after three years but within four years	2,000,000	—	16,643
Long-term loans payable due after four years but within five years	2,000,000	—	16,643
Long-term loans payable due after five years	4,000,000	—	33,286

5. Securities

(1) The following tables summarize the costs and carrying amounts (the fair values) of and the unrealized gains and losses on equity securities classified as available-for-sale securities for which fair values were available at March 31, 2015 and March 31, 2014:

(i) Securities with unrealized gains

(Equity securities)

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	2015
Cost	¥ 22,494	¥ 19,455	$ 187
Carrying amount	162,171	123,767	1,349
Unrealized gains	¥ 139,676	¥ 104,311	$ 1,162

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

(ii) Securities with unrealized losses

(Equity securities)

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	2015
Cost	¥ 1,727,411	¥ 1,611,959	$ 14,374
Carrying amount	1,547,161	1,395,345	12,874
Unrealized losses	¥ (180,250)	¥ (216,614)	$ (1,499)

(2) Total sales of available-for-sale securities for the year ended March 31, 2014 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	2015
Amount of sales	¥ —	¥ 1,053,728	$ —
Total gain on sales	—	588,479	—
Total loss on sales	—	346	—

(3) If the market value at the end of the period declines by 50% or more from the acquisition cost, the Companies writes down the book value of available-for-sale securities, recognizing impairment losses. If the market value declines by 30% to 50%, the Companies writes down the book value by the amount that is deemed necessary, taking into consideration the significance of the amount and the possibility of its recovery. The amount of impairment losses in available-for-sale securities in the consolidated fiscal years ended March 31, 2015 and March 31, 2014 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Loss on valuation of investment securities	**¥ 20,372**	¥ 120,070	**$ 169**

(4) Investment securities in non-consolidated subsidiaries as of March 31, 2015 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Investment securities (shares)	**¥ 2,083**	¥ —	**$ 17**

(5) Assets that were provided as collateral as of March 31, 2015 were as follows. The shares have been returned on April 30, 2015.

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Shares in consolidated subsidiaries eliminated for consolidation	**¥ 23,330,432**	¥ —	**$ 194,145**

6. Derivative transactions

The details of derivative transactions have been omitted in the disclosure because they are not significant to the Companies.

7. Retirement benefits

(1) Summary of retirement benefits systems

The Company has adopted a prepaid retirement benefit system and a defined contribution plan system.

(2) Matters concerning retirement benefit expenses

Payments of prepaid retirement allowances and contributions for the defined contribution plan system for the years ended March 31, 2015 and March 31, 2014 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Retirement benefit expenses	**¥ 328,665**	¥ 239,044	**$ 2,735**

8. Inventories

(1) Inventories at March 31, 2015 and March 31, 2014 consisted of the following:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Finished products	**¥ 2,087,683**	¥ 1,907,826	**$ 17,372**
Raw materials	**667,775**	691,741	**5,556**
Work-in-process	**2,707,564**	1,599,656	**22,531**
Supplies	**3,295**	10,128	**27**
Total	**¥ 5,466,318**	¥ 4,209,353	**$ 45,488**

(2) A 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, 2015 and March 31, 2014 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Cost of sales	**¥ 89,856**	¥ 27,906	**$ 747**
Other expenses (Including loss on valuation of inventories and loss on liquidation of business)	**¥ —**	¥ 283,947	**$ —**

9. Provision for losses on construction contracts

(1) Inventories related to construction contracts that are likely to incur losses and the provision for losses on construction contracts are presented on a gross base. The amount equivalent to the provision for losses on construction contracts included in inventories that are likely to incur losses as of March 31, 2015 and March 31, 2014 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Inventories	**¥ 53,620**	¥ 120,942	**$ 446**

(2) The provision for losses on construction contracts (negative figures presenting reversal of provision for loss on construction contracts) included in the cost of sales for the consolidated fiscal years ended March 31, 2015 and March 31, 2014 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Cost of sales	**¥ (171,285)**	¥ (183,312)	**$ (1,425)**

10. Intangible assets

Other intangible assets at March 31, 2014 and March 31, 2015 consisted of the following:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Computer software	**¥ 810,905**	¥ 432,147	**$ 6,747**
Patent rights	**152,147**	212,337	**1,266**
Others	**821,216**	4,595	**6,833**
Total	**¥ 1,784,269**	¥ 649,081	**$ 14,847**

11. Short-term debt

(1) In order to achieve efficient financing, the Companies have entered into overdraft agreements with certain financial institutions. The status of these agreements at March 31, 2015 and March 31, 2014 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Maximum overdraft amount	**¥ 30,000,000**	¥ 24,000,000	**$ 249,646**
Credit line used	**10,500,000**	—	**87,376**
Available credit line	**¥ 19,500,000**	¥ 24,000,000	**$ 162,270**

(2) Debt secured by collateral (see Note 5(5)) as of March 31, 2015 was as follows. The debt has been repaid on April 30, 2015.

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Short-term loans payable	**¥ 6,000,000**	¥ —	**$ 49,929**

12. Leases

Future lease payments required under non-cancelable operating lease transactions in the fiscal years ended March 31, 2015 and March 31, 2014 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Due within one year	**¥ 191,361**	¥ 191,361	**$ 1,592**
Due after one year	**430,563**	621,924	**3,582**
Total	**¥ 621,924**	¥ 813,286	**$ 5,175**

13. Research and development expenses

Research and development expenses are charged to income when incurred. Research and development expenses for the years ended March 31, 2015 and March 31, 2014 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	2015
Research and development expenses	¥ 7,320,313	¥ 5,574,773	$ 60,916

14. Income taxes

Japan's statutory tax rate related to income was 38.0% for the fiscal year ended March 31, 2015 and 35.6% for the fiscal year ended March 31, 2014.

(1) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2015 and March 31, 2014 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Accrued bonuses	¥ 228,319	¥ 243,300	$ 1,899
Provision for losses on construction contracts	95,757	167,897	796
Enterprise taxes	22,787	—	189
Accrued legal welfare expenses	33,417	34,398	278
Valuation loss on inventory	67,232	134,784	559
Excess software costs	713,951	698,156	5,941
Excess long-term prepaid expenses costs	20,886	74,688	173
Directors' and corporate auditors' severance benefits	9,715	10,731	80
Loss on write-down of investment securities	45,640	44,304	379
Tax loss carryforwards	2,400,239	3,531,610	19,973
Others	564,479	484,310	4,697
Total deferred tax assets	4,202,428	5,424,182	34,970
Valuation allowance	(469,138)	(129,964)	(3,903)
Deferred tax assets	3,733,289	5,294,218	31,066
Deferred tax liabilities:			
Enterprise taxes refund receivable	—	(4,187)	—
Net unrealized gains on securities	(51,488)	(39,175)	(428)
Mark-to-market valuation difference of consolidated subsidiaries upon acquisition	(3,178,377)	—	(26,449)
Others	(18,902)	(20,079)	(157)
Total deferred tax liabilities	(3,248,768)	(63,442)	(27,034)
Net deferred tax assets	¥ 484,521	¥ 5,230,776	$ 4,031

(Note) Net deferred tax assets in proceeding table are classified as follows in the accompanying consolidated balance sheet

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	2015
Current assets - Deferred tax assets	¥ 2,054,508	¥ 1,711,641	$ 17,096
Investments and other assets - Long-term deferred tax assets	1,608,390	3,539,214	13,384
Current liabilities - Deferred tax liabilities	(304,465)	(2,212)	(2,533)
Long-term liabilities - Long-term deferred tax liabilities	(2,873,912)	(17,866)	(23,915)

(2) The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for the years ended March 31, 2015 and March 31, 2014.

	%	
	2015	2014
Statutory tax rate	35.6	38.0
(Reconciliation)		
Expenses permanently non-deductible	3.0	2.1
Dividend income permanently excluded from taxable income	(0.0)	(0.0)
Inhabitants per capita taxes	0.3	0.2
Effect of foreign tax	1.4	3.5
Tax credit for research and development expenses	(2.8)	(2.2)
Amortization of goodwill	1.4	—
Increase (decrease) in valuation allowance	11.0	1.2
Effect of merger	—	(57.5)
Effect of tax rate changes	9.5	7.7
Withholding taxes, etc. on dividends, etc. from foreign subsidiaries	3.3	—
Others	0.7	(0.0)
Effective tax rate	63.5	(7.1)

(3) Revisions of deferred tax assets and liabilities due to changes in income tax rates

On March 31, 2015, the Act on Partial Revision of the Income Tax Act (Law No. 9 of 2015) and the Act on Partial Revision of the Local Tax Act, Etc. (Law No. 2 of 2015) were promulgated, and under the amended acts, corporate tax rates will be lowered, etc. in consolidated fiscal years starting on or after April 1, 2015. Given the amendment, the normal effective statutory tax rate used in the calculation of deferred tax assets and liabilities will be lowered from 35.6% to 33.0% for temporary differences that are expected to be eliminated in the fiscal year starting from April 1, 2015 and to 32.2% for temporary differences that are expected to be eliminated in the fiscal year starting April 1, 2016.

Due to the change in the tax rate, deferred tax assets (after the deduction of deferred tax liabilities) has been reduced by ¥306,452 thousand ($2,550 thousand), and the adjustment has been recorded as expense in income taxes - deferred in statements of income.

15. Other comprehensive income

Reclassification adjustments and related taxes to other comprehensive income for the years ended March 31, 2015 and March 31, 2014 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	2015
Net unrealized gains on securities			
Increase (decrease) during the year	¥ 82,222	¥ 166,489	$ 684
Reclassification adjustments	—	(604,408)	—
Subtotal before tax	82,222	(437,919)	684
Income tax expenses (benefits)	(12,313)	24,909	(102)
Net unrealized gains (losses) on securities	69,909	(413,009)	581

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	2015
Foreign currency translation adjustments			
Increase (decrease) during the year	1,084,897	701,354	9,028
Subtotal before tax	1,084,897	701,354	9,028
Foreign currency translation adjustments	1,084,897	701,354	9,028
Total other comprehensive income	¥ 1,154,806	¥ 288,345	$ 9,609

16. Net assets

Under the Japanese Corporate Law ("the Law"), the entire amount paid-in for new by issued 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 in which 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 transferred to common stock 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 a 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.

At the Company Board of Director's meeting held on May 13, 2015, the Company's Board of Directors resolved cash dividends of ¥34 ($0.28) per share amounting to ¥759 million ($6,323 thousand). This appropriation has not been accounted in the consolidated financial statements at March 31, 2015. Such appropriations are recognized in the period in which they are approved by the shareholders.

17. Segment information

(1) 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.

(2) Information by geographic area

Information concerning net sales by geographic area in the fiscal years ended March 31, 2015 and March 31, 2014 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Net sales:			
Japan	**¥ 40,018,626**	¥ 40,082,053	**$ 333,016**
Asia (excluding Japan)	**19,203,590**	14,645,540	**159,803**
Others	**5,015,521**	3,742,110	**41,736**
Total	**¥ 64,237,738**	¥ 58,469,703	**$ 534,557**

Information concerning property, plant and equipment by geographic area in the fiscal years ended March 31, 2015 and March 31, 2014 were as follows. The geographic area is classified into country or region based on the location of the property, plant and equipment.

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Property, plant and equipment:			
Japan	**¥ 1,573,739**	¥ 1,570,738	**$ 13,095**
Asia (excluding Japan)	**274,948**	238,619	**2,288**
North America	**353,535**	64,797	**2,941**
Others	**6,087**	—	**50**
Total	**¥ 2,208,311**	¥ 1,874,155	**$ 18,376**

(Note) North America, which was included in Others, is stated independently from the consolidated fiscal year ended March 31, 2015 as it exceeded 10% of the amount of property, plant and equipment in the consolidated balance sheet. This change is also reflected in the consolidated fiscal year ended March 31, 2014.

(3) Net sales to major customers for the fiscal year ended March 31, 2014 were as follows:

	Thousands of yen
	2014
Nintendo Co., Ltd.	¥ 26,932,409
Wah Lee Industrial Corp.	10,508,975

(4) Net sales to major customers for the fiscal year ended March 31, 2015 were as follows:

	Thousands of yen	Thousands of U.S. dollars
	2015	**2015**
Nintendo Co., Ltd.	**¥ 23,827,570**	**$ 198,282**
Wah Lee Industrial Corp.	**¥ 11,601,005**	**$ 96,538**

18. Other income (expenses)

(1) The loss on liquidation of business in the fiscal year ended March 31, 2014 was due to a review of operations related to eco-friendly energy.

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

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Gain (loss) on investments in partnerships	**¥ 20,595**	¥ 27,108	**$ 171**
Gain (loss) on sale of property, plant and equipment	**509**	—	**4**
Gain (loss) on disposal of property, plant and equipment	**(18,305)**	(37,080)	**(152)**
Others, net	**(19,588)**	(9,037)	**(163)**
Total	**¥ (16,788)**	¥ (19,009)	**$ (139)**

19. Related party transactions

Transactions with a corporate auditor, who is also the Company's lawyer, for the years ended March 31, 2014 and March 31, 2015 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Legal advisory fees	**¥ 10,400**	¥ 15,900	**$ 86**

20. Business combinations

For the fiscal year ended March 31 2014:

(Transactions under common control, etc.)

(1) Outline of transaction

(i) Names and business of the combined company

Name of the company: Kawasaki Microelectronics, Inc. (hereinafter Kawasaki Micro)

Business details: design, development, manufacture and sales of semiconductor integrated circuits

(ii) Date of the business combination

April 1, 2013

(iii) Legal form of the business combination

The Company became a surviving company and Kawasaki Micro became an absorbed company through this absorption-type merger. The Company has omitted a resolution made by the General Meeting of Shareholders pursuant to the provisions provided in Article 796, paragraph 3 of the Companies Act.

(iv) Name of the company after the business combination

MegaChips Corporation

(v) Other matters concerning the transaction

The electronics and semiconductor field is marked by rapid technological advancement, with previous business models having become obsolete. The industry has consequently reached a crossroads on a global level, resulting in significant changes to the environment surrounding the Company. Given this background, the Company and Kawasaki Micro decided to combine their management resources to continue developing by responding flexibly to changes, while also ensuring their co-existence and co-prosperity with customers and expanding their contributions to society.

With this merger, the Company will build a business portfolio that can respond to environmental changes and deliver continuous, stable profits, thereby preparing for global expansion centering on application and system planning and the providing of solutions.

(2) Outline of accounting treatment

This combination was treated as a transaction under common control in accordance with the "Accounting Standard for Business Combinations (ASBJ Statement No. 21, issued on December 26, 2008)" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standards for Business Divestiture (ASBJ Guidance No. 10, issued on December 26, 2008)."

For the fiscal year ended March 31 2015:

(Business combination due to acquisition)

MegaChips Taiwan Corporation (Head office: Taipei, Taiwan), a consolidated subsidiary of the Company, underwrote the capital increase of Modiotek Co., Ltd., (Head office: Hsinchu, Taiwan) and made it a consolidated subsidiary of the Company on April 23, 2014.

(1) Overview of business combination

(i) Name and business of the acquired company

Name of the acquired company: Modiotek Co., Ltd.

Business: Design and outsourcing of manufacturing semiconductors for processing voices and music

(ii) Main reason for business combination

The business combination was conducted for the Company to expand its customer channels and strengthen its marketing, sales and development capabilities and customer support system in Asia centered on Taiwan and China to expand the Group's business in East Asia by making Modiotek Co., Ltd. its Group company.

(iii) Date of business combination

April 23, 2014

(iv) Legal form of business combination

Acquisition of shares by MegaChips Taiwan Corporation, a consolidated subsidiary of the Company, to underwrite the capital increase, with cash consideration.

(v) Name of company after business combination

Modiotek Co., Ltd.

(vi) Percentage of voting rights acquired

72.2%

(vii) Main grounds for determining the acquiring entity

MegaChips Taiwan Corporation, a consolidated subsidiary of the Company, underwrote the capital increase of Modiotek Co., Ltd. with cash consideration and owned the majority of the voting rights of Modiotek Co., Ltd.

(2) Period of operating results of the acquired company included in the consolidated financial statements

Although the fiscal year-end of the acquired company is different from the fiscal year-end of the Company, it prepares consolidated financial statements based on the financial statements of the subsidiary as the difference in fiscal year-ends does not exceed three months. The Company deemed date of acquisition of the business combination as June 30, 2014 and includes the operating results for the period from July 1, 2014 to December 31, 2014 in the consolidated fiscal year ended March 31, 2015.

(3) Acquisition cost and its breakdown

	Thousands of yen	Thousands of U.S. dollars
Consideration for acquisition	¥ 713,790	$ 5,939
Acquisition cost	¥ 713,790	$ 5,939

(4) Amount of goodwill recognized, cause, amortization method and amortization period

Goodwill is recognized mainly as excess earning power that is expected from business development in the future. The goodwill will be amortized on a straight line for the next five years.

	Thousands of yen	Thousands of U.S. dollars
Amount of goodwill recognized	¥ 129,112	$ 1,074

(5) Amount of assets recognized and liabilities assumed on the date of the business combination

	Thousands of yen	Thousands of U.S. dollars
Current assets	¥ 816,946	$ 6,798
Fixed assets	36,351	302
Total assets	¥ 853,297	$ 7,100
Current liabilities	¥ 43,628	$ 363
Long-term liabilities	—	—
Total liabilities	¥ 43,628	$ 363

(6) Estimated amount of consolidated profit and loss in the consolidated fiscal year ended March 31, 2015 on the assumption that the business combination was completed on April 1, 2014 and the impact on the statements of comprehensive income and the calculation method

The statement is omitted, as these are not significant.

Modiotek Co., Ltd. (Head office: Hsinchu, Taiwan), a consolidated subsidiary of the Company, acquired shares issued by Magic Pixel Inc. (Head office: Hsinchu, Taiwan) and made it a consolidated subsidiary of the Company on September 10, 2014.

(1) Overview of business combination

(i) Name and business of the acquired company

Name of the acquired company: Magic Pixel Inc.

Business: Design and outsourcing of manufacturing semiconductors for image-related use

(ii) Main reason for business combination

The business combination was conducted to strengthen the system of Modiotek Co., Ltd., which is the base of custom supports in Taiwan and China, for the purpose of expanding the business of the Group in East Asia.

(iii) Date of business combination

September 10, 2014

(iv) Legal form of business combination

Acquisition of shares with cash consideration

(v) Name of company after business combination

Magic Pixel Inc.

The Company has been merged into Modiotek Co., Ltd., on November 14, 2014.

(vi) Percentage of voting rights acquired

91.8%

(vii) Main grounds for determining the acquiring entity

Modiotek Co., Ltd., a consolidated subsidiary of the Company, acquired shares in Magic Pixel Inc. with cash as consideration and owned the majority of the voting rights of Magic Pixel Inc.

(2) Period of operating results of the acquired company included in the consolidated financial statements

From October 1, 2014 to November 13, 2014

Magic Pixel Inc. was merged into Modiotek Co., Ltd. on November 14, 2014.

(3) Acquisition cost and its breakdown

	Thousands of yen	Thousands of U.S. dollars
Consideration for acquisition	¥ 129,092	$ 1,074
Acquisition cost	¥ 129,092	$ 1,074

(4) Amount of goodwill recognized, cause, amortization method and amortization period

Goodwill is recognized mainly as excess earning power that is expected from business development in the future. The goodwill will be amortized on a straight line for the next five years

	Thousands of yen	Thousands of U.S. dollars
Amount of goodwill recognized	¥ 53,138	$ 442

(5) Amount of assets recognized and liabilities assumed on the date of the business combination

	Thousands of yen	Thousands of U.S. dollars
Current assets	¥ 108,337	$ 901
Fixed assets	35,746	297
Total assets	¥ 144,084	$ 1,199
Current liabilities	¥ 26,085	$ 217
Long-term liabilities	3,441	28
Total liabilities	¥ 29,526	$ 245

(6) Estimated amount of consolidated profit and loss in the consolidated fiscal year ended March 31, 2015 on the assumption that the business combination was completed on April 1, 2014 and the impact on the statements of comprehensive income and the calculation method

The statement is omitted, as these are not significant.

The Company acquired all the shares issued by SiTime Corporation (Head office: California, the United States) and made it a consolidated subsidiary of the Company on November 18, 2014.

(1) Overview of business combination

(i) Name and business of the acquired company

Name of the acquired company: SiTime Corporation

Business: Development and sale of timing devices based on Micro-Electro-Mechanical Systems (MEMS)

(ii) Main reason for business combination

The business combination was conducted to promote entry into the timing device business as part of business development into the IoT area by making SiTime Corporation a wholly owned subsidiary of the Company. SiTime Corporation develops and sells Micro-Electro-Mechanical Systems (MEMS) oscillators and other timing devices that will replace existing market for crystal oscillators.

(iii) Date of business combination

November 18, 2014

(iv) Legal form of business combination

Acquisition of shares with cash consideration

(v) Name of company after business combination

SiTime Corporation

(vi) Percentage of voting rights acquired

100%

(vii) Main grounds for determining the acquiring entity

The Company acquired all the outstanding shares of SiTime Corporation with cash consideration.

(2) Period of operating results of the acquired company included in the consolidated financial statements

Although the fiscal year-end of the acquired company is different from the fiscal year-end of the Company, it prepares consolidated financial statements based on the financial statements of the subsidiary as the difference in fiscal year-ends does not exceed three months. As the deemed date of the acquisition is December 31, 2014, the operating results of the acquired company are not included in the consolidated fiscal year ended March 31, 2015.

(3) Acquisition cost and its breakdown

	Thousands of yen	Thousands of U.S. dollars
Consideration for acquisition: Cash	¥ 23,279,574	$ 193,722
Expenses directly required for acquisition: Advisory fees, etc.	50,857	423
Acquisition cost	¥ 23,330,432	$ 194,145

(4) Amount of goodwill recognized, cause, amortization method and amortization period

Goodwill is recognized mainly as excess earning power that is expected from business development in the future. The goodwill will be amortized on a straight line for the next ten years.

	Thousands of yen	Thousands of U.S. dollars
Amount of goodwill recognized	¥ 17,506,072	$ 145,677

(Note) As the allocation of the acquisition cost has yet to be completed, provisional accounting is undertaken based on information reasonably available.

(5) Amount of assets recognized and liabilities assumed on the date of the business combination

	Thousands of yen	Thousands of U.S. dollars
Current assets	¥ 6,489,577	$ 54,003
Fixed assets	7,326,612	60,968
Total assets	¥ 13,816,189	$ 114,972
Current liabilities	¥ 5,117,917	$ 42,588
Long-term liabilities	2,873,912	23,915
Total liabilities	¥ 7,991,829	$ 66,504

(6) Estimated amount of consolidated profit and loss in the consolidated fiscal year ended March 31, 2015 on the assumption that the business combination was completed on April 1, 2014 and the impact on the statements of comprehensive income and the calculation method

As an appropriate calculation of the estimated amounts is difficult, they are not stated. This note is not audited.

(Acquisition of business)

MegaChips Technology America Corporation (Head office: California, the United States), a consolidated subsidiary of the Company, completed the acquisition of the Smart Connectivity business based on DisplayPort technology from STMicroelectronics (NYSE:STM) on September 2, 2014.

(1) Overview of business combination

(i) Name of the acquired business

Acquired business: Smart Connectivity business based on DisplayPort technology of STMicroelectronics

(ii) Main reason for business combination

The acquisition of the business on this occasion will enable the Group to promote the standardization initiatives of DisplayPort technology. The Group will expand the global business by providing major customers overseas with innovative solutions through pursuing synergy with existing technologies.

(iii) Date of business combination

September 2, 2014

(iv) Legal form of business combination

Acquisition of business with cash consideration

(v) Name of company after business combination

MegaChips Technology America Corporation

(vi) Main grounds for determining the acquiring entity

MegaChips Technology America Corporation, a consolidated subsidiary of the Company, acquired the business with cash consideration.

(2) Period of operating results of the acquired company included in the consolidated financial statements

From September 2, 2014 to March 31, 2015

(3) Acquisition cost and its breakdown

	Thousands of yen	Thousands of U.S. dollars
Consideration for acquisition	¥ 2,422,052	$ 20,155
Acquisition cost	¥ 2,422,052	$ 20,155

(4) Amount of goodwill recognized, cause, amortization method and amortization period

Goodwill is recognized as excess earning power that is expected from business development in the future. The goodwill will be amortized on a straight line for the next ten years.

	Thousands of yen	Thousands of U.S. dollars
Amount of goodwill recognized	¥ 1,743,462	$ 14,508

(5) Amount of assets recognized and liabilities assumed on the date of the business combination

	Thousands of yen	Thousands of U.S. dollars
Current assets	¥ —	$ —
Fixed assets	678,590	5,646
Total assets	¥ 678,590	$ 5,646
Current liabilities	¥ —	$ —
Long-term liabilities	—	—
Total liabilities	¥ —	$ —

(6) Estimated amount of consolidated profit and loss in the consolidated fiscal year ended March 31, 2015 on the assumption that the business combination was completed on April 1, 2014 and the impact on the statements of comprehensive income and the calculation method

As the calculation of the estimated amounts is difficult because of the partial acquisition of the business, they are not stated. This note does not receive an audit certificate.

21. Subsequent events

There are no significant subsequent events.

Independent Auditor's Report

MegaChips Corporation and its Consolidated Subsidiaries

To the Board of Directors of MegaChips Corporation:

We have audited the accompanying consolidated financial statements of MegaChips Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2015 and 2014, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MegaChips Corporation and its consolidated subsidiaries as at March 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

June 24, 2015
Osaka, Japan

KPMG AZSA LLC

Corporate Data (As of June 24, 2015)

Company Name	MegaChips Corporation
Business Activities	Design, development, manufacturing (outsourcing) and sales of system LSIs, and electronic devices and systems products with LSIs manufactured by the Company
Establishment	April 4, 1990
Capital Stock	¥4.84 billion
Corporate Headquarters	1-1-1, Miyahara, Yodogawa-ku, Osaka 532-0003, Japan Phone: +81-6-6399-2884 FAX: +81-6-6399-2886
Representative	Akira Takata, President and CEO
Number of Employees	Consolidated: 942 employees (as of the end of March 2015)

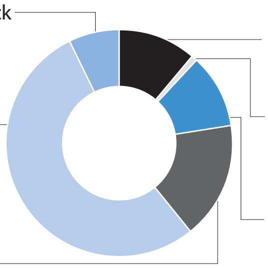
Domestic bases	
Tokyo Office	17-6, Ichibancho, Chiyoda-ku, Tokyo 102-0082, Japan
Makuhari Office	1-3 Nakase, Mihama-ku Chiba 261-8501
Overseas bases	
MegaChips Taiwan Corporation	RM. B 2F, Worldwide House, No.129, Min Sheng E.Rd., Sec.3, Taipei 105 Taiwan
MegaChips Technology America Corporation	2033 Gateway Place, Suite 400, San Jose, CA95110 U.S.A.
MegaChips Corporation, China	1603, AVIC Center Building No.1018 Huafu Road Futian District, ShenZhen 518031, China
India Branch	17th Floor, Concorde Block UB CITY, Vittal Mallya Road, Bangalore 560 001 India
Shun Yin Investment Ltd.	19th Floor, 4, Min-Chuan East Road, Sec.3, Taipei TAIWAN R.O.C.

Stock Information (As of March 31, 2015)

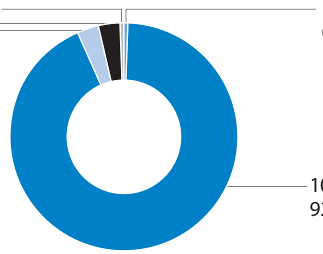
Authorized Stock	100,000,000
Shares of Common Stock Outstanding	24,038,400
Listing of Stock	Listed on the No.1 Section of the Tokyo Stock Exchange
Securities Code Number	6875
Number of Shareholders	43,364

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.

MegaChips Corporation

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