

MegaChips

MegaChips Corporation

Annual Report 2019

Year Ended March 31, 2019



Smart Mobility



Industrial IoT



5G



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

	2015/3	2016/3	2017/3	2018/3	2019/3	2019/3
For the Year:						
Net sales	¥ 64,237	¥ 55,662	¥ 67,438	¥ 89,029	¥ 95,145	\$ 857,243
Cost of sales	45,263	39,233	48,667	67,603	75,509	680,322
Operating income (before amortization of goodwill)	4,895	3,513	4,922	5,520	3,152	28,405
Operating income (after amortization of goodwill)	4,895	(335)	1,926	2,709	573	5,168
Profit attributable to owners of parent	1,251	(782)	(947)*2	1,948	(1,727)	(15,562)
At Year-End:						
			Yen			U.S. dollars
Total assets	77,830	69,921	80,465	94,633	91,977	828,703
Net assets	32,355	28,846	27,631	31,184	26,223	236,273
Per Share Information:						Shares
Net income	55.64	(35.24)	(44.14)	90.05	(79.40)	(0.72)
Net assets	1,438.09	1,341.86	1,280.71	1,435.37	1,204.98	10.86
Number of Shares Issued at Year End:	24,038,400	23,038,400	23,038,400	23,038,400	23,038,400	23,038,400

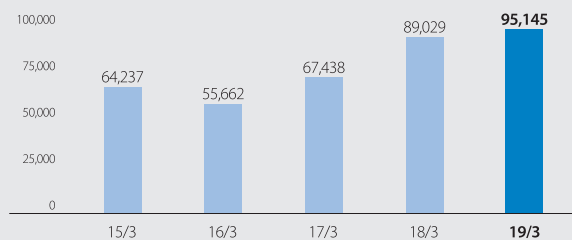
*1 The U.S. dollar amounts are provided solely for the convenience of the readers at the rate of ¥110.99 US\$1, the rate prevailing on March 31, 2019.

*2 In FY2016, the Company posted a loss on valuation of investment securities of ¥1,158 million, which was mainly attributable to a decrease in the stock value of the Company's manufacturing subcontractor Macronix International Co., Ltd.

*3 In FY2018, mainly due to a revision of our managerial resource allocation as part of efforts to reform the Company's business structure, a ¥1,527 million loss on retirement of software and other non-current assets along with ¥371 million in special retirement expenses incurred to reduce the number of workers with the aim of cutting fixed costs were recorded as extraordinary losses which, among other factors.

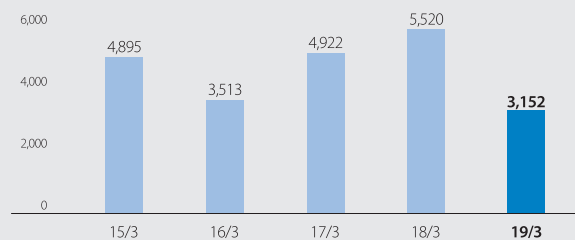
Net Sales

(¥ Millions)



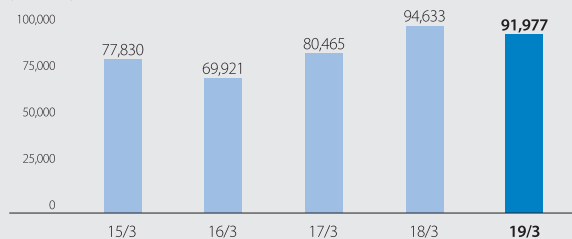
Operating Income before Amortization of Goodwill

(¥ Millions)



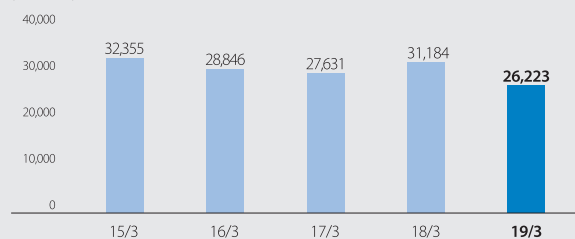
Total Assets

(¥ Millions)



Net Assets

(¥ Millions)



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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.

We will aim at sustainable growth by enhancing the management base.



President and CEO
Tetsuo Hikawa

Profile

Apr. 2000	Executive Officer, Corporate Planning
Jun. 2000	Director
Oct. 2003	Executive Officer, in charge of System Business Unit
Jan. 2008	Executive Officer, General Manager of Corporate Control Division, and General Manager of Public Relations Division
Jun. 2008	Resigned as Director, Executive Officer, Division Director of Customer Specific Business Headquarters
Feb. 2009	Executive Officer, General Manager of LSI Business Division No. 2
Dec. 2010	Executive Officer, Department Manager of Production Management Department
Jan. 2012	Executive Officer, Department Manager of Production Management Division and Department Manager of Quality Assurance Division
Jun. 2012	Director
Apr. 2013	Executive Officer, General Manager of Division No. 1
Jul. 2016	Executive Officer, Department Manager of Procurement & Production Division
Jul. 2017	Executive Officer, General Manager of Corporate Planning Division
Jun. 2018	Managing Director
Mar. 2019	Executive Manager of Domestic Business and Division Director of Corporate Planning Headquarters
Jun. 2019	President and CEO (to present)

I am Tetsuo Hikawa and was appointed President and CEO at the meeting of the Board of Directors following the recent 29th Annual General Meeting of Shareholders.

The world is currently experiencing significant changes due to the breakneck evolution of technology, such as IoT and AI. The MegaChips Group (hereinafter referred to as the Company) must respond swiftly to a surrounding business environment which is rapidly undergoing significant changes as well. In such a promptly changing business environment, the Company will further strengthen and enhance its management system to take on the challenge of creating new value and promoting sustainable business growth.

I wish to express my deep appreciation to all of the shareholders for your continued support and guidance for MegaChips.

Results for the FY2018

As operating results for the fiscal year ended March 31, 2019, the Company achieved net sales of ¥95,145 million (a 6.9% increase year-on-year) due to increased demand for game software storage LSI (custom memory). With respect to profit, as a result of not only ¥2,579 million in amortization of goodwill and intangible assets attributable to corporate acquisitions and R&D expenses of ¥7,843 million (up 25.4% from the previous fiscal year) from future-oriented R&D investments but also cost of sales of ¥869 million due to a temporary revision of inventory valuations for some of the specific MEMS timing devices in the first quarter, the operating profit before amortization of goodwill was ¥3,152 million, the operating profits after amortization of goodwill were ¥573 million, with ordinary profits of ¥502 million, representing a decrease in profits compared to the previous fiscal year.

Meanwhile, the Company has decided to reform its business structure for future growth, and as a part of this effort, the managerial resource allocation has been revised to facilitate the selection and concentration of businesses. Along with that, an approximately ¥1.8 billion extraordinary loss attributable to losses on retirement of non-current

assets such as software and special retirement expenses for personnel reductions for fixed cost reduction resulted in a ¥1,727 million net loss attributable to the owners of the parent (compared with a ¥1,948 million net profit attributable to the owners of the parent in the same period of the previous fiscal year).

Mid-Term Management Policies for FY2019

We will aim at mid- to long-term structural enhancement by moving ahead with drastic structural reform.

In the midst of increasingly changing industries and ways of living flowing from rapid innovations in information and communication technology, the Company has adopted a mid-term management policy of realizing a business structure capable of sustainable growth.

- 1) Align our business portfolios by concentrating the Company's managerial assets in target areas where growth is expected.
- 2) In the ASIC business: Further strengthen and expand the base of existing core areas and acquire new major customers in Japan and overseas.

3) In the ASSP business: Develop business with the analog and digital technology and the MEMS technology as a core.

4) Promote initiatives to strengthen the management base.

First, the Company is concentrating its managerial resources on sectors where future growth is expected, namely automotive devices, industrial equipment and telecommunications infrastructure. The Company is optimizing its business portfolio by developing new businesses by providing customers with LSI solutions with highly differentiated new value added, collaborating with corporate business partners in Japan and overseas, and strengthening our development and design capabilities of analog circuits to increase technical competitiveness.

In the ASIC business, we are further strengthening and expanding the foundation of the amusement business, currently our major field, as well as the camera and office equipment sectors. In addition, as a new business area, we are engaged in developing leading customers both inside and outside Japan in the automotive device and industrial equipment sectors using our proprietary, core technology in the high-speed wired communications field.

Mid-Term Management Policies and Earnings Forecast for FY 2019

Explicitly define areas to focus managerial resources and provide customers solutions of originality leveraging our high technological capability to make both MegaChips and customers grow together

Optimize business portfolio focusing managerial resources in growth fields

Preparation for future growth

Strengthen and expand foundation of existing major business, develop leading domestic and international customers in the new business market

Business expansion

Develop business using analog/digital and MEMS technology as a core

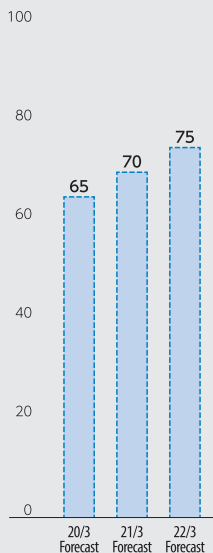
Reinforcement of competitiveness and profitability

Advocate an approach for reinforcing managerial foundation

Enhancement of financial situation

Net Sales

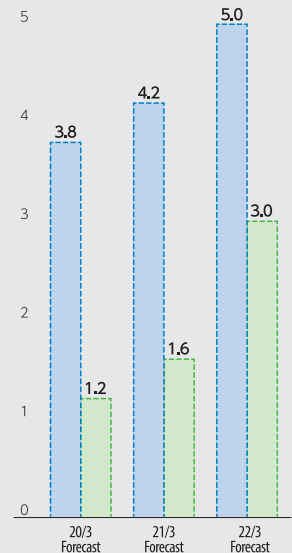
(¥ billion)



Operating Income

Before amortization of goodwill
After amortization of goodwill

(¥ billion)



In the ASSP business, we are developing business in fields where future market expansion is expected, namely the 5G communications infrastructure, automotive device and industrial equipment fields, using MEMS timing device technology as a core. The Company is promoting the automotive device and industrial equipment sectors as important pillars of future profits. The reason for this is that, although the entry into these fields takes time, compared to consumer products such as mobile devices, the product life is long and market conditions do not easily fluctuate. In addition, the MEMS timing devices developed by the Company's U.S. subsidiary, SiTime, are widely used by many companies due to their many superior capabilities, such as compactness, high accuracy, high reliability, shock resistance, and energy-saving. The MEMS timing devices have achieved the industry's highest level of accuracy with varying temperatures ranging from -40 degrees to 105 degrees Celsius. In May 2019, SiTime achieved volume production of products for synchronizing 5G and 4G+ radios that are usable even in harsh environments. The Company will strive to acquire even more customers for portable base stations, telecommunication equipment, automotive devices and other products.

In addition, we are strengthening advanced and creative human resources to support future growth through promotion and use of human resource development and diversity. Further, we are also advancing initiatives to reinforce the managerial foundation so that we flexibly and rapidly respond to changes in the management environment including enhanced corporate governance and risk management systems and improved equity ratio and working on environmental considerations in our business activities and contribution to society.

In these ways, the Company is engaged in full-fledged



development of fields where future growth is expected while undertaking radical structural reform.

Financial Outlook for the FY2019

We will achieve steady growth in profits by putting the ASIC business back on the path to growth and concentrating managerial resources on the ASSP business.

Looking at the social environment in the upcoming fiscal year, ultra-high-speed telecommunication networks that will support society in the 2020s are expanding at a rapid pace, signaling the approaching achievement of an even more affluent information society. In addition, efforts are continued toward achieving a low carbon and recycling society that co-exists with nature.

Under these circumstances, the MegaChips Group is striving to strengthen its revenue base by putting the ASIC business back on the path to growth. At the same time, we are accelerating mid- to long-term growth in the ASSP business by focusing managerial resources in fields of expected future growth, namely, the fields of automotive devices, industrial equipment, and telecommunications infrastructure. With these efforts, we are achieving steady growth in profits.

Going forward, we will strive to positively return profits to all shareholders and improve share value and capital efficiency. I look forward to the continued support and guidance from all of the shareholders.

Full – Year Forecast for FY2019

	(¥ Millions)
	20/3 (Forecast)
Sales	65,000
Operating Income before Amortization	3,800
Amortization of Goodwill *	2,600
Operating Income after Amortization	1,200
Ordinary Income	800
Profit Attributable to Owners of Parent	200
Net Income per Share (¥)	9.19

* Amortization for goodwill and intangible fixed assets attributable to corporate acquisitions

Viewing Product Development with Trending Words

Trending Words

Smart Mobility

Technology to move people more safely and in greater comfort

Developing automotive electronics, such as connected cars with communication functions installed, self-driving cars, and electric cars, to ease strain on driving, reduce traffic accidents, and environmental impact.

We realize

5G

Next-generation mobile communication network that innovates every industry

With the achievement of "multiple connections" capable of simultaneously connecting many people and devices, and with a transmission 10 times faster than 4G and low-delay that reduces time lag, 5G is now able to collect and use all data and things around you. We are developing communication infrastructure that responds to the IoT era.

We realize

Industrial IoT

IoT for industrial fields used in manufacturing, logistics and electricity

IoT that connects people and things in real time. From that, Industrial IoT is expected to contribute to innovation in markets and business industries, such as the fields of distribution, production automation and energy (oil, gas and the electrical smart grid).

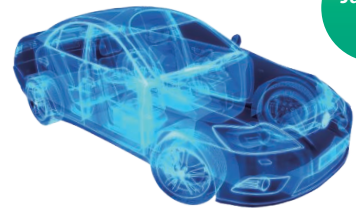
We realize

Introducing direction of MegaChips' leading products and development based on trending words herald our future society

MegaChips' Products

Supporting the high reliability, high speed, and enhanced capacity required for the next-generation's in-vehicle communication

MegaChips, as Japan's first LSI manufacturer, developed the "Ethernet 100MbpsPHY device (most popular communications standard)" as a prospect for the next generation's in-vehicle LAN using the development and manufacturing technology for high-speed wired semiconductor transmission devices it has nurtured to date. Making lightweight, low-cost, wire-harnessed high-speed communications possible while achieving low power consumption. Meets the high-quality standards required for automotive semiconductors.



Japan's
first

Automotive Ethernet PHY

Support for communication infrastructures with devices that accurately keep time even in the harsh environments

The accuracy of the reference signal that activates the device is essential to achieve such functions as remote control of electronic devices and precise point positioning using 5G's features. The silicon-based MEMS timing devices demonstrate high performance in such harsh environments as outdoor base stations due to their high tolerance for vibrations and shock. In addition, since these devices' merits include, among others, small size, low power, and high reliability, our customers throughout the world use them in extensive applications ranging from wearable terminals to satellites.



Global
market share:
90%

MEMS Timing Device

Support for building smart networks with diverse communication technologies

Constructing a high-speed smart communication network capable of transmitting a large volume of data is essential to realizing Industrial IoT. Leveraging its wired high-speed telecommunications technology amassed over many years of research, MegaChips provides system LSIs to the industrial equipment field, including the smart grid and building automation.

In addition, the Company's communication technology contributes to a home network system that connects various devices in homes.



LSI for Industrial Equipment field

Creating Unique Products by Fusing Analog, Digital, and MEMS Technologies

MegaChips meets customers' needs based on its proprietary technologies and put all its effort into the research and development of application technologies to distinguish its products from those of competitors.

To ensure our superiority and uniqueness through research and development, we promote the protection of our own intellectual property rights.

R&D Policy:

Provide system LSIs and solutions with our unique analog, digital, and MEMS technologies.

Major Achievements in R&D for FY2018

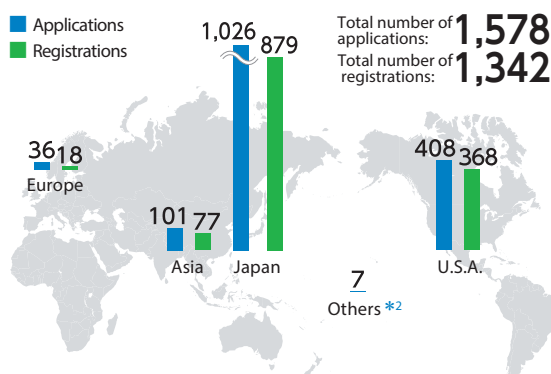
- Game software storage LSI
- Intellectual property core and LSI for optical communications
- Analog front-end LSI
- LSI for wired (coaxial and power line) multi-hop communications
- Smart Connectivity LSI (DisplayPort)
- MEMS timing devices

Intellectual Property Strategy

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

In FY2018, we filed patent applications such as high-speed cable communication technology, improved reliability of memory for game devices, amp control technology for communication devices and ESD circuit protection technology. A patent application was also submitted for basic and applied technologies used for security for game devices and electronic devices, and technology for IoT devices.

Patent Applications and Registrations by Region*1



*1 The number of cases shown are the cumulative total as of the end of March 2019.

*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.

TOPICS

Launch of the "Emerald Platform™", a MEMS Timing Device for 5G infrastructure

SiTime has begun providing samples of the high-precision MEMS Timing Device, "Emerald Platform™", for the 5G infrastructure device and measurement device markets. With the Emerald Platform, operators can deploy 5G equipment in harsh environments and these products solves many of the device issue and complexities of product development required in the 5G market. We will continuously strive to develop the next generation timing device product with the communications infrastructure market as the main target.



Societal Contribution by Creating Globally-Needed Products and Services using Our Advanced Technology

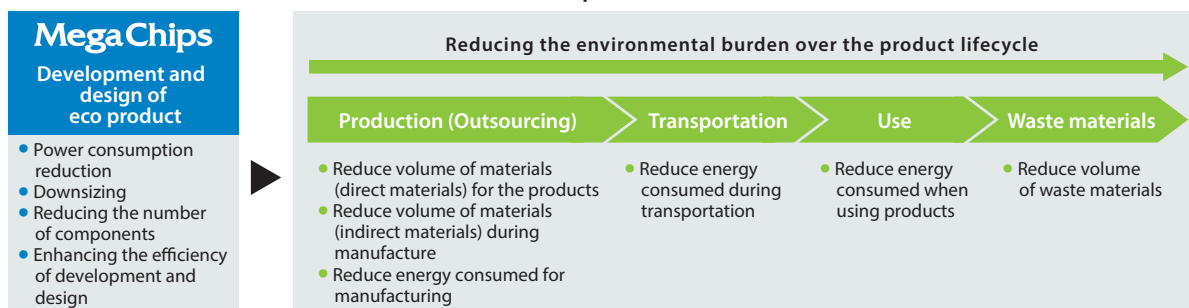
Environmental Management System

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 are also working on “observance of laws and other requirements” according to the compliance.

Environmental Load Reduction Effects with the Development of Eco Products



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

TOPICS: Supporting Entrepreneurial Education for Students

University students 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 from the beginning.



Awards ceremony at the 20th Campus Venture Grand Prix Osaka

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

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.

General meeting of shareholders

Decisions on appointments, dismissals and remuneration (ceilings)

Decisions on appointments, dismissals and remuneration (ceilings)

Appointments and dismissals

Board of directors
9 directors
(Including 2 outside directors)

Board of auditors
4 corporate auditors
(Including 3 outside auditors)

Audits and reports

Cooperation

Feedback

Compensation committee

Appointments and dismissals

Proposition and reports

Representative director

Reports

Cooperation

Business execution organization

Risk management committee

Business execution meeting
Management team of the company (Executive officers, Division heads, etc)

Supervision

Reports

Administrative division
Respective divisions

Internal control organization

Internal audit section
(Responsible for internal control audits)
(Responsible for operational audits)

Accounting audits

Accounting auditors

Corporate lawyers

Business execution and internal control organizations

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, two* 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 nor 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.

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 execution 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.

For FY2018, the Company has received from its Accounting Auditors an internal control audit report with an unqualified opinion for the same fiscal year.

(As of June, 21, 2019)

Directors



Tetsuo Hikawa
President and CEO



Masahiro Shindo
Chairman



Akira Takata
Senior Managing Director



Yoshimasa Hayashi
Director



Yasuto Shimomae
Director



Koichi Akeyama
Director



Ikuo Yamaguchi
Director



Jiun-Hao Lai
Outside Director



Junko Nagata
Outside Director

Auditors



Makiko Yamakawa
Standing Statutory Auditor



Keiichi Kitano
Outside Auditor



Katsuhiko Asada
Outside Auditor



Tomoyoshi Furukawa
Outside Auditor

Financial Section

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Smart Mobility



Industrial IoT



5G



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*
	2015	2016	2017	2018	2019	2019
Operating Results						
Net sales	¥ 64,237	¥ 55,662	¥ 67,438	¥ 89,029	¥ 95,145	\$ 857,243
Operating income (before amortization of goodwill)	4,895	3,513	4,922	5,520	3,152	28,405
Operating income (after amortization of goodwill)	4,895	(335)	1,926	2,709	573	5,168
Profit attributable to owners of parent	1,251	(782)	(947)	1,948	(1,727)	(15,562)
R&D expenses	7,320	5,956	5,199	6,253	7,843	70,672
Financial Position						
Total assets	¥ 77,830	¥ 69,921	¥ 80,465	¥ 94,633	¥ 91,977	\$ 828,703
Net assets	32,355	28,846	27,631	31,184	26,223	236,273
Other Information						
Employees	942	925	851	883	719	719
Yen except for PER and market capitalization						U.S. dollars*
Per Share Information						
Net income	¥ 55.64	¥ (35.24)	¥ (44.14)	¥ 90.05	¥ (79.40)	\$ (0.72)
Net assets	1,438.09	1,341.86	1,280.71	1,435.37	1,204.98	10.86
Cash dividends	34	34	34	34	17	0.15
Stock Information (March 31)						
Stock price	¥ 1,392	¥ 1,265	¥ 3,050	¥ 3,830	¥ 1,699	\$ 15
PER (Times)	25.02	(35.90)	(69.10)	42.53	(21.40)	(21.40)
Market capitalization (Millions of yen, Thousands of U.S. dollars)	¥ 33,461	¥ 29,143	¥ 70,267	¥ 88,237	¥ 39,142	\$ 352,664
Indicators						
Operating income to sales (after amortization of goodwill) (%)	7.6	(0.6)	2.9	3.0	0.6	
ROE (%)	3.9	(2.6)	(3.4)	6.6	(6.0)	
ROA (%)	2.0	(1.1)	(1.3)	2.2	(1.9)	
Shareholders' equity ratio (%)	41.3	41.1	34.3	33.0	28.5	
Sales to total assets ratio (Times)	1.05	0.75	0.90	1.02	1.02	
Operating income per employee (Millions of yen)	¥ 6	¥ (0)	¥ 2	¥ 3	¥ 1	
EBITDA (Millions of yen)	¥ 4,460	¥ 5,234	¥ 5,394	¥ 7,100	¥ 6,138	\$ 55,303

* The U.S. dollar amounts are provided solely for the convenience of the readers at the rate of ¥110.99 US\$1, the rate prevailing on March 31, 2019.

Analysis of Sales and Financial Status

MegaChips Corporation and its Consolidated Subsidiaries

Analysis of Business Results

● Net Sales

MegaChips recorded net sales of ¥95,145 million (up by 6.9% year-on-year), reflecting increases mainly in the game storage software LSI (custom-memory).

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

The cost of sales for the consolidated fiscal year under review was ¥75,509 million. The cost of sales ratio was 79.4%, down by 3.4 points from the previous fiscal year, due to a revision of inventory valuations for specific MEMS timing devices in the first quarter for ¥869 million, and the gross profit decreased by 8.4% year-on-year, totaling ¥19,636 million.

Selling, general, and administrative (SG&A) expenses of ¥19,062 million was recorded, an increase of ¥345 million from the previous fiscal year, reflecting pursuit of future-oriented research and development investments into the growth areas. SG&A expenses mainly consisted of personnel expenses including salaries, provision for bonuses, and other items, amounting to ¥5,412 million (down 20.7% year-on-year), R&D expenses of ¥7,843 million (increase of 25.4% over the previous fiscal year), and the amortization of goodwill of ¥1,794 million associated with the acquisition of an overseas company (down by 1.2%

year-on-year).

As a result, the operating income for the consolidated fiscal year under review amounted to ¥573 million (a 78.8% decrease year-on-year).

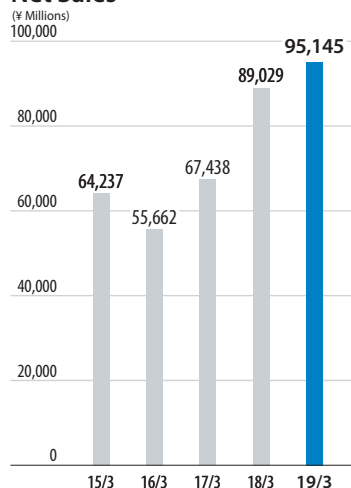
● Net Income before Income Taxes

Non-operating expenses exceeded non-operating income by ¥71 million due to foreign exchange gains of ¥316 million, as well as the posting of interest rates of ¥508 million for loans from financial institutions as non-operating expenses.

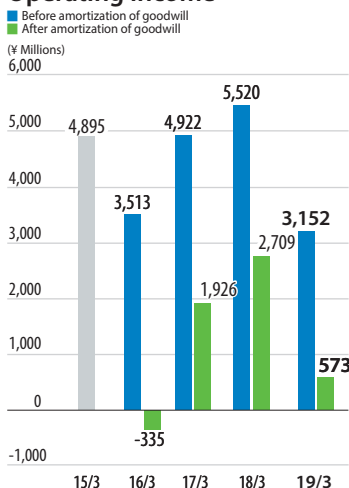
Posted an extraordinary profit of ¥329 million from the transfer of System Business Division by absorption-type split, a ¥1,527 million loss on retirement of software and other non-current assets, and ¥371 million as special retirement expenses incurred to reduce the number of workers with the aim of cutting fixed costs, resulting in loss of ¥1,557 million between the extraordinary profits and extraordinary losses.

As a result, the net loss before taxes for the consolidated fiscal year under review was ¥1,054 million (the net profit before taxes year-on-year was ¥2,377 million).

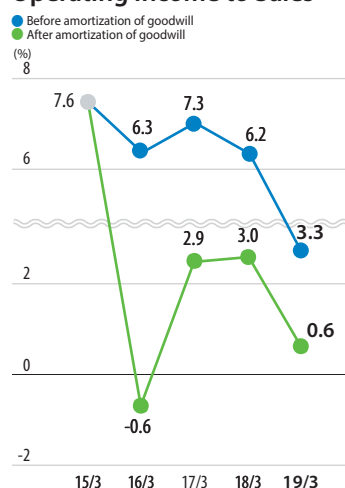
Net Sales



Operating Income



Operating Income to Sales



Analysis of Sales and Financial Status

MegaChips Corporation and its Consolidated Subsidiaries

● Profit (loss) attributable to owners of parent

The current net loss attributable to shareholders of the parent company was ¥1,727 million (compared with the earnings of ¥1,948 million year-on-year) as a result of current taxes of ¥718 million (a 7.1% decrease year-on-year) and income taxes-deferred of a negative of ¥45 million (compared with a negative ¥365 million year-on-year).

● Dividends

MegaChips regards the appropriate distribution of dividends to its shareholders as an important management issue and strives to actively distribute dividends, all the while considering its future financial situation to ensure further growth and sustainable dividend distribution. The basic policies are as follows:

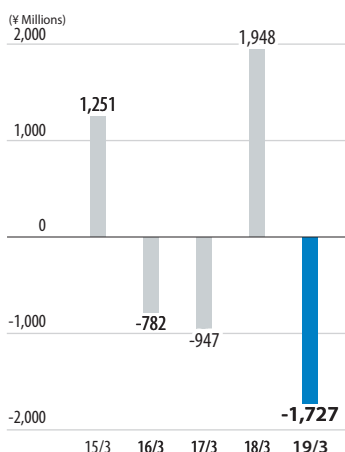
- (1) MegaChips will determine the amount of dividends by taking an amount equivalent to at least 30% of the consolidated net income attributable to owners of parent (with special factors related to accounting, financial settlement, and tax adjustments given due consideration) as the aggregate amount 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, less the number of shares held by

MegaChips at the end of the period.

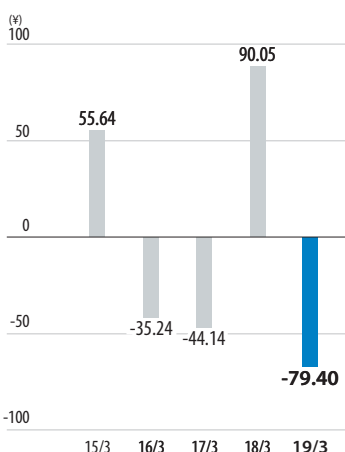
- (2) Aiming at sustainable improvements to its corporate value, MegaChips will allocate funds to basic research to create innovative new technologies, development of unique products, achievement of an appropriate business portfolio, and the securing of skilled personnel to achieve medium- to long-term growth. MegaChips will also consider maintaining a sound financial position capable of withstanding fluctuations in the business environment.
- (3) To improve capital efficiency, MegaChips will strive to return profits to shareholders by acquiring treasury shares expeditiously, taking into consideration such factors as market conditions, movements of stock prices, and MegaChips' financial situation.

With respect to the distribution of retained earnings for the fiscal year under review, MegaChips has decided to pay an annual dividend of ¥17 per share as an ordinary dividend (¥34 year-on-year) to those who are shareholders as of March 31, 2019 based on basic dividend policy discussed above.

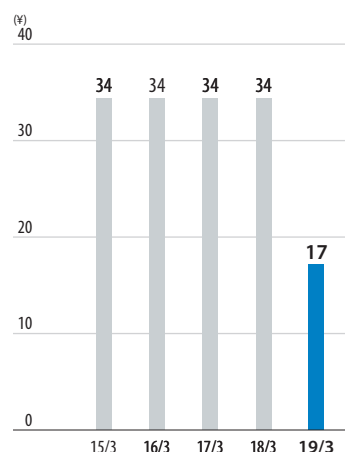
Profit Attributable to Owners of Parent



Net Income Per Share



Dividends



■ High Liquidity and Outstanding Reserves

● Cash Flow

Cash and cash equivalents (“net cash”) at the end of the consolidated fiscal year under review reached ¥10,182 million, a decrease of ¥9,266 million over the previous consolidated fiscal year (compared with an increase of ¥7,494 million year-on-year). The status of cash flows at the end of the consolidated fiscal year under review was as follows.

Cash flows from operating activities used for capital amounted to ¥13,700 million (compared with ¥4,715 million acquired in the same period of the previous fiscal year). This was chiefly attributable to net loss before taxes of ¥1,054 million (compared with net income before taxes of ¥2,377 million year-on-year), depreciation expenses of ¥3,350 million, amortization of goodwill amounting to ¥1,794 million, and loss on retirement of non-current assets of ¥1,527 million, while notes and accounts payable-trade increased by ¥13,112 million, together with a decrease in notes and accounts payable of ¥4,972 million.

Capital used in investment activities was ¥2,499 million (compared with capital of ¥5,007 million used in such activities in the same period of the previous fiscal year). This was largely the result of expenses of ¥1,017 million for the acquisition of tangible fixed assets, expenses of ¥796 million for the acquisition of intangible assets, and expenses of ¥618 million for the

acquisition of long-term prepaid expenses, while proceeds from business transfers amounted to ¥759 million. As a result, free cash flow consisting of the cash flow from operational activities and cash flow from investment activities amounted to ¥16,200 million for use as capital (with ¥292 million in the same period of the previous fiscal year).

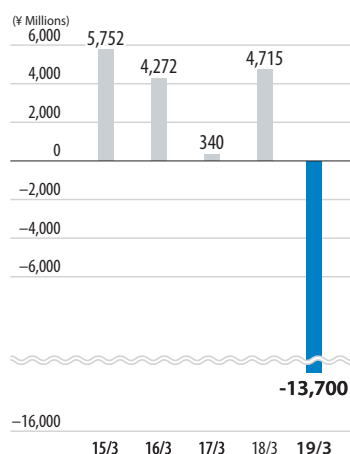
Cash flow from financing activities for capital reached ¥7,040 million (compared with net cash of ¥7,954 million acquired as capital in the same period of the previous consolidated fiscal year). This was attributable to a net increase in short-term loans payable of ¥3,278 million and proceeds from ¥11,000 million in long-term loans payable despite repayments of ¥6,500 million in long-term loans payable.

● Capital Requirements and Financial Policy

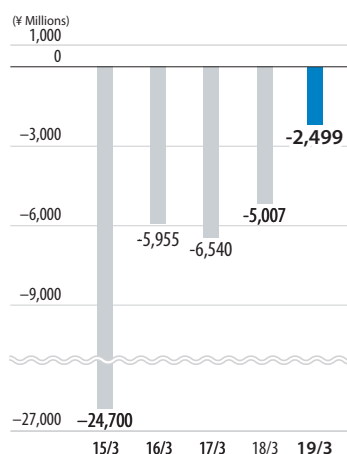
MegaChips borrows funds from financial institutions to raise working capital when necessary. Working capital is used for operating expenses, such as research and development expenses for new technology and new products, cost of goods, sales expenses as well as general management expenses, with the contract manufacturing expenses for the LSI products as the major operating cost.

In the fiscal year under review, there were no

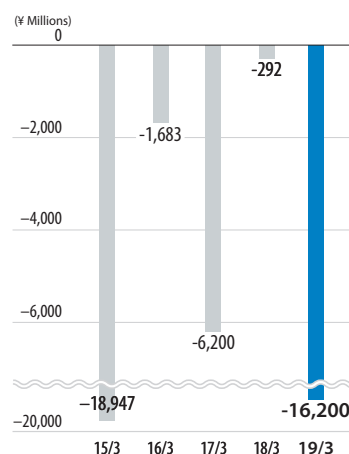
Cash Flows from Operating Activities



Cash Flows from Investing Activities



Free Cash Flow



Analysis of Sales and Financial Status

MegaChips Corporation and its Consolidated Subsidiaries

financing arrangements to warrant special mention. With an increase in borrowings for working capital purposes, the outstanding balance of borrowings from financial institutions as of the end of the consolidated fiscal year under review was ¥52,827 million.

Given its sound asset basis and financial

condition, MegaChips believes it can raise the funds it needs for growth by selling accounts receivable on hand, borrowing from financial institutions, and increasing its capital.

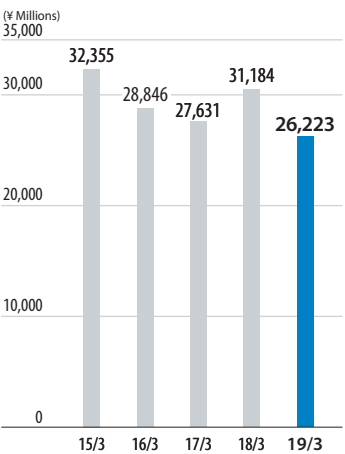
Financial Position

Total assets at the end of the consolidated fiscal year under review amounted to ¥91,977 million (a decrease of ¥2,655 million from the end of the previous fiscal year). Current assets, centered on cash and deposits, notes and accounts receivable-trade, and inventories, increased by ¥4,131 million from the previous fiscal year to ¥61,005 million. This is mainly attributable to decreases in cash and deposits of ¥9,434 million, while notes and accounts receivable-trade increased by ¥12,959 million. Among non-current assets, goodwill decreased by ¥1,950 million, software by ¥1,202 million, and investment securities by ¥1,684 million respectively.

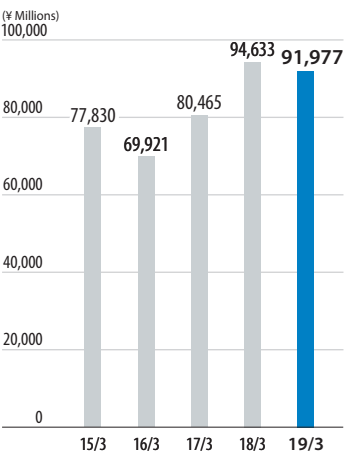
MegaChips' asset structure is characterized by its

high liquidity. Although intangible assets made up a certain percentage of non-current assets largely attributable to the corporate acquisitions, current assets accounted for 66.3% of total assets. Meanwhile, the current ratio was 150.0% (down by 3.3 points year-on-year), since the current liabilities are ¥40,683 million (an increase of ¥3,594 million year-on-year), because of an increase in short-term loans payable. Current assets, obtained by deducting inventory of ¥7,608 million, was ¥53,396 million, 58.1% of total assets. This asset structure is attributable to the fact that MegaChips is a fabless manufacturer and does not have assets such as production facilities that ties up a portion of its capital

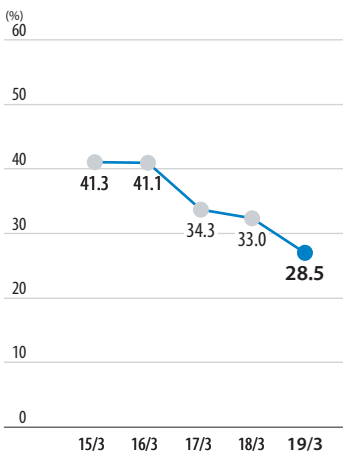
Net Assets



Total Assets



Shareholders' Equity Ratio



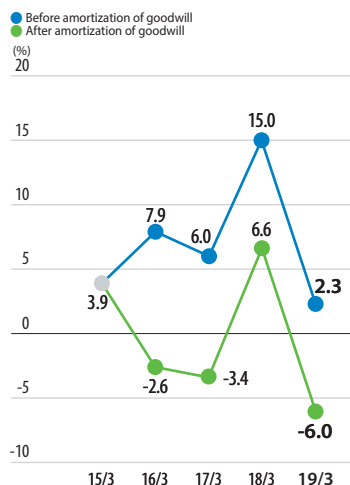
on a long-term basis. MegaChips will continue to strive to improve its liquidity and maintain a sound asset base.

Total liabilities at the end of the consolidated fiscal year under review were ¥65,753 million (an increase of ¥2,304 million year-on-year), which mainly consist of ¥20,327 million in short-term loans payable, ¥32,500 million in long-term loans payable (including the current portion of long-term loans payable), and trade payables of ¥6,408 million, primarily comprising outstanding payments to contracted manufacturers of LSIs. The main contributing factors were decrease of ¥5,148 million in notes and accounts payable-trade, and, in addition, as a result of meeting high capital requirements of working capital, increase of ¥4,500

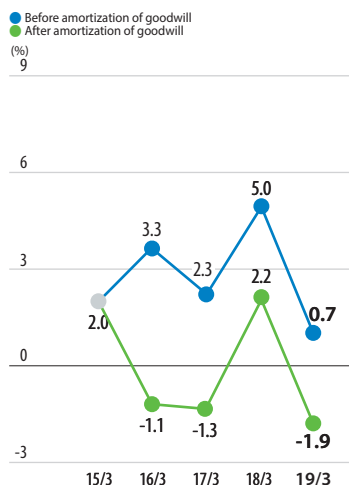
million in long-term loans payable (including the current portion of long-term loans payable) and ¥3,266 million in short-term loans.

Net assets were ¥26,223 million, a decrease of ¥4,960 million year-on-year. The main contributing factors for this decrease were net loss attributable to shareholders of the parent company of ¥1,727 million, surplus dividends of ¥738 million, a decrease of ¥2,199 million in valuation differences on available-for-sale securities, and a decrease of ¥342 million in foreign currency translation adjustment. Because of an increase in debt with interest, a shareholders' equity ratio was 28.5% (down by 4.5 points year-on-year).

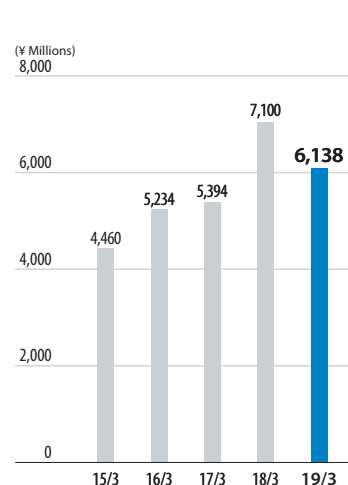
ROE



ROA



EBITDA



Analysis of Sales and Financial Status

MegaChips Corporation and its Consolidated Subsidiaries

■ Research and Development, Patents, and Other Intellectual Property Rights

MegaChips invested a consolidated total of ¥7,843 million in R&D expenses for the fiscal year under review.

MegaChips Group sets its policy to provide System LSI and solutions leveraging analog/digital/MEMS technologies, and actively promotes research and development activities.

MegaChips 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 MegaChips holds and the details of those patents among the industrial property rights MegaChips holds by country are as follows:

Industrial Property Rights (As of March 31, 2019)

	Patents	Trademarks	IC Design Rights	Total
Issued	1,342	35	2	1,379
Applied for	236	—	—	236
Total	1,578	35	2	1,615

Patents by Country (As of March 31, 2019)

	Japan	North America	Asia (excluding Japan)	EU	Other	Total
Issued	879	368	77	18	—	1,342
Applied for	147	40	24	18	7	236
Total	1,026	408	101	36	7	1,578

■ Business and Other Risks

MegaChips has identified the following risks pertaining to its operations and other matters that may have a material impact on investors' judgment.

Forward-looking statements in this section represent the judgment of MegaChips as of June 21, 2019.

● Dependence on Specific Customers

(1) Purchasers

MegaChips principally sells LSIs for storing game software (custom memory) for use in game consoles; LSIs for game consoles and peripheral devices; LSIs for digital cameras and other image processing; and timing controller LSIs for liquid crystal panels. The percentage of net sales involving LSIs for storing game software (custom memory) to Nintendo Co., Ltd. ("Nintendo") is increasing.

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

(2) Contract Manufacturers (Suppliers)

Since its foundation, MegaChips has adopted a business model in which it operates as an R&D-oriented fabless enterprise, concentrating its management resources on research and development and contracting out the manufacture of its products to third parties. Consequently, we have been able to develop products that best meet customers' needs based on our proprietary technological capabilities and to expand our business without needing 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 slight percentage of purchases are made from Macronix International Co., Ltd. ("Macronix"), which manufactures LSIs for storing game software (custom memory) supplied to our major customer, Nintendo, and LSIs for game consoles and peripheral devices.

Therefore, if Macronix becomes unable to manufacture, for whatever reason, MegaChips' operating results may be impacted.

Further, we have entered into manufacturing consignment contracts with Nintendo and Macronix,

respectively. We intend to build solid and close ties with these companies to ensure a stable supply of products.

● Operations

(1) Risks Associated with LSI Products

MegaChips has adopted a fabless business model, where we do not have manufacturing capacity, but instead outsource manufacturing to third parties. We outsource the manufacturing of LSI products to major foundries both in Japan and overseas.

Therefore, the demand and supply balance 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 desire.

Although our LSIs are used in state-of-the-art digital devices, since the pace of technological innovation is rapid, there is no guarantee that these products will continue to be used. Moreover, demand may fluctuate due to the effect of fierce competition to which our end products using our LSIs are subject.

(2) Risks in Strategic Investment

In the event that MegaChips engages in strategic tie-ups, including equity participation, to accelerate the growth of its businesses, the benefits that we anticipated, such as the creation of business synergies or increased earnings, may not materialize.

(3) Research and Development

Based on the management philosophy of building MegaChips' business through "Innovation", coexisting with customers over the long term through "Trust", and making an ongoing contribution to society through "Creativity", we have expanded our operations with our technological development capabilities as a base. Our competitiveness derives from "Specialization" in products for specific customers and for specific areas of application in the growing automotive and industrial equipment, and telecom infrastructure-related markets, a "Concentration" of our resources on research and development activities to provide the cutting-edge technologies and products to our customers, and demonstrating our "Uniqueness".

MegaChips believes that it can continue to develop and launch innovative and appealing products in the market. However, in our industry, advances in technology

Analysis of Sales and Financial Status

MegaChips Corporation and its Consolidated Subsidiaries

occur at remarkable speed 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.

MegaChips makes every effort to develop cutting-edge technologies and to maintain a competitive edge in its technologies and products. However, if other companies become dominant in the technology development competition, it will have an impact on MegaChips' operating results.

(4) Ensuring Skilled Personnel

MegaChips is expanding operations based on its technological development capabilities leveraging unique analog/digital/MEMS technologies and its business growth depends heavily on skilled personnel. It is, therefore, an extremely important business challenge to secure and retain excellent skilled personnel, as well as to determine how to treat and train these skilled personnel.

MegaChips made several corporate acquisitions and research and development investments in the growing equipment market, including mobile and wearable devices. As a result of the accelerated pace of global development, it is vital for MegaChips to ensure and develop an executive class and front-line managers across all divisions in overseas subsidiaries.

MegaChips will re-establish an HR system necessary for the global human resources policy, and will formulate and implement a training plan. However, if the number of skilled personnel in Japan or overseas leaving MegaChips increases in the future, or if the training of newly hired personnel or globalization efforts do not progress as planned, these factors might have a significant impact on MegaChips' corporate value and competitiveness.

(5) 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.

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

● Management

(1) Anti-takeover measures

Although MegaChips does not have a basic policy for corporate control, it believes that anti-takeover measures and the protection of shareholder interests against hostile acquirers are important management issues. For this reason, we have been collecting information on recent acquisitions.

(2) Risk Concerning the Establishment of Internal Control Systems

MegaChips takes legal compliance very seriously and considers the establishment of a corporate governance system as important managerial issue. We have consequently taken steps to strengthen such corporate governance system and enhance risk management.

Further, MegaChips also approved basic policies at the meeting of the Board of Directors for 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, conducting 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 anticipated 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 there may be a material adverse effect on our financial position and operating results.

● Intellectual Property Rights

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

Consequently, we have strengthened our internal system for the protection of intellectual property rights and our ties with patent law offices to actively file

applications and 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 alleging infringements of the intellectual property rights of other companies, our operating results may be affected.

MegaChips' independently developed proprietary technologies may not be fully protected under 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.

Consolidated Balance Sheets

MegaChips Corporation and its Consolidated Subsidiaries
March 31, 2019 and 2018

ASSETS	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Current assets:			
Cash and time deposits (Note 5 and 6)	¥ 10,218,297	¥ 19,653,114	\$ 92,065
Receivables			
Trade (Note 6)			
Notes and electronically recorded monetary claims operating	—	34,100	—
Accounts	39,735,519	26,742,081	358,009
Others	248,430	295,802	2,238
Allowance for doubtful receivables (Note 6)	(21,170)	(20,655)	(190)
Inventories (Note 10 and 11)	7,608,567	7,344,902	68,551
Other current assets	3,215,378	2,824,126	28,969
Total current assets	61,005,023	56,873,472	549,644
Property and equipment:			
Buildings	4,745,941	4,749,430	42,760
Land	289,638	289,638	2,609
Construction in progress	547,606	1,083,264	4,933
Others	9,846,579	9,341,136	88,715
	15,429,766	15,463,469	139,019
Less accumulated depreciation	(10,988,583)	(10,271,608)	(99,005)
Total property and equipment	4,441,183	5,191,860	40,014
Intangible assets:			
Goodwill	10,666,216	12,616,640	96,100
Technical assets	3,306,742	4,158,266	29,793
Software	5,369,148	6,571,497	48,375
Others	16,496	20,655	148
Total intangible assets	19,358,604	23,367,060	174,417
Investments and other assets:			
Investments in securities (Note 6 and 7)	2,062,231	3,747,120	18,580
Long-term prepaid expenses	2,509,929	2,391,097	22,614
Deferred tax assets (Note 16)	1,397,463	1,629,299	12,590
Other investments	1,203,320	1,433,441	10,841
Total investments and other assets	7,172,944	9,200,959	64,626
Total assets	¥ 91,977,755	¥ 94,633,352	\$ 828,703

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)
	2019	2018	2019
Current liabilities:			
Short-term loans payable (Note 6 and 12)	¥ 20,327,405	¥ 17,060,480	\$ 183,146
Current portion of long-term loans payable (Note 6)	9,500,000	4,000,000	85,593
Payables:			
Trade (Note 6)			
Electronically recorded obligations operating	2,817,891	3,588,239	25,388
Accounts	3,591,075	7,969,155	32,354
Others (Note 6)	2,197,947	1,976,829	19,803
Accrued expenses	1,455,508	1,704,994	13,113
Income taxes payable	429,750	545,353	3,871
Provision for losses on construction contracts (Note 11)	148,574	—	1,338
Other current liabilities	214,954	243,370	1,936
Total current liabilities	40,683,108	37,088,422	366,547
Long-term liabilities:			
Long-term loans payable (Note 6)	23,000,000	24,000,000	207,225
Deferred tax liabilities (Note 16)	890,822	1,192,469	8,026
Other long-term liabilities	1,179,871	1,168,269	10,630
Total long-term liabilities	25,070,694	26,360,739	225,882
Total liabilities	65,753,802	63,449,161	592,429
Net assets (Note 18):			
Shareholders' equity			
Common stock			
Authorized - 100,000,000 shares			
Issued			
23,038,400 shares in 2019			
23,038,400 shares in 2018	4,840,313	4,840,313	43,610
Capital surplus	6,183,846	6,183,562	55,715
Retained earnings	16,058,261	18,524,246	144,682
Treasury stock, at cost			
1,275,372 shares in 2019			
1,312,871 shares in 2018	(1,608,924)	(1,656,229)	(14,496)
Total shareholders' equity	25,473,496	27,891,893	229,511
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	1,041,475	3,241,184	9,383
Foreign currency translation adjustments	(291,018)	51,112	(2,622)
Total accumulated other comprehensive income	750,456	3,292,297	6,761
Total net assets	26,223,953	31,184,191	236,273
Total liabilities and net assets	¥ 91,977,755	¥ 94,633,352	\$ 828,703

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Operations and Comprehensive Income

MegaChips Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2019 and 2018

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net sales	¥ 95,145,485	¥ 89,029,101	\$ 857,243
Cost of sales (Note 9, 10, 11 and 13)	75,509,000	67,603,129	680,322
Gross profit	19,636,484	21,425,972	176,921
Selling, general and administrative expenses (Note 9, 13, 14 and 15)	19,062,844	18,716,917	171,752
Operating income	573,640	2,709,055	5,168
Other income (expenses):			
Interest income	17,554	7,226	158
Dividend income	79,908	—	719
Receiving Dispatching Fee	59,956	—	540
Interest expenses	(508,193)	(244,450)	(4,578)
Foreign exchange gains	316,492	—	2,851
Foreign exchange losses	—	(250,793)	—
Gain on transfer of business (Note 22)	329,005	—	2,964
Loss on retirement of noncurrent assets	(1,527,095)	(646,331)	(13,758)
Gain on sales of noncurrent assets	12,629	—	113
Gain on sale of investment in securities (Note 7)	—	955,059	—
Extra retirement expenses	(371,568)	(139,463)	(3,347)
Others, net (Note 20)	(36,734)	(13,184)	(330)
	(1,628,044)	(331,938)	(14,668)
Income (loss) before income taxes	(1,054,404)	2,377,116	(9,499)
Income taxes (Note 16):			
Current	718,692	773,926	6,475
Deferred	(45,779)	(365,578)	(412)
Total income taxes	672,913	408,348	6,062
Net income (loss)	¥ (1,727,317)	¥ 1,968,768	\$ (15,562)
Net income (loss) attributable to:			
Owners of parent	(1,727,317)	1,948,156	(15,562)
Non-controlling interests	—	20,612	—
Other comprehensive income (Note 17)			
Valuation difference on available-for-sale securities	(2,199,709)	2,806,232	(19,818)
Foreign currency translation adjustments	(342,131)	(701,281)	(3,082)
Total other comprehensive income	(2,541,841)	2,104,950	(22,901)
Comprehensive income	¥ (4,269,158)	¥ 4,073,719	\$ (38,464)
Comprehensive income attributable to:			
Owners of parent	(4,269,158)	4,053,521	(38,464)
Non-controlling interests	—	20,197	—
	Yen		U.S. dollars (Note 1)
Amounts per share			
Net income (loss) - basic (Note 2)	¥ (79.40)	¥ 90.05	\$ (0.71)
Net income - diluted (Note 2)	—	89.57	—
Cash dividends (Note 18)	17.00	34.00	0.15

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, 2018 and 2019

	Number of shares of common stock issued	Thousands of yen							Total
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Non-controlling interests	
Balance at March 31, 2017	23,038,400	¥ 4,840,313	¥ 6,182,338	¥ 17,274,367	¥ (1,859,404)	¥ 434,952	¥ 745,021	¥ 13,707	¥ 27,631,297
Cash dividends paid - ¥34.00 per share				(733,187)					(733,187)
Net income (loss) attributable to owners of parent				1,948,156					1,948,156
Change in scope of consolidation				34,910					34,910
Purchase of treasury stock					(253)				(253)
Disposal of treasury stock			1,224		203,428				204,652
Others						2,806,232	(693,908)	(13,707)	2,098,615
Balance at March 31, 2018	23,038,400	4,840,313	6,183,562	18,524,246	(1,656,229)	3,241,184	51,112	—	31,184,191
Cash dividends paid - ¥34.00 per share				(738,667)					(738,667)
Net income (loss) attributable to owners of parent				(1,727,317)					(1,727,317)
Change in scope of consolidation									—
Purchase of treasury stock					(2)				(2)
Disposal of treasury stock			283		47,307				47,590
Others						(2,199,709)	(342,131)		(2,541,841)
Balance at March 31, 2019	23,038,400	¥ 4,840,313	¥ 6,183,846	¥ 16,058,261	¥ (1,608,924)	¥ 1,041,475	¥ (291,018)	¥ —	¥ 26,223,953

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Non-controlling interests	Total
Balance at March 31, 2018	\$ 43,610	\$ 55,712	\$ 166,900	\$ (14,922)	\$ 29,202	\$ 460	\$ —	\$ 280,963
Cash dividends paid - \$ 0.31 per share			(6,655)					(6,655)
Net income (loss) attributable to owners of parent			(15,562)					(15,562)
Change in scope of consolidation								—
Purchase of treasury stock				(0)				(0)
Disposal of treasury stock		2		426				428
Others					(19,818)	(3,082)		(22,901)
Balance at March 31, 2019	\$ 43,610	\$ 55,715	\$ 144,682	\$ (14,496)	\$ 9,383	\$ (2,622)	\$ —	\$ 236,273

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, 2019 and 2018

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities:			
Income (loss) before income taxes	¥ (1,054,404)	¥ 2,377,116	\$ (9,499)
Adjustments for:			
Depreciation and amortization	4,203,513	3,544,139	37,872
Amortization of goodwill	1,794,891	1,816,479	16,171
Increase (decrease) in allowance for doubtful receivables	765	6,612	6
Increase (decrease) in accrued employee bonuses	(243,616)	26,865	(2,194)
Increase (decrease) in provision for losses on construction contracts	148,574	(14,533)	1,338
Interest and dividends income	(97,463)	(7,226)	(878)
Interest expenses	508,193	244,450	4,578
Foreign exchange losses (gains)	(44,361)	103,358	(399)
Loss on retirement of noncurrent assets	1,527,095	646,331	13,758
Gain on sale of investment in securities	—	(955,059)	—
Gain on transfer of business	(329,005)	—	(2,964)
Extra retirement expenses	371,568	139,463	3,347
Change in assets and liabilities:			
Decrease (increase) in:			
Receivables (trade)	(13,112,455)	(5,140,447)	(118,140)
Inventories	(515,944)	(705,769)	(4,648)
Other current assets	(20,302)	(239,550)	(182)
Increase (decrease) in:			
Payables (trade)	(4,972,401)	2,866,978	(44,800)
Other current liabilities	(591,721)	840,064	(5,331)
Others, net	6,053	74,277	54
	(12,421,021)	5,623,550	(111,911)
Interest and dividends received	97,463	7,471	878
Interest paid	(496,164)	(237,190)	(4,470)
Extra retirement expenses paid	(157,979)	—	(1,423)
Income taxes paid	(723,126)	(678,812)	(6,515)
Net cash provided by (used in) operating activities	(13,700,827)	4,715,018	(123,442)
Cash flows from investing activities:			
Proceeds from withdrawal of time deposits	505,563	405,613	4,555
Payments into time deposits	(339,125)	(469,113)	(3,055)
Purchase of property and equipment	(1,017,304)	(2,113,044)	(9,165)
Purchase of intangible assets	(796,860)	(2,838,999)	(7,179)
Proceeds from sale of investment in securities (Note 7)	—	1,181,113	—
Purchase of investment securities	(546,750)	—	(4,926)
Payment for long-term prepaid expenses	(618,418)	(370,263)	(5,571)
Proceeds from transfer of business (Note 5)	759,900	—	6,846
Others, net	(446,713)	(803,172)	(4,024)
Net cash provided by (used in) investing activities	(2,499,709)	(5,007,867)	(22,521)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	3,278,050	(6,312,220)	29,534
Proceeds from long-term loans payable	11,000,000	17,000,000	99,108
Repayment of long-term loans payable	(6,500,000)	(2,000,000)	(58,563)
Cash dividends paid	(737,366)	(732,995)	(6,643)
Other, net	38	(76)	0
Net cash provided by (used in) financing activities	7,040,721	7,954,708	63,435
Effect of exchange rate changes on cash and cash equivalents	(107,006)	(96,156)	(964)
Net increase (decrease) in cash and cash equivalents	(9,266,821)	7,565,702	(83,492)
Cash and cash equivalents at beginning of year	19,449,135	11,954,167	175,233
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	(70,734)	—
Cash and cash equivalents at end of year (Note 5)	¥ 10,182,313	¥ 19,449,135	\$ 91,740

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 and its consolidated subsidiaries ("the Company") has 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 four 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

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, 2019, which was ¥110.99 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 2018 consolidated financial statement items have been reclassified in order to conform to the presentation for 2019.

As permitted, amounts of less than 1,000 yen are omitted in the presentations for 2018 and 2019. 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 eight subsidiaries over which the Company has power of control through substantial ownership or the existence of certain other conditions evidencing control by the Company.

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

MegaChips LSI USA Corporation was established and has been included in the scope of consolidation from the

current fiscal year.

All subsidiaries are consolidated.

There are no equity method affiliates.

The assets and liabilities of the subsidiaries, including the portion attributable to non-controlling 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.

Shun Yin Investment Ltd., MegaChips Corporation, China, and SiTime Corporation, etc. were consolidated based on a fiscal year that ended on December 31. These

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

subsidiaries did not prepare for consolidation purposes financial statements that corresponded with the fiscal year of the Company.

For the consolidated subsidiaries with a fiscal year-end different from that of the Company, if significant transactions occurred between their fiscal year-end and that of the Company, necessary adjustments were made to reflect the transactions in the consolidated financial statements.

(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 moving 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 fair market values are stated at an amount determined by the moving average method.

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

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 the 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 of operations 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. However, depreciation of reticles used for LSI production is computed by the straight-line method.

Also, the straight-line method is also the depreciation method mainly used by the overseas subsidiaries.

The principle estimated useful lives are as follows:

	2019	2018
Buildings	3 to 50 years	3 to 50 years
Others	2 to 20 years	2 to 20 years

(7) Intangible assets

Intangible assets are amortized by the straight-line method.

Capitalized costs of technical assets are amortized by the straight-line method over the estimated useful life of 3 to 7 years.

Capitalized costs of internal use software are amortized by the straight-line method over the estimated useful life of mainly 3 to 5 years.

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

(8) Goodwill

Goodwill is amortized by the straight-line method over the estimated period of effect (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 estimated based on the estimated amounts to be paid in the future.

(11) Provision for losses on construction contracts

When total cost of construction is likely to exceed total revenue and the amount can be reasonably estimated, the Company records any amount estimated to exceed the total construction revenue as provision for loss on construction contracts.

(12) Basis for recording revenue on construction contracts

The percentage-of-completion method is applied to construction 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 that do not meet the above criteria.

(13) Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitant 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 (loss) and cash dividends

The computation of per share amounts of net income (loss) shown in the consolidated statements of operations and comprehensive income is based upon the weighted average number of issued shares outstanding during each period. Because result for the year ended March 31, 2019 was net loss per share, the computation of diluted net income per share was not calculated.

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

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

3. Standards and guidance not yet adopted

The following standard and guidance were issued but not yet adopted.
"Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 30, 2018)
"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 30, 2018)

(1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

- Step 1: Identify contract(s) with customers.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.

- Step 4: Allocate the transaction price to the performance obligation in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

4. Changes in presentation method

Changes due to adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting"

Upon application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018 (hereinafter, "Statement No. 28")) from the beginning of the current fiscal year, the Company changed the presentation and related notes of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of "investments and other assets" and "long-term liabilities", respectively.

As a result, deferred tax assets of ¥869,305 thousand classified as "current assets" have been included in deferred tax assets (¥1,629,299 thousand) in "investments and other assets" in the balance sheet as of the end of the previous fiscal year.

The notes related to tax effect accounting additionally included those described in Notes 8 (excluding total amount of valuation reserves) and 9 of "Accounting Standard for Tax Effect Accounting", which

are required in Paragraphs 3 to 5 of Statement No. 28. However, this additional information corresponding to the previous fiscal year is not disclosed, in accordance with the transitional treatments prescribed in Paragraph 7 of Statement No. 28.

Consolidated statement of cash flows

The "Extra retirement expenses" which was included in "Others" in cash flows from operating activities for the previous fiscal year was reported as a separate line item from the year ended March 31, 2019 due to the increased financial importance. Consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, "Others" in cash flows from operating activities for ¥213,740 thousand in the previous fiscal year has been reclassified as "Extra retirement expenses" for ¥139,463 thousand and as "Others" for ¥74,277 thousand respectively.

5. 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 time deposits on the consolidated balance sheets were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and time deposits – balance sheets	¥ 10,218,297	¥ 19,653,114	\$ 92,065
Time deposits with maturity dates longer than 3 months	(35,984)	(203,978)	(324)
Cash and cash equivalents – statements of cash flows	¥ 10,182,313	¥ 19,449,135	\$ 91,740

- (2) Breakdown of assets and liabilities of business transfer with the consideration of cash and cash equivalent

A breakdown of the assets and liabilities associated with the absorption-type demerger of System Product Division and the relationship between business transfer consideration and proceeds from transfer of business are as follows.

	Thousands of yen	Thousands of U.S. dollars
	2019	2019
Current assets	¥ 382,544	\$ 3,446
Fixed assets	265,089	2,388
Current liabilities	(216,740)	(1,952)
Gain on transfer of business	329,005	2,964
Business transfer-related expenses	40,100	361
Transfer consideration	800,000	7,207
Business transfer-related expenses	40,100	361
Balance: Proceeds transfer of business	¥ 759,900	\$ 6,846

6. 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 Company has adopted basic policies by which it concentrates 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 by fully evaluating the historical performance and any potential impact.

The financial instruments in which the Company invests 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 Company does not invest in financial instruments such as derivatives that carry significant investment risks. To

minimize risks associated with fund management, the Company manages 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 over certain receivables and payables denominated in foreign currencies resulting from 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 Company maintains sufficient funds to make payments on obligations arising from unexpected developments, it also maintains an appropriate level of funds for working capital. To meet its needs for working capital, the Company raises funds, when necessary,

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within established limits for borrowings from financial institutions and limits for the sale of its accounts receivable. The Company determines its funding strategies each fiscal year by taking into account certain factors such as its business performance, its funding requirements and the efficiency of other alternative methods of funding.

(ii) Details and risks of financial instruments

Cash and deposits are deposited mainly in the current checking accounts at banks, primarily for use as working capital. These major banks present almost no credit risks as their credibility is very high.

Trade notes and accounts receivables are exposed to the credit risk of customers, with 87.2% of the trade receivables at the end of the fiscal year ended March 31, 2019, due from specific 2 major customers. Considering their operating results and credit status, the credit risk associated with these receivables is believed to be minimal.

Investment in securities are categorized as available-for-sale securities and consist mainly of stocks held for investment and investment in 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 Company or those of the issuing company change, there is a risk that the initial plans may not be realized.

In addition, among shares held by the Company, listed equity securities are exposed to market risk, while unlisted equity securities may be impaired if the value of the issuing companies falls because of poor business performance or a deteriorating financial situation. Of all investment in securities held as of the end of the current fiscal year, shares held by the subsidiary accounted for 72.5% (99.4% as at the end of the previous fiscal year).

All trade payables and other payables are due within one year.

Short-term loans payable comprise mainly 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 in business activities.

Trade receivables and trade payables and other

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 after considering the net position of accounts receivable - trade and accounts payable - trade and other 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 value of financial assets due to credit events (reasons) such as dishonored checks or bankruptcy as a result of a deterioration in the financial condition of business partners or issuing companies. To maintain sound assets, the Accounting Department, the Finance Department and the Operating Department of the Company control the due dates associated with and the outstanding balances of individual customers. The Company has 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 Company evaluates its 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 Company 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 assets and liabilities with interest rate fluctuation risk, exchange rate fluctuation risk or 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 Company's 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 Company incurring losses due to a shortage of available cash as a result of the Company's inability to raise funds because of a deterioration in its 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 Company maintains an appropriate level of funds, including sufficient funds to meet obligations that may arise from unexpected developments. As a measure to respond to liquidity risk,

the Company has also established credit lines and 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 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, the 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, 2019 and 2018 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 time deposits)

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

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Figures presented in the consolidated balance sheets	¥ 10,218,297	¥ 19,653,114	\$ 92,065
Fair value	10,218,297	19,653,114	92,065
Difference	¥ —	¥ —	\$ —
Due within one year	¥ 10,218,297	¥ 19,653,114	\$ 92,065

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

(Trade receivables)

Because trade receivables are due in a 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
	2019	2018	2019
Figures presented in the consolidated balance sheets	¥ 39,714,348	¥ 26,755,526	\$ 357,819
Fair value	39,714,348	26,755,526	357,819
Difference	¥ —	¥ —	\$ —
Due within one year	¥ 39,735,519	¥ 26,776,181	\$ 358,009

(Investments in securities)

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

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Figures presented in the consolidated balance sheets	¥ 1,495,239	¥ 3,723,521	\$ 13,471
Fair value	1,495,239	3,723,521	13,471
Difference	¥ —	¥ —	\$ —

(Note) The above table includes securities for investments in business partnerships.

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

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Available-for-sale securities			
Unlisted equity securities	¥ 566,144	¥ 12,797	\$ 5,100
Unlisted bonds	—	12	—
Others	846	10,788	7

(Note) The above table includes securities for investments in business partnerships.

(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
	2019	2018	2019
Figures presented in the consolidated balance sheets	¥ 20,327,405	¥ 17,060,480	\$ 183,146
Fair value	20,327,405	17,060,480	183,146
Difference	¥ —	¥ —	\$ —
Due within one year	¥ 20,327,405	¥ 17,060,480	\$ 183,146

(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
	2019	2018	2019
Figures presented in the consolidated balance sheets	¥ 6,408,966	¥ 11,557,394	\$ 57,743
Fair value	6,408,966	11,557,394	57,743
Difference	¥ —	¥ —	\$ —

(Other payable)

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

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Figures presented in the consolidated balance sheets	¥ 2,197,947	¥ 1,976,829	\$ 19,803
Fair value	2,197,947	1,976,829	19,803
Difference	¥ —	¥ —	\$ —

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

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

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Figures presented in the consolidated balance sheets	¥ 32,500,000	¥ 28,000,000	\$ 292,819
Fair value	32,510,370	28,026,750	292,912
Difference	¥ 10,370	¥ 26,750	\$ 93
Due within one year	¥ 9,500,000	¥ 4,000,000	\$ 85,593
Due after one year but within two years	21,000,000	8,000,000	189,206
Due after two years but within three years	2,000,000	14,000,000	18,019
Due after three years but within four years	—	2,000,000	—
Due after four years but within five years	—	—	—
Due after five years	—	—	—

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7. Securities

(1) The following tables summarize the costs and carrying amounts of equity securities classified as available-for-sale securities with unrealized gains and losses at March 31, 2019 and 2018:

The following information includes equity interests in the assets of investment in business partnership. Further, unlisted shares, etc., are not included in the following tables because current market values were very difficult to obtain due to the absence of market prices.

(i) Securities with unrealized gains

(Available-for-sale securities)

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Cost	¥ 459,568	¥ 484,791	\$ 4,140
Carrying amount	1,495,239	3,723,521	13,471
Unrealized gains	¥ 1,035,671	¥ 3,238,730	\$ 9,331

(ii) Securities with unrealized losses

(Available-for-sale securities)

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Cost	¥ —	¥ —	\$ —
Carrying amount	—	—	—
Unrealized losses	¥ —	¥ —	\$ —

(2) Total sales, gains and losses realized for available-for-sale securities for the years ended March 31, 2019 and 2018 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Amount of sales	¥ —	¥ 1,181,113	\$ —
Total gain on sales	—	955,059	—

8. Derivative transactions

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

9. 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, 2019 and 2018 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit expenses	¥ 356,848	¥ 315,270	\$ 3,215

10. Inventories

(1) Inventories at March 31, 2019 and 2018 consisted of the following:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Finished products	¥ 4,314,680	¥ 4,470,576	\$ 38,874
Raw materials	899,020	736,089	8,100
Work-in-process	2,393,464	2,135,266	21,564
Supplies	1,401	2,969	12
Total	¥ 7,608,567	¥ 7,344,902	\$ 68,551

(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, 2019 and 2018 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Cost of sales	¥ 1,130,919	¥ 533,434	\$ 10,189

11. Provision for losses on construction contracts

(1) 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 fiscal years ended March 31, 2019 and 2018 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Cost of sales	¥ 148,574	¥ (14,533)	\$ 1,338

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

- (2) Inventories and the provision for losses on construction contracts related to construction contracts that are likely to incur losses are presented as is and are not offset. The amount corresponding to the provision for losses on construction contracts that are likely to incur losses as of March 31, 2019 is as follows.

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Work-in-process	¥ 12,999	¥ —	\$ 117

12. Short-term debt

In order to achieve efficient financing, the Company has entered into overdraft agreements with certain financial institutions. The status of these agreements at March 31, 2019 and 2018 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Maximum overdraft amount	¥ 26,000,000	¥ 26,000,000	\$ 234,255
Credit line used	12,000,000	11,000,000	108,117
Available credit line	¥ 14,000,000	¥ 15,000,000	\$ 126,137

13. Leases

Future lease payments required under noncancelable operating lease transactions in the fiscal years ended March 31, 2019 and 2018 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Due within one year	¥ 394,820	¥ 377,861	\$ 3,557
Thereafter	2,337,669	2,570,619	21,061
Total	¥ 2,732,489	¥ 2,948,480	\$ 24,619

14. Research and development expenses

Research and development expenses are charged to income when incurred. Research and development expenses for the years ended March 31, 2019 and 2018 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Research and development expenses	¥ 7,843,933	¥ 6,253,292	\$ 70,672

15. Stock options, etc.

Disposal of treasury stock as incentives to the management and employees of a U.S. subsidiary of the Company

The Company grants retention incentives to the management and employees of SiTime Corporation ("SiTime"), a subsidiary of the Company, by disposing of treasury stock through a third-party allocation.

- (1) Amount, posted as an expense, of the disposition of treasury stock through a third-party allocation as retention incentives and the financial statement presentation thereof

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Selling, general, and administrative expenses	¥ 47,550	¥ 204,475	\$ 428

- (2) Outline of the disposal of treasury stock through a third-party allocation as retention incentives

Company name	MegaChips Corporation	
Grant date	July 20, 2016	
Category and number of grantees	One director and 34 employees of SiTime	
Type and total number of shares	339,911 common shares	
Total paid-in amount	1 US cent per share	
Payment dates and number of shares disposed of on each date (total)	1. September 15, 2016 2. December 15, 2016 3. March 15, 2017 4. June 15, 2017 5. September 15, 2017 6. December 15, 2017 7. March 15, 2018 8. June 15, 2018	45,380 shares 45,380 shares 45,380 shares 45,384 shares 39,588 shares 39,588 shares 39,588 shares 39,623 shares
Conditions	The rights are on the condition that the management and employees who are subject to the allocation of treasury shares are still with SiTime as of the date of payment (date of grant).	

- (3) Scale of disposal of treasury stock through a third-party allocation as retention incentives and changes therein

(i) Number of treasury stock disposed of through a third-party allocation

Unallocated balance at the end of the previous consolidated fiscal year	38,823 shares
Forfeited	1,323 shares
Allocated	37,500 shares
Unallocated balance at the end of the current consolidated fiscal year	—

(ii) Unit price information

Fair value per share as of the grant date	¥1,268
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Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

16. Income taxes

Japan's statutory tax rate related to income was 30.6% for the fiscal year ended March 31, 2019 and 30.8% for the fiscal year ended March 31, 2018.

(1) Significant components of the Company's deferred tax assets and liabilities as of March 31, 2019 and 2018 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Accrued bonuses	¥ 115,564	¥ 195,760	\$ 1,041
Provision for losses on construction contracts	45,434	—	409
Enterprise taxes	34,873	51,558	314
Accrued legal welfare expenses	18,767	30,542	169
Valuation loss on inventory	293,526	194,297	2,644
Loss on retirement of noncurrent assets	370,252	158,455	3,335
Excess software costs	420,589	422,656	3,789
Excess long-term prepaid expenses costs	62,328	17,955	561
Loss on write-down of investment in securities	86,302	86,891	777
Tax losses carried forward	4,449,581	4,408,126	40,089
Tax credit for research and development expenses carried forward	1,091,552	644,348	9,834
Others	478,648	488,659	4,312
Subtotal deferred tax assets	7,467,423	6,699,252	67,280
The valuation allowance of the amount of loss carried forward	(4,390,671)	—	(39,559)
The valuation allowance of all taxable temporary differences	(1,322,860)	—	(11,918)
Total valuation allowance	(5,713,532)	(4,962,198)	(51,477)
Total Deferred tax assets	1,753,891	1,737,054	15,802
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(2,561)	(1,221)	(23)
Mark-to-market valuation difference of consolidated subsidiaries upon acquisition	(890,822)	(1,191,828)	(8,026)
Others	(353,865)	(107,173)	(3,188)
Total deferred tax liabilities	(1,247,250)	(1,300,223)	(11,237)
Net deferred tax assets	¥ 506,640	¥ 436,830	\$ 4,564

(Changes in presentation)

The "Loss on retirement of noncurrent assets" classified as "Others" in the previous fiscal year is stated independently from the current fiscal year as its monetary importance has increased. Also, "Directors' and corporate auditors' severance benefits" that has been stated independently in the previous fiscal year was included in "Others" of the deferred tax assets from the current fiscal year as its monetary importance has decreased. The notes of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, "Directors' and corporate auditors' severance benefits" in the amount of ¥9,220 thousand and "Others" in the amount of ¥637,894 thousand in deferred tax assets of the previous fiscal year have been reclassified as "Loss on retirement of noncurrent assets" for the amount of ¥158,455 thousand and "Others" in the amount of ¥488,659 thousand. (Note)1. The valuation allowance has increased by ¥751,333 thousand (US\$6,769 thousand) mainly due to the recognition of the valuation allowance associated with the increase in tax credit for research and development expenses

carried forward in the amount of ¥447,204 thousand (US\$4,029 thousand) and the valuation allowance associated with the increase in tax losses carried forward of the consolidated subsidiaries in the amount of ¥387,920 thousand (US\$3,495 thousand).

(Note)2. The tax losses carried forward (multiplied by the statutory tax rate) and the amount of deferred tax assets by carry forward expiration year are as follows.

	Thousands of yen	Thousands of U.S. dollars
	2019	2019
Tax losses carried forward	¥ 4,449,581	\$ 40,089
Due within one year	¥ —	\$ —
Due after one year but within two years	—	—
Due after two years but within three years	—	—
Due after three years but within four years	—	—
Due after four years but within five years	—	—
Due after five years	4,449,581	40,089
Valuation allowance	¥ 4,390,671	\$ 39,559
Due within one year	¥ —	\$ —
Due after one year but within two years	—	—
Due after two years but within three years	—	—
Due after three years but within four years	—	—
Due after four years but within five years	—	—
Due after five years	4,390,671	39,559
Deferred tax assets	¥ 58,910	\$ 530
Due within one year	¥ —	\$ —
Due after one year but within two years	—	—
Due after two years but within three years	—	—
Due after three years but within four years	—	—
Due after four years but within five years	—	—
Due after five years	58,910	530

As to the amount of ¥4,449,581 thousand (US\$40,089 thousand) to which the tax losses carried forward were multiplied by the statutory tax rate, deferred tax assets of ¥58,910 thousand (US\$530 thousand) were posted. The deferred tax assets were recognized in the full amount of the tax losses carried forward of MegaChips Taiwan Corporation, the Company's consolidated subsidiary. The tax losses carried forward for which the deferred tax assets were recognized were incurred in the fiscal year ended March 31, 2018 and the valuation allowance was not provided as it was evaluated to be recoverable based on estimated future taxable income.

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

(2) The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for the years ended March 31, 2019 and 2018.

	%	
	2019	2018
Statutory tax rate	—	30.8
(Reconciliation)		
Expenses permanently nondeductible	—	10.2
Inhabitants per capita taxes	—	0.4
Effect of foreign tax	—	5.9
Tax credit for research and development expenses	—	(6.0)
Amortization of goodwill	—	23.5
Change in valuation allowance	—	(32.4)
Effect of tax rate changes	—	(18.4)
Others	—	3.1
Effective tax rate	—	17.2

(Note) As loss before income taxes was reported for the current fiscal year, the statement has been omitted.

17. Other comprehensive income

Reclassification adjustments and related taxes to other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ (2,198,369)	¥ 3,759,879	\$ (19,806)
Reclassification adjustments	—	(955,059)	—
Subtotal before tax	(2,198,369)	2,804,820	(19,806)
Income tax expenses (benefits)	(1,340)	1,411	(12)
Valuation difference on available-for-sale securities	(2,199,709)	2,806,232	(19,818)
Foreign currency translation adjustments			
Increase (decrease) during the year	(342,131)	(701,281)	(3,082)
Total other comprehensive income	¥ (2,541,841)	¥ 2,104,950	\$ (22,901)

18. Net assets

Under the Japanese Corporate Law ("the Law"), the entire amount paid-in for newly 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 of dividend distribution, 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 reserved 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's Board of Directors' meeting held on May 10, 2019, the Company's Board of Directors resolved cash dividends of ¥17 (\$0.15) per share amounting to ¥369,971 thousand (\$3,333 thousand). This appropriation has not been accounted in the consolidated financial statements at March 31, 2019. Such appropriations are recognized in the period in which they are approved by the shareholders.

19. Segment information

(1) Segment information

The MegaChips Group leverages unique technologies of analog, digital and MEMS and provides total solutions, including the design, development and manufacture of LSIs and MEMS timing devices under one business segment. As a result, the presentation of segment information is omitted.

(2) Information by product and service

As the products and services fall under one category, the presentation of information by product and service has been omitted.

(3) Information by geographic area

Information concerning net sales by geographic area in the fiscal years ended March 31, 2019 and 2018 is set forth in the table below. The geographic areas are classified by country based on the location of the customer.

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Net sales:			
Japan	¥ 54,286,897	¥ 53,655,537	\$ 489,115
Taiwan	27,220,630	23,491,272	245,252
Others	13,637,956	11,882,291	122,875
Total	¥ 95,145,485	¥ 89,029,101	\$ 857,243

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

Information concerning property and equipment by geographic area in the fiscal years ended March 31, 2019 and 2018 is set forth in the table below. The geographic areas are classified by country based on the location of the property and equipment.

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Property and equipment:			
Japan	¥ 1,614,853	¥ 2,096,528	\$ 14,549
Taiwan	701,857	628,362	6,323
America	2,004,669	2,321,735	18,061
Others	119,803	145,233	1,079
Total	¥ 4,441,183	¥ 5,191,860	\$ 40,014

(4) Net sales to major customers for the fiscal year ended March 31, 2019 were as follows:

	Thousands of yen	Thousands of U.S. dollars
	2019	2019
Nintendo Co., Ltd.	¥ 44,240,918	\$ 398,602
Macronix International Co., Ltd.	17,269,584	155,595

(5) Net sales to major customers for the fiscal year ended March 31, 2018 were as follows:

	Thousands of yen
	2018
Nintendo Co., Ltd.	¥ 42,135,656
Macronix International Co., Ltd.	10,059,461

20. Other income (expenses)

Other income (expenses): others net in the consolidated statements of operations and comprehensive income comprised the following:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Gain on investments in partnerships	¥ 5,542	¥ 9,287	\$ 49
Refunded consumption taxes	—	26,565	—
Borrowing fees	(500)	(29,868)	(4)
Loss on transfer of receivables	(38,068)	(39,238)	(342)
Others, net	(3,709)	20,069	(33)
Total	¥ (36,734)	¥ (13,184)	\$ (330)

21. Related party transactions

Transactions with a corporate auditor, who is also the Company's lawyer, for the years ended March 31, 2019 and 2018 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2018	2019
Legal advisory fees	¥ 9,850	¥ 11,900	\$ 88

22. Business Combinations

Business Divestitures

Based on the absorption-type company split agreement as of November 16, 2018, the company has transferred System Product Division that designs, develops and manufactures and sells surveillance systems for security and monitoring to Sense Things Japan INC., a consolidated subsidiary of Mamezou Holdings Co., Ltd., with an effective date of January 1, 2019.

(1) Summary of the business divestitures

(i) Name and outline of successor company

Name	Sense Things Japan INC.
Address	2-7-1, Nishishinjuku, Shinjuku-ku, Tokyo
Representative	Shutaro Kashima, President and CEO
Capital	¥95 million (US\$0.8 million)
Net assets	¥-74 million (US\$-0.6 million)
Total assets	¥128 million (US\$1.1 million)
Lines of business	Development and sales of IOT technology products

(Notes) The capital, net assets and total assets are as of March 2018.

(ii) Business split and succeeded

Design, development, manufacturing and sales of surveillance systems for security and monitoring

(iii) Reasons for the business divestitures

The System Product Division of the Company has developed digital surveillance systems as customer-specific products and has provided for security and monitoring applications. However, through the rearrangement of the business structure to secure the Group's sustainable growth and enhance efficient management, the Company decided to transfer the business of System Product Division to Sense Things Japan.

The Company will focus its managerial resources on growth markets, including the automotive, industrial equipment and 5G telecommunication markets and expand its business activities with leading global companies and strengthen measures for the mid-term sustainable growth.

(iv) Effective date of the business divestitures

January 1, 2019

(v) Matters concerning the transactions including the legal form

This was an absorption-type company split in which the Company was the splitting company and Sense Things Japan was the successor company. The Company has received a payment of ¥800 million (US\$7 million) from the successor company. This company split corresponded to a simplified absorption-type split prescribed in Article 784, Paragraph 2 of the Japanese Corporate Law.

(vi) The calculating details of price for the absorption-type split

The price paid for this agreement has been calculated by independent appraisers determining the rights and obligations subject to succession and the future business feasibility of the succeeded businesses and was decided through mutual negotiation and judged as appropriate.

(2) Outlines of accounting treatments

(i) Transferred profit/loss

Gain on transfer of business ¥329,005 thousand (US\$2,964 thousand)

(ii) Assets and liabilities belonging to the transferred business and the appropriate book value

Current assets	¥382,544 thousand (US\$3,446 thousand)
Fixed assets	¥265,089 thousand (US\$2,388 thousand)
Current liabilities	¥216,740 thousand (US\$1,952 thousand)

(iii) Accounting treatments

As to this absorption-type split, the accounting was based on "Accounting Standard for Business Divestitures" (ASBJ Statement No.7 September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10 September 13, 2013).

(3) Name of the reportable segment that included the split business

The Company has a sole business segment engaged mainly in offering total solutions of LSI and MEMS timing devices leveraging unique analog/digital/MEMS technology from design and development to manufacturing. The System Product Division which was transferred belonged to this segment.

(4) Estimated amounts of split business included in the consolidated financial statements of operations and comprehensive income for the current fiscal year

Sales	¥2,558 million (US\$23 million)
Operating income	¥282 million (US\$2 million)

Independent Auditor's Report



Independent Auditor's Report

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, 2019 and 2018, and the consolidated statements of operations 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 misstatement, 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, 2019 and 2018, 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, 2019 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.

KPMG AZSA LLC

June 21, 2019
Osaka, Japan

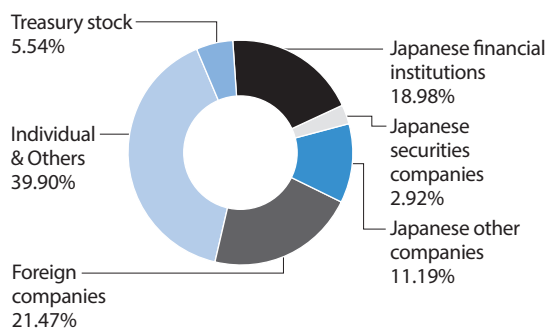
Corporate Data (As of June 21, 2019)

Company Name	MegaChips Corporation	Domestic bases	
Business Activities	Provide total solution from design and development to manufacturing for MEMS Timing Device and State-of-the-art LSIs produced by full use of our unique analog, digital and MEMS technology.	Tokyo Office	17-6, Ichibancho, Chiyoda-ku, Tokyo 102-0082, Japan
Establishment	April 4, 1990	Makuhari Office	1-3 Nakase, Mihama-ku Chiba 261-8501
Capital Stock	¥4.84 billion	Major overseas bases	
Corporate Headquarters	1-1-1, Miyahara, Yodogawa-ku, Osaka 532-0003, Japan Phone: +81-6-6399-2884 FAX: +81-6-6399-2886	MegaChips Technology America Corporation	2755 Orchard Parkway, San Jose, CA95134 U.S.A.
Representative	Tetsuo Hikawa, President and CEO	SiTime Corporation	5451 Patrick Henry Drive, Santa Clara, CA95054 U.S.A.
Number of Employees	Consolidated: 719 employees (as of the end of March 2019)	MegaChips Taiwan Corporation	RM. B 2F, Worldwide House, No.129, Min Sheng E.Rd., Sec.3, Taipei 105 Taiwan
		MegaChips Corporation, China	1603, AVIC Center Building No.1018 Huaifu Road Futian District, Shenzhen 518031, China

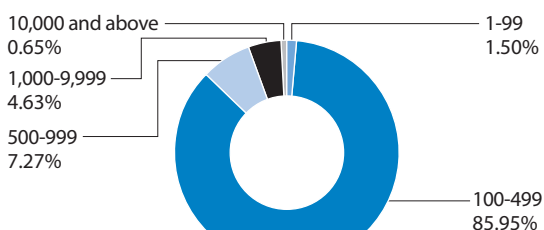
Stock Information (As of March 31, 2019)

Authorized Stock	100,000,000	Settlement Date	March 31
Shares of Common Stock Outstanding	23,038,400	General Shareholders' Meeting	June
Listing of Stock	Listed on the No.1 Section of the Tokyo Stock Exchange	Shareholders' List Closing Date	March 31
Securities Code Number	6875	Share Trading Unit	100
Number of Shareholders	21,488	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

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