Securities Code: 6875
June 4, 2020

To: Our Shareholders

Tetsuo Hikawa, President and CEO

MegaChips Corporation

1-1-1 Miyahara, Yodogawa-ku, Osaka, Japan

Information on Matters Disclosed on the Internet for Notice of the 30th Annual General Meeting of Shareholders

The written information that should be provided for notice of the 30th Annual General Meeting of Shareholders, the following matters are made available to the shareholders on MegaChips' website (https://www.megachips.co.jp/irinfo/index.html) pursuant to applicable laws and regulations and Article 14 of the Company's Articles of Incorporation, so please read it.

1. Following items from the Business Report for the 30th fiscal year (from April 1, 2019 to March 31, 2020):
   (i) The following items with regard to the current status of the MegaChips Group:
   Major businesses and business locations and current situation of employees and major lenders
   (ii)The following items with regard to the current status of the Company:
   Current status of accounting auditor, systems to ensure the appropriateness of operations, and basic policy on control of the Company
2. Notes to Consolidated Financial Statements for the 30th fiscal year (from April1, 2019 to March 31, 2020
3. Individual notes to Non-Consolidated Financial Statements for the 30th fiscal year (from April 1, 2019 to March 31, 2020)

Business Report

（from April 1, 2019 to March 31, 2020）

1. Current status of the MegaChips Group

(1) Major businesses (as of March 31, 2020)

The MegaChips Group is comprised of the Company (MegaChips Corporation) and 9 subsidiaries and provides total solutions from design and development up to production of LSI and MEMS timing devices, leveraging its original analog/digital/MEMS technology.

Major products include LSIs for game consoles and other entertainment devices, image processing LSIs for digital cameras and other products, LSIs for office equipment, analog front-end LSIs for wired communications, and LSIs for liquid crystal display panels as well as MEMS timing devices. The products are designed and developed by the Company and its subsidiaries, are manufactured by outsourcing to large offshore foundries and domestic and foreign manufacturers, and sold by the Company and its subsidiaries.

(2) Major business locations (as of March 31, 2020)

(i) The Company

MegaChips Corporation	Head office (1-1-1 Miyahara, Yodogawa-ku, Osaka, Japan) Tokyo office (17-6 Ichibancho, Chiyoda-ku, Tokyo, Japan) Makuhari Office (1-3 Nakase, Mihama-ku, Chiba, Japan)

(ii) Subsidiaries

MegaChips Taiwan Corporation	Head office (RM. B 2F, Worldwide House, No. 129, Min Sheng E.Rd., Sec. 3, Taipei 105, Taiwan)
MegaChips LSI USA Corporation	Head office (2755 Orchard Parkway, San Jose, California 95134 U.S.A.)
SiTime Corporation	Head office (5451 Patrick Henry Drive, Santa Clara, California 95054 U.S.A.)

(3) Current situation of employees (as of March 31, 2020)

(i) Situation of employees of the MegaChips Group

Number of employees	Increase or decrease compared to previous consolidated financial year
588 employees	Decrease of 131 employees

(Note) There was a decrease of 131 employees compared to the end of the previous consolidated fiscal year. This is primarily associated with the [business] transfer of the Smart Connectivity (DisplayPort) Divisions of the Company's subsidiaries and the Company's implementation of voluntary retirement solicitation.

(ii) Current situation of the employees of the Company

Number of employees	Increase or decrease compared to previous consolidated financial	Average age	Average number of years of service
384 employees	Decrease of 79 employees	44.1 years of age	7.9 years

(Note) There was a decrease of 79 employees compared to the end of the previous consolidated fiscal year. This primarily associated with the Company's implementation of voluntary retirement solicitation.

(4) Current situation of major lenders (as of March 31, 2020)

Lender	Amount borrowed (in Japanese Yen)
MUFG Bank, Ltd.	10,000 million
MUFG Union Bank, N.A.	5,441 million
The Bank of Tokyo-Mitsubishi UFJ, Ltd. Syndicate Loan	4,000 million
The Iyo Bank, Ltd.	3,500 million
Resona Bank, Ltd.	3,000 million
Sumitomo Mitsui Banking Corporation	2,500 million
The Norinchukin Bank	1,000 million

(Notes)
1. The Company concluded committed bank overdraft agreements for ¥26 billion with 5 banks that it does business with for effective raising of working capital
2. Of the amount borrowed from The Bank of Tokyo-Mitsubishi UFJ, Ltd., receivables of ¥6,500,000,000 have been assigned, and the assignees are The San-in Godo Bank, Ltd.; The Kiyo Bank, Ltd.; The Nanto Bank, Ltd.; The Senshu Ikeda Bank, Ltd.; The Hyakujushi Bank, Ltd.; The Fukui Bank, Ltd.; The Hachijuni Bank, Ltd.; and Nippon Life Insurance Company.
3. The participating financial institutions in The Bank of Tokyo-Mitsubishi UFJ, Ltd. Syndicate Loan are The Iyo Bank, Ltd.; MUFG Bank, Ltd (formerly, Mitsubishi UFJ Trust and Banking Corporation); Resona Bank, Limited; Nippon Life Insurance Company; The Bank of Kyoto, Ltd.; The Nanto Bank, Ltd.; The Kiyo Bank, Ltd.; The San-in Godo Bank, Ltd.; The Eighteenth Bank, Limited; The Chiba Bank, Ltd.; The Hachijuni Bank, Ltd.; The Fukui Bank, Ltd.; The Hyakujushi Bank, Ltd.; and The Senshu Ikeda Bank, Ltd.
4. The borrowings from MUFG Union Bank, N.A. are borrowings for consolidated overseas subsidiaries.

2. Current status of the Company

(1) Current status of accounting auditor

(i) Name: KPMG AZSA LLC

(ii) Amount of remuneration, etc.:

Classification	Amount of remuneration, etc.
Total amount of remuneration, etc. payable to the accounting auditor for the fiscal year under review:	¥68,200 thousand
Total amount of money and other property benefits payable to the accounting auditor by the Company and its subsidiaries:	¥68,200 thousand

(Notes)1. The subsidiaries of the Company have had an audit (limited to those provided for in the Companies Act or the Financial Instrument and Exchange Act (including laws equivalent to such laws)) of financial statements (including equivalent documents) by certified public accountants or audit corporations (including those having qualifications equivalent to such qualifications in foreign countries) other than the accounting auditor of the Company.

2. In the audit agreement between the Company and its accounting auditor, there is no distinction made between the amounts of remuneration for audits under the Companies Act and audits under the Financial Instrument and Exchange Act, and since a substantial distinction cannot be made, such total is stated.

3. The Board of Statutory Auditors of the Company has given consent under Article 399, Paragraph 1 of the Companies Act to the remuneration, etc. of the accounting auditor as a result of confirming and examining the situation for the performance of duties and audit planning of accounting auditor in light of the "Practical Guidelines for Coordination with Accounting Auditors" published by the Japan Audit & Supervisory Board Members Association.

(iii) Policy for the dismissal or non-reappointment of accounting auditor

For any reason attributable to the Company or in the event that the accounting auditor violates or contravenes laws or ordinances, or we believe that the accounting auditor has offended public order or morals, the Board of Statutory Auditors of the Company will deliberate on the dismissal or non-reappointment of the accounting auditor based on the facts. In the event that the Board of Statutory Auditors considers it appropriate to dismiss or not reappoint the accounting auditor, the Board of Statutory Auditors will determine the content of an agenda item for the "dismissal or non-reappointment of the accounting auditor."

(2) Systems to ensure the appropriateness of operations

The outline for contents of decisions in regard to the systems to ensure that the operations of the Directors conform to laws, ordinances and the Articles of Incorporation and other systems to ensure the appropriateness of operations are as follows:

(i) Systems to ensure that the operations of the Directors conform to laws, ordinances and the Articles of Incorporation:

To have a sound corporate culture take root in the Company, the President will convey the importance and spirit thereof repeatedly to make the entire organization thoroughly understand that compliance with laws is the prerequisite for corporate activities. Simultaneously, the President will take measures at all times to improve the conditions of its audit and internal audit systems and strengthen their respective functions to create an internal environment for proper audits.

(ii) Systems concerning storage and management of information related to execution of duties of Directors:

The Company will appoint a person having general group-wide responsibility for the storage and management of information about the execution of duties of Directors and officers from among such Directors and officers and record information necessary to confirm the state of execution by the officers and employees of their duties in writing or in electronic media pursuant to the "Document Management Regulations" and the "Document Management and Operation Standard Rules," which stipulate regulations for the storage of internal documents. The officers and accounting auditor will have access to such documents at all times.

To create a sound internal environment, the Company will establish a framework to generally supervise group-wide internal controls and promote the improvement of regulations and manuals and the implementation of internal training by its departments responsible for compliance. The Internal Auditing Department will, in cooperation with the departments responsible for compliance, audit the state of compliance within the Company. The Internal Auditing Department will conduct these activities with the auditors and the results thereof will be reported directly to the President in writing.

(iii) Regulations concerning management of exposure to the risk of loss and other systems:

To recognize, evaluate, and cope with any risk that may have a material effect on management group-wide in an adequate and timely manner, the Company will place risks in the order according to the feasibility thereof and accordingly improve and operate its internal control systems to cope with risk in executing its business.

To recognize, evaluate, and cope with risks, the Company will institute an evaluation system to define risks to cope with, establish procedures for risk management, improve the monitoring system therefor, and confirm the effectiveness of such procedures and monitoring system periodically. To build a group-wide governance system, the Company will establish regulations, secure information channels within the Company, and recognize risks and make remedial requests and evaluations through its internal audits.

The Company will establish a scheme for prompt and adequate information distribution in the event of any risk that may have a material effect on management. In addition to a regular channel for operational reporting, the Company will establish an internal notification system to ensure the protection of whistleblowers.

(iv) Systems to secure efficient execution by the Directors of their duties:

In its line of business execution, the Company will institute an appropriate system for control and monitoring. This is for the purpose of establishing the organization that promotes efficient execution by Directors of their duties under the "Regulations of Assignment of Duties and Powers," "Collective Decision-Making Regulations," "Regulations of Meetings," etc. and, at the same time, ensures appropriate and efficient execution of all administrative authority and decision-making based on its internal rules.

(v) Systems to secure the execution by the employees of their duties in accordance with the laws, ordinances and the Articles of Incorporation:

To enhance the monitoring functions independent of the line of business execution, the Company will institute a monitoring system with full independence and high ethical standards.

(vi) Matters concerning employees to assist the auditors to execute their duties when auditors request the assignment thereof and matters concerning the effectiveness of instructions to such employees:

To assign a secretariat or other employees to assist the auditors and the Board of Statutory Auditors, the Company will consult with the auditors before they commence any internal audits.

The Company will also ensure the opportunities and rights for the standing statutory auditor to attend important meetings concerning the entire Company and express opinions thereat. The Company will conduct auditing duties by ensuring the opportunities to obtain advice in a timely and appropriate manner by, for example, discussing with the accounting auditor or any third-party expert at the Company's expense whenever the auditors deem necessary. Hence, the Company has not assigned employees on a permanent basis to assist the auditors to execute their duties.

(vii) Matters concerning the independence of the employees set forth in (vi) above from the Directors:

Any employee who is given orders necessary for the audit duties or internal audits from auditors will not be subject to any direction or order from Directors or Executive Officers related to the party causing the order.

(viii) System for reporting by Directors or employees to the auditors and other systems for reporting to auditors:

The Directors, Executive Officers, or employees will promptly report to the Board of Statutory Auditors statutory matters, as well as all matters that will (or may) have a material effect on the entire Group, the state of execution of internal audits, the state of development of compliance activities, and the details thereof.

Matters to be reported to the Board of Statutory Auditors will be matters concerning Director's, Executive Officer's or employee's violation of laws, ordinances and the Articles of Incorporation; important matters concerning corporate management to be determined by the Management Meeting; matters which may cause significant damage to the Company; important matters in the monthly business report; the state of internal audits and important matters concerning risk management; the situation for the whistleblower system; and in addition to that, important compliance matters.

(ix) Other systems to ensure effective audits by the auditors:

The auditors will periodically exchange opinions with the President and accounting auditor, respectively. The Company will secure the opportunities for the auditors to interview any Executive Officer individually on the state of execution of his/her duties whenever and as long as necessary.

(x) Systems to secure the appropriateness of operations of MegaChips Corporation, as well as business activities of the MegaChips Group comprised of the Company and its subsidiaries:

The scope of application of the Company's internal control system includes the companies subject to consolidated accounting in order to optimize the business of the entire MegaChips Group. Each subsidiary will report periodically to the Company on the state of execution of business and its financial situation, etc., and the Company will confirm the appropriateness of the subsidiary operations at its Management Meeting and the meeting of the Board of Directors.

The Company will endeavor to recognize problems with compliance or problems with regard to the efficiency in executing employees' duties by conducting audit by its Internal Auditing Department periodically and exchanging information with the Compliance Committee whenever necessary.

(Outline of the state of operation for systems to secure the appropriateness of operations)

- The Company has developed and put in operation the internal control system of the Company and the subsidiaries in accordance with the "Basic Policy of Internal Control System of the MegaChips Group" resolved at the Board of Director meeting in regard to systems to secure the appropriateness of operations.
- The Company has instituted the Internal Auditing Department as a structure under the direct supervision of the President, independent from the lines of business execution, for investigation and assessment based on legitimacy and reasonableness of development and operation of the internal control system.
  The Internal Auditing Department devises an execution plan for internal audits covering all operations of the Company and its subsidiaries and conducts internal audit activities. In the activities, the Internal Auditing Department consults and coordinates with auditors and accounting auditor and endeavors to conduct an effective audit.
- State of activity and results of the internal audits are reported to the President and CEO as required on a weekly or monthly basis. Further, in particular, there are an obligation to report to the Board of Directors meeting on the assessment for internal control and the result of execution of audit work in each fiscal year.

(3) Basic policy on control of the Company

Although the basic policy on control of the Company has not been stipulated, the Company recognizes that the establishment of anti-takeover measures and the protection of the interests of all of its shareholders from abusive purchasers are important issues for the Company's management, and always collects information on recent trends on business takeovers.

Notes to Consolidated Financial Statements

1. Notes on important matters that are to become the basis for preparation of consolidated financial statements

(1) Matters concerning the scope of consolidation

(i) Situation of consolidated subsidiaries

・Number of consolidated subsidiaries:	9 companies
・Names of major consolidated subsidiaries:	The companies are Shun Yin Investment Ltd.; MegaChips Taiwan Corporation; MegaChips Corporation, China (Shenzhen); MegaChips LSI USA Corporation; and SiTime Corporation.
・Change in scope of consolidation:	MegaChips Technology America Corporation was excluded from the scope of consolidation as of the end of the current consolidated fiscal year under review due to its liquidation. Two subsidiaries of SiTime have been established and are included in the scope of consolidation from the current consolidated fiscal year under review.

(ii) Situation of non-consolidated subsidiaries

There are no non-consolidated subsidiaries.

(2) Matters concerning application of equity method

There are no companies to which the equity method is applicable or companies to which the equity method is not applicable.

(3) Matters concerning the fiscal years for consolidated subsidiaries

Of the consolidated subsidiaries, the closing dates of Shun Yin Investment Ltd., MegaChips Corporation, China (Shenzhen) and SiTime Corporation is December 31. In the preparation of consolidated financial statements, financial statements as of the respective closing dates are used. However, for important transactions occurring in the period from January 1, 2020 to the consolidated closing date, March 31, 2020, adjustments have been as required in the consolidation.

(4) Matters regarding accounting policies

(ii) Valuation standards and valuation methods for important assets

a. Securities

・Other securities

Securities with fair market value:	Fair market value method based on the market prices on closing date (the entire valuation gain and loss is processed using the method for entering directly in net assets, and the cost of sale is calculated based on the moving average method.)

Securities without fair market value: Recorded at cost using the moving average method With regard to the amount of investments in capital of investment partnerships, an amount equivalent to the amount of equity in the properties of the investment partnership is recorded as "investment securities" under investment and other assets. The amount of investments in capital of investment partnerships is recorded under "investment securities." An amount equivalent to the amount of equity in net profit and loss earned by investment partnerships is recorded under "non-operating income and expense." At the same time, the amount of "investment securities" is increased or decreased by the above amount. The amount of "investment securities" is also decreased by the amount of dividends from investment partnerships.

b. Inventories

・Work in process: Recorded at cost using the individual method for construction contracts and using the first-in first-out method for others (The amount shown on the balance sheet is based on the method for reducing book value due to a decline in profitability.)

・Other: Recorded at cost chiefly using the moving average method or the first-in first-out method (The amount shown on the balance sheet is based on the method for reducing book value due to a decline in profitability.)

(ii) Depreciation method for important depreciable assets

a. Property, plant and equipment

・Domestic: Chiefly the declining balance method
However, the straight-line method is applied to reticles used for LSI manufacturing.

・Overseas: Chiefly the straight-line method
The principal useful lives are 3 to 50 years for buildings and 2 to 20 years for tools, furniture and fixtures.

b. Intangible assets: Straight-line method
However, the straight-line method based on the depreciable life in business operations (3 to 7 years) is applied to technology assets; the straight-line method based on the period of possible use within the Company (chiefly, 3 to 5 years) is applied to software used by the Company. The straight-line method based on the period of possible sale (chiefly 3 years) is applied to software to be sold on the market.

c. Long-term prepaid expenses:

・Development expenses paid especially for the preparation of mass production: Straight-line method based on the period of possible sale (3 years)

・Others: Equal installment method

(iii) Standards for recording important provisions and allowances

a. Allowance for doubtful accounts:	In preparation for anticipated losses as a result of bad debts, the expected unrecoverable amount is recorded based on an actual bad debt ratio for general receivables, and by individually taking the possibility of collection into consideration for specified receivables, including loans that are likely to be unrecoverable.
b. Provision for bonuses:	In preparation for the payment of bonuses to employees, the expected amount of payment that should be borne in the consolidated fiscal year under review is recorded.
c. Provision for loss on construction contracts:	When the total cost of construction is likely to exceed total construction revenue and the amount can be reasonably estimated, the Company records any amount estimated to exceed the total construction revenue as a provision for loss on construction contracts.

(iv) Basis for recording significant revenue and expenses

Basis for recording revenue on construction contracts

・Construction contracts for which the outcome is deemed certain by the end of the consolidated fiscal year under review:	Percentage-of-completion method (the percentage of construction completed is estimated using the ratio of the actual cost incurred to the total estimated cost.)
・Other construction:	Completed contract method

(v) Matters regarding the amortization of goodwill and amortization period

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

(vi) Other important items for compiling consolidated financial statements

Accounting treatment of consumption tax	The tax-excluded method is used.

2. **Notes of changes in the presentation method**

At our overseas subsidiary, SiTime Corporation, which has adopted U.S. GAAP, the U.S. Accounting Standards Update (ASU) 2016-02, "Leases" has applied from the current consolidated fiscal year under review, and, as a general matter, all leases will be posted on the balance sheets.

As a result, the "other" of the investments and other assets at the end of the current consolidated fiscal year under review increased by ¥1,072,633 thousand and the "other" of noncurrent liabilities increased by ¥723,884 thousand. Further, the impact on the consolidated income for the current consolidated fiscal year under review has been insignificant.

3. **Notes on consolidated balance sheet**

(1) Amount of accumulated depreciation on property, plant and equipment ¥11,150,100 thousand

4. **Notes on consolidated statements of income**

(1) A reduction of book value due to a decline in the profitability of inventories held for the purpose of ordinary sale

Cost of sales ¥96,311 thousand

(2) Provision for loss on construction contracts included in the cost of sales ¥97,252 thousand

(3) Gain on liquidation of subsidiaries and affiliates

This was due to the reversal of foreign currency translation adjustments resulting from the liquidation of MegaChips Technology America Corporation, [the Company's] consolidated subsidiary.

(4) Details of impairment losses

Place	Use	Category	Amount
Makuhari Office (Chiba Prefecture)	Idle assets	Buildings and Land	¥271,134 thousand

The MegaChips Group groups idle assets by individual asset, taking into account the management accounting categories for which income and expenditure are continuously monitored.

Since a part of the Makuhari Office, which is the Company's joint assets, has become an idle asset, the book values of the building and land have been reduced to their respective recoverable amounts, and the reduced amount has been recorded as an impairment loss under extraordinary losses. This consists of ¥179,652 thousand for buildings and ¥91,482 thousand for land.

Further, the recoverable value of buildings and land is measured by the net realizable value, which is the appraisal value calculated by a real estate appraiser.

5. Notes on consolidated statements of changes in shareholders' equity

(1) Matters on type and total number of outstanding shares

Type of shares	Number of shares at beginning of the consolidated fiscal year under review	Increase in number of shares during the consolidated fiscal year under review	Decrease in number of shares during the consolidated fiscal year under review	Number of shares as of the end of the consolidated fiscal year under review
Common shares	23,038,400 shares	－	－	23,038,400 shares

(2) Notes on type and number of treasury shares

Type of shares	Number of shares at beginning of the consolidated fiscal year under review	Increase in number of shares during the consolidated fiscal year under review	Decrease in number of shares during the consolidated fiscal year under review	Number of shares as of the end of the consolidated fiscal year under review
Common shares	1,275,372 shares	48 shares	－	1,275,420 shares

(Notes) The number of treasury shares (common shares) increased by 48 shares with the acquisition of shares less than one unit.

(3) Notes on dividends of surplus

(i) Amount of dividends of surplus paid

Resolution	Type of share	Total amount of dividends (Thousands of Yen)	Dividend per share (yen)	Record date	Effective date
Meeting of the Board of Directors held on May 10, 2019	Common shares	369,971	17.00	March 31, 2019	May 31, 2019

(ii) Dividends for which the record date falls in the consolidated fiscal year under review, but the effective date falls in the following consolidated fiscal year

Resolution	Type of share	Total amount of dividends (Thousands of Yen)	Funds for dividends	Dividend per share (yen)	Record date	Effective date
Meeting of the Board Directors held on May 13, 2020	Common shares	369,970	Retained earnings	17.00	March 31, 2020	June 5, 2020

6. Notes on Financial Instruments

(1) Policies for the handling of financial instruments

To improve the efficiency with which funds are used while applying appropriate risk controls, the Company has adopted basic policies by which it concentrates the use of funds on its main business activities, refrains from speculative fund management, and invests in financial instruments only after the details of the products and risks involved are clearly understood by fully evaluating their 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, as well as bonds 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, but 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.

(2) 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 banks present almost no credit or liquidity risks as their credibility is very high and there is no security interest registered on them.

Notes and accounts receivable - trade (operating receivables) are exposed to the credit risk of customers. Furthermore, although ７７.１％of the operating receivables at the end of the consolidated fiscal year under review are from a specific major customer, we believe that the credit risk is extremely low from the perspective of business results and financial status.

Investment securities are categorized as other securities and consist mainly of stocks held for investment and investment securities held for maintaining partnerships. All of these investments have been made as present and future business partners and to collect information for future business development with the aim of improving corporate value and achieving other synergies. 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 shares are exposed to market risk, while unlisted shares may be impaired if the value of the issuing companies falls because of poor business performance or a deteriorating financial situation. Of all investment securities held as of the end of the consolidated fiscal year under review, the shares of invested companies held by the Company's subsidiaries accounted for 99.6%.

All accounts payable - trade and (operating debt) are due within one year.

Among borrowings, 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.

Accounts receivable - trade and accounts payable - trade 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 denominated in the same foreign currency.

(3) Risk management system for financial instruments

(i) Credit risk

Credit risk is defined as the risk of incurring losses as a result of a decline or loss 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 Division 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 strictly evaluates its assets in accordance with the accounting standards and other related rules for impairment and provisions as necessary.

(ii) 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 Division 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 as needed 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, the Company makes efforts to reduce risks of fluctuations in foreign exchange rates related to certain receivables and payables denominated in foreign currencies related to normal business transactions by managing such risks in accordance with foreign exchange risk management rules and using foreign exchange forward contracts and other derivatives when necessary.

(iii) 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 for incurring loss if the Company is 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.

(4) 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.

(5) 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, 2019are set forth in the tables below. Items whose fair market values were considered very difficult to determine are not presented in the tables. (See (Note) 2.)

	Consolidated balance sheet recorded amount (Thousands of Yen)	Market price (Thousands of Yen)	Difference (Thousands of Yen)
(i) Cash and deposits	17,255,431	17,255,431	－
(ii) Notes and accounts receivable - trade (*1)	23,656,524	23,656,524	－
(iii) Investment securities			
Other securities	3,048,749	3,048,749	－
(iv) Notes and accounts payable - trade	(7,317,139)	(7,317,139)	－
(v) Short-term loans payable	(4,491,960)	(4,491,960)	－
(vi) Accounts payable - other	(1,467,760)	(1,467,760)	－
(vii) Long-term loans payable (including current portion of long-term loans payable)	(24,000,000)	(24,019,479)	(19,479)

(*1) Allowance for doubtful accounts associated with notes and accounts receivable - trade has been deducted.

(*2) Items that are posted in liabilities are enclosed in parentheses.

(Note) 1. The calculation of the fair value of financial instruments and matters related to securities are as follows.

(i) Cash and deposits and (ii) notes and accounts receivable - trade

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

(iii) Investment securities …other securities

a. Market prices are at quoted market prices of the stock exchange for shares, etc.

b. These include securities which are included in investments in investment partnerships.

(iv) Notes and accounts payable - trade, (v) short-term loans payable and (vi) accounts payable - other

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

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

The fair market values are calculated by the present value based on the sum of principal and interest as discounted by the interest rates presumed in the case of new borrowings.

(Note) 2. The following are the financial instruments for which discerning the fair market value is recognized as being extremely difficult. Since their market price is not available and their future cash flow cannot be estimated, and, it is extremely difficult to estimate their fair market value, thus they are not included in "(iii) investment securities … other securities"

Category	Consolidated balance sheet recorded amount (Thousands of Yen)
Investment securities (unlisted shares)	10,713
Investment securities (other)	359
Investments and other assets (promissory notes)	1,850,110

(*) The above table includes securities which are included as investments in investment partnerships.

(Note) 3. Scheduled redemption amounts after the consolidated closing date for monetary claims are as follows.

Category	Within one year (Thousands of Yen)	More than 1 year and within 5 years (Thousands of Yen)
Cash and deposits	17,255,431	—
Notes and accounts receivable - trade	23,671,755	—
Investments and other assets (promissory notes)	—	1,850,110

(*) For investments and other assets (promissory notes), the final deadline is shown.

(Note) 4. The scheduled repayment amounts after the consolidated closing dates of interest-bearing debts are as follows:

Category	Within 1 year (Thousands of Yen)	More than 1year and within 2 years (Thousands of Yen)	More than 2 years and within 3 years (Thousands of Yen)
Short-term loans payable	4,491,960	—	—
Long-term loans payable (including current portion of long-term loans payable)	21,000,000	3,000,000	—

Category	More than 3 years and within 4 years (Thousands of Yen)	More than 4years and within 5years (Thousands of Yen)	More than 5 years (Thousands of Yen)
Short-term loans payable	—	—	—
Long-term loans payable (including current portion of long-term loans payable)	—	—	—

7. Notes concerning information per one share

(1) Net assets per share ¥1,289.72

(2) Losses per share (¥82.35)

8. Other notes

(1) Not applicable accounting standards, etc.

"Accounting Standards for Revenue Recognition" (Corporate Accounting Standards No. 29, March 31,2020)

"Accounting Standards for Revenue Recognition Application Guidelines" (Corporate Accounting Standards Application Guidelines No. 30, March 31,2020)

(i) Summary

Comprehensive accounting standards for revenue recognition. Revenue is recognized by applying the five steps below.

Step 1: Identify the agreement executed with the client.

Step 2: Identify the obligations to be performed under the agreement.

Step 3: Calculate the transaction price.

Step 4: Allocate the transaction price to each obligation for to be performed under that agreement.

Step 5: Recognize revenue after having performed each obligation, or as it is performed.

(ii) Application date

Scheduled for application from the beginning of fiscal year 2021.

(iii) Effect of application of accounting standards, etc.

The effect is being evaluated as the consolidated financial statements for the fiscal year under review are being prepared.

(2) Notes on transactions under common control

SiTime Corporation, the Company’s consolidated subsidiary, had an increase in capital through the issuance of new shares in connection with the listing on the NASDAQ Global Market on November 21, 2019 (U.S. local time).

(i) Outline of transaction

a. Name of company concerned

SiTime Corporation

b. Details of business of company concerned

Providing silicon timing solutions based on MEMS (Micro-Electro-Mechanical Systems).

c. Date of transaction

November 21, 2019

d. Other matters relating to the summary of transactions, including legal Form

This is a capital increase through the issuance of new shares (including an additional offering by the underwriters) in connection with the initial public offering.

As a result, the Company's shareholding ratio has changed from 100.0% to 66.9%.

(ii) Overview of accounting implemented

In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019), the transaction was treated as a transaction under common control.

(iii) Items relating to changes in the Company's equity in transactions with noncontrolling shareholders

a. Key factors for changes in capital surplus

Changes in equity resulted from the issuance of new shares by a third party other than the Company as an underwriter

b. Amount of capital surplus increase due to transactions with noncontrolling shareholders

¥3,110,988 thousand

(3) Notes concerning the company split

The MegaChips Group transferred the Smart Connectivity (DisplayPort) Divisions of MegaChips Technology America Corporation, a consolidated subsidiary located in the United States, and MegaChips Taiwan Corporation, a consolidated subsidiary located in Taiwan, to Kinetic Technologies pursuant to a business transfer agreement executed on November 26, 2019 (U.S. Pacific Time).

(i) Summary of the company split

a. Name and overview of split company

Company name	Kinetic Technologies
Head office location	PO Box 309, Ugland House, Grand Cayman, KY1-1104.
Name of representative	CEO Kin Edward Shum
Amount of capital	USD 12,826 thousand
Net assets	USD 19,278 thousand
Total assets	USD 29,522 thousand
Lines of business	Design, development and sales of high-performance analog and mixed-signal semiconductors for the personal electronics, industrial, communications fields as well enterprise markets.

(Note) The figures shown for the capital, net assets and total assets are as of the end of September 2019.

b. Details of split business

Provide a wide variety of converter ICs that enables interfaces between digital devices for PCs, game consoles, AV equipment, LCD monitors and other variety of equipment.

c. Main reason for business split

As part of the business restructuring to improve the sustainable growth and management efficiency of the entire MegaChips Group, the Smart Connectivity (DisplayPort) Divisions were transferred to Kinetic Technologies.

By doing this, the MegaChips Group intends to put the focus of its management resources on growth areas, such as in-vehicle devices, industrial equipment, and 5G telecommunications infrastructure, to strengthen medium- and long-term measures.

d. Date of business split

December 12, 2019

e. Other matters relating to the summary of transactions, including the legal form

The consideration to be received for the business transfer consists of USD 8,000 thousand in cash and USD 17,000 thousand in promissory notes (mainly, mature in three years).

(ii) Overview of accounting treatment used

a. Amount of transferred profits/losses

Loss on transfer of business ¥2,092,466 thousand

b. Proper book value of assets and liabilities concerning the transferred business and a basic breakdown

Current assets ¥1,179,973 thousand
Non-current assets ¥3,310,222 thousand
Current liabilities ¥553,271 thousand
Non-current liabilities ¥8,719 thousand

c. Accounting treatment

The difference between the consideration received as a result of the transfer and the assets and liabilities of the transferred business is recognized as gain or loss on transfer.

(iii) Approximate amounts of profits and losses of split business reflected in the consolidated statement of income for the current consolidated fiscal year under review

Net sales: ¥3.5 billion
Operating loss: ¥300 million

(iv) Details of conditional consideration set forth in the business transfer agreement and accounting policy

a. Details of conditional consideration

Promissory notes (mature in three years)

Adjustments are made based on the actual gross profit of the subject business for the years 2020 (calendar year) and 2021 (calendar year).

b. Accounting policy

Conditional consideration is not included in the consideration received due to the collection risk. Additional transfer proceeds will be recognized as income when they are generated.

(4) Others

The figures shown have been rounded down to the nearest one thousand yen.