Securities Code: 6875
June 3, 2021

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 31st Annual General Meeting of Shareholders

The written information that should be provided for notice of the 31st 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 31st fiscal year (from April 1, 2020 to March 31, 2021):
   (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 31st fiscal year (from April1, 2020 to March 31, 2021)
3. Individual notes to Non-Consolidated Financial Statements for the 31st fiscal year (from April 1, 2020 to March 31, 2021)

Business Report

(from April 1, 2020 to March 31, 2021)

1. Current status of the MegaChips Group

(1) Major businesses (as of March 31, 2021)

The MegaChips Group is comprised of the Company (MegaChips Corporation), 3 subsidiaries and 1 affiliated company, and provides total solutions from design and development up to production of LSI leveraging its original analog/digital 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 and analog front-end LSIs for wired communications. The products are designed and developed by the Company and its subsidiaries, are manufactured by outsourcing to large domestic and offshore foundries for manufacturers, and sold by the Company and its subsidiaries.

(2) Major business locations (as of March 31, 2021)

(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 (Taipei, Taiwan)
MegaChips LSI USA Corporation	Head office (Campbell, California, U.S.A.)

(3) Current situation of employees (as of March 31, 2021)

(i) Situation of employees of the MegaChips Group

Number of employees	Increase or decrease compared to previous consolidated financial year
379 employees	Decrease of 209 employees

(Note) There was a decrease of 209 employees compared to the end of the previous consolidated fiscal year. This is primarily attributable to the exclusion of SiTime Corporation from the scope of consolidation as a result of its becoming an affiliate company due to a decrease in the Company's shareholder ratio..

(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
355 employees	Decrease of 29 employees	44.6 years of age	8.6 years

(4) Current situation of major lenders (as of March 31, 2021)

Lender	Amount borrowed (in Japanese Yen)
MUFG Bank, Ltd.	2,000 million
The Bank of Tokyo-Mitsubishi UFJ, Ltd. Syndicate Loan	1,790 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. The financial institutions participating in the syndicated loan from The Bank of Tokyo-Mitsubishi UFJ, Ltd. are The Iyo Bank, Ltd., MUFG Bank, Ltd. (formerly, Mitsubishi UFJ Trust and Banking Corporation), Resona Bank Ltd., The Bank of Kyoto, Ltd., The Nanto Bank, Ltd., The Kiyo Bank, Ltd., The San-in Godo Bank, Ltd., The Juhachi-Shinwa Bank, Ltd. (formerly, The Eighteenth Bank, Ltd.), The Chiba Bank, Ltd., The Hachijuni Bank, Ltd., The Fukui Bank, Ltd., and The Hyakujushi Bank, Ltd..

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:	¥71,200 thousand
Total amount of money and other property benefits payable to the accounting auditor by the Company and its subsidiaries:	¥71,800 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 ofthe 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 lightof the “Practical Guidelines for Coordination with Accounting Auditors” published by the Japan Audit & Supervisory Board Members Association.

(iii) Details of non-audit work

The Company has entrusted the confirmation of English translations of consolidated financial statements and audit reports to financial auditors, for which the Company has paid consideration.

(iv) 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:

［Establishing an internal control system]

The Company establishes and operates its internal control system based on the “Basic Policy on Internal Control System of MegaChips”, which was decided by the Board of Directors. The Board of Directors periodically checks and supervises the operation of the internal control system.

[Systems to ensure the appropriateness of operations]

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

With the expectation of a checking function to ensure the transparency and objectivity of management and the legality of the respective performance of duties by the Directors and Executive Officers, etc., we actively welcome Outside Directors and Outside Auditors with independent perspectives who will monitor the execution of business from an outside perspective.

The Representative Director will strive to convey the message that compliance is a prerequisite for corporate activities while simultaneously establish and operate an internal control system and continuously improve its functions in order to promote the creation of a corporate environment where the business can be appropriately carried out.

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

The Company will store and manage information related to the performance of duties and business execution of Officers and employees in accordance with regulations that stipulate the rules concerning the storage of internal corporate documents. In addition, the Company will establish a system capable of responding to requests from Officers and accounting auditors to view information as needed in order for them to understand the status of business execution and collect information relating to audits.

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

The Company will promote rule-based risk management to recognize, assess and handle risks that may have a significant impact on management in a timely and appropriate manner. The Internal Audit Department will periodically evaluate the appropriateness, effectiveness, and efficiency of each department's situation with respect to business execution and risk management and will also give instructions and advice about identifying and mitigating risks.

In addition, the Company will establish a system for the appropriate disclosure of information by providing for a regulatory framework for the dissemination of information if an event that may have a material impact on management occurs. In addition, the Company will establish an internal reporting system that ensures the protection of whistleblowers that enables the Company to respond quickly to inappropriate conduct.

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

In its line of business execution, the Company will ensure the efficient execution of their duties by the Directors by creating a system in which the control and monitoring function appropriately as follows.

A. The Company will establish regulations concerning the division of duties, authority, and committee meeting structure and will establish a structural system in which the exercise of official authority and decision-making by Directors and employees can be carried out appropriately and effectively based on rules.

B. The President & CEO will share the Company's management philosophy, management principles, code of conduct, and the Company's stated mission with the Officers and employees and will manage the organization based on these principles.

C. The President & CEO will set company-wide targets in a Mid-Term Management Plan each fiscal year and will raise awareness about achieving these targets. In addition, in order to give form to the Medium-Term Management Plan, the President & CEO will decide about how to allocate management resources and will determine the performance targets and budgets for each business division each fiscal year.

D. The Company will carry out effective organizational management and adopt an executive officer system in order to improve the effective function of the Board of Directors by separating the decision-making and monitoring functions of the Directors from the business execution function.

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

A monitoring system independent of the line of business execution will be established as follows to ensure the lawfulness of the employees' execution of their duties.

A. The Company will establish an internal reporting system that allows employees to directly provide information when they discover risks or signs of risks in the execution of their duties or misconduct by other employees. The system will be operated in accordance with regulations that prohibit any disadvantageous treatment of whistleblowers.

B. When information is received through the whistleblower system, the Company will investigate the factual background in accordance with the regulations, make recommendations for cessation of violations of laws and regulations, etc., if necessary, and consider measures to prevent recurrence.

C. If an act is deemed a violation of laws or regulations, etc., a report will be submitted to the President & CEO about the cause and preventives measures.

(vi) Systems to ensure the appropriate operations of the corporate group consisting of the Company, its parent company and subsidiaries, etc.:

The entire MegaChips Group, including its subsidiaries, will be subject to the internal control system to ensure appropriate operations. The Company will be regularly updated about the status of the business execution, financial conditions, and the like through reports from each subsidiary, and the appropriateness of the business operations will be confirmed at meetings of the Company's Board of Directors and the Management Meeting.

In addition, the Internal Audit Department will periodically conduct internal audits of subsidiaries, among other entities, in which it will strive to identify compliance issues and problems in business execution.

(vii) Matters concerning employees to assist the auditors to execute their duties when auditors request the assignment thereof and matters concerning such employees, and matters concerning the independence of such employees from Directors:

Although no employees are permanently assigned to assist the Auditors or the Board of Auditors, the Company will handle these matters by consultations with the Auditors prior to the commencement of an operational audit. In addition, at the request of the Auditors, the Company will provide the Auditors with an opportunity for advice from accounting auditors or outside experts and will ensure a system that allows the Auditors to give instructions and orders to employees during an audit. Sufficient consideration will be given to the independence of the employees who will be given instructions and orders from the Auditors from the parties who are subject to the audit.

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

When requested to provide information on matters necessary for the execution of duties by the Auditors, the Directors and employees will promptly report the relevant information. In addition, the Company will ensure that the Auditors have the opportunity to obtain, at meetings of the Board of Directors and other important meetings, in addition to legally required matters, important information regarding the status of internal audits, compliance by Directors and employees with laws and regulations, and risks to corporate management and business operations.

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

In order to improve the effectiveness of audits by the Auditors, the Company will ensure that the Auditors have the opportunity to exchange opinions with President & CEO and accounting auditors on a regular basis, and to hear from Executive Officers and others about the status of business execution at the request of the Auditors. In addition, the Company will confirm the appropriateness of the business execution and the status of compliance with laws and regulations by receiving reports from the Internal Audit Department on the results of internal audits and the status of implementation of internal audits.

〔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, the subsidiaries and others in accordance with the “Basic Policy of Internal Control System of the MegaChips” resolved at the Board of Director meeting in regardto 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, itssubsidiaries and others to 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	3 companies
・Names of major consolidated subsidiaries	The companies are Shun Yin Investment Ltd.; MegaChips Taiwan Corporation; and MegaChips LSI USA Corporation.
・Change in scope of consolidation	SiTime Corporation was excluded from the scope of consolidation in the current consolidated fiscal year and was included in the scope of application of the equity method since it became an affiliate company due to a decrease in the Company's shareholder ratio as the result of the Company's sale of a portion of its shares in SiTime Corporation and the issuance of new shares of SiTime Corporation. MegaChips Corporation, China has been excluded from the scope of consolidation from the current consolidated fiscal year due to the completion of its liquidation procedures.

(ii) Situation of non-consolidated subsidiaries

There are no non-consolidated subsidiaries.

(2) Matters concerning application of equity method

(i) Status of equity-method companies

・Number of equity-method companies	1 company
・Names of equity-method companies	SiTime Corporation
・Matters to be specifically notes about procedures for applying the equity-method	The closing date of SiTime Corporation is December 31. In preparing the consolidated financial statements, the financial statements as of the closing date are used.

(ii) Status of non-equity-method companies

There are no non-equity-method companies.

(3) Matters concerning the fiscal years for consolidated subsidiaries

Of the consolidated subsidiaries, the closing dates of Shun Yin Investment Ltd. 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, 2021 to the consolidated closingdate, March 31, 2021, adjustments have been as required in the consolidation.

(4) Matters regarding accounting policies

(i) 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 constructioncontracts:	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. Change in reporting method

Application of the “Accounting Standard for Disclosures of Accounting Estimates”

The “Accounting Standard for Disclosures of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) has been applied to the consolidated financial statements and documents starting from the end of the current consolidated fiscal year and notes regarding significant accounting estimates are included in the consolidated financial statements.

3. Notes on significant accounting estimates

(Valuation of goodwill included in shares of subsidiaries and associates)

(1) Amount recorded in the consolidated financial statements for the current consolidated fiscal year

In the consolidated balance sheet for the current consolidated fiscal year, ¥11,958,131 thousand of shares of subsidiaries and associates related to SiTime Corporation, a listed company in the U.S. that is an equity-method affiliate, includes ¥1,941,540 thousand of goodwill, which is the difference between the investment and the capital.

(2) Other information that helps understand the details of accounting estimates

The goodwill is amortized on a straight-line basis over 10 years. However, the need to recognize an impairment loss is assessed by comparing the amount calculated by multiplying the undiscounted future cash flow from the shares of subsidiaries and associates of SiTime Corporation by the equity ratio with the carrying amount of the shares of subsidiaries and associates. If it is determined that an impairment loss needs to be recognized, the carrying amount of the shares of subsidiaries and associates will be reduced to its recoverable amount, and the reduction in the carrying amount will be recorded as shares of loss of entities accounted for using equity method. The recoverable amount uses the net sales value calculated based on SiTime’s Corporation's stock price.

As for the goodwill, although there are indications of impairment as the operating revenue and expenses after amortization of goodwill of SiTime Corporation has been negative continuously, the Company determined that an impairment loss does not need to be recognized as the share price of SiTime Corporation has remained at a high level and the recoverable amount has exceeded the carrying amount of the shares of subsidiaries and associates.

4. Notes on consolidated balance sheet

(1) Amount of accumulated depreciation on property, plant and equipment ¥8,285,747 thousand

5. 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 ¥15,567 thousand

(2) Provision for loss on construction contracts included in the cost of sales ¥34,934 thousand

(3) Gain on sales of shares of subsidiaries and associates

This was due to a capital increase by new shares at market price by SiTime Corporation, an affiliate company, and the sale by the Company of a portion of its shares in SiTime Corporation. The Company recorded ¥3,627,111 thousand for the June 2020 sale of SiTime Corporation’s shares and ¥22,760,630 thousand for the February 2021 sale of the shares.

A gain on sales of shares of subsidiaries and associates includes, in addition to gains from the sale of shares, gains due to a change in equity ratio of shares owned by the Company arising from SiTime Corporation’s capital increase.

(4) Gain on change in equity

This is due to a change in the Company's equity in SiTime Corporation, an affiliate company, in connection with SiTime Corporation’s issuance of new shares.

(5) Gain on transfer of business

This is attributable to the confirmed appraised value relating to the transfer of the Smart Connectivity (DisplayPort) business carried out in the previous consolidated fiscal year.

(6) Details of impairment losses

Place	Use	Category	Amount
Makuhari Office (Chiba Prefecture)	Idle assets	Buildings and Land (Investments and other assets)	¥317,521 thousand
MegaChips LSI USA Corporation (California, U.S.)	Idle assets	Buildings, etc. (tools, furniture and fixtures)	¥386,456 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 Company’s Makuhari Office has become an idle asset, the Company decided to sell a part of that asset in the first quarter of the current consolidated fiscal year and the remaining portion of that asset in the fourth quarter of the current consolidated fiscal year. As a result, the carrying amount of the fixed assets was reduced to their recoverable amount, and the reduced amount was recorded as an impairment loss under extraordinary losses. The breakdown is ¥155,468 thousand for buildings, ¥57,207 thousand for land, and ¥104,844 thousand for other (investments and other assets). The recoverable amount is determined based on the net sales value, using the expected sales price as the net sales value.

In addition, MegaChips LSI USA Corporation, a consolidated subsidiary, relocated its office in order to improve the efficiency of its business location. As a result, since the assets became idle assets, the carrying amount of the fixed assets was reduced to their recoverable amount, and the reduced amount was recorded as an impairment loss under extraordinary losses. The breakdown is ¥349,826 thousand for buildings and ¥36,630 thousand for other (tools, furniture and fixtures). The recoverable amount is estimated to be zero because the assets are difficult to convert or sell.

Since MegaChips LSI USA Corporation's office lease contracts were expected to be taken over by a new lessee, the related estimated expenses of ¥191,574 thousand were recorded as a loss on transfer of lease contracts under extraordinary losses.

(7) Loss on liquidation of subsidiaries and associates

This was due to the completion of the liquidation procedures of MegaChips Corporation, China, a consolidated subsidiary.

(8) Loss on liquidation of business

This is due to the new development of timing controller LSIs for liquid crystal panels and the cessation of orders for major products. The breakdown is ¥131,467 thousand for loss on valuation of inventories and ¥28,845 thousand for extra retirement payments.

6. 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	1,275,420 shares	111 shares	—	1,275,531 shares

(Notes) The number of treasury shares (common shares) increased by 111 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 13, 2020	Common shares	369,970	17.00	March 31, 2020	June 5, 2020

(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 14, 2021	Common shares	1,741,029	Retained earnings	80.00	March 31, 2021	June 4, 2021

7. 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 84.4%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 98.1%.

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 comprises mainly funds borrowed to finance investment in businessactivities.

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 valueand the financial condition of issuing companies. It also regularly reviews its investment policies by obtaining information aboutbusiness plans and other relevant matters. The Finance Department also monitors trends in interest rates, foreign exchange ratesand 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 at the end of the current consolidated fiscal year are set forth in the tables below. Items whose fair market values were considered very difficult todetermine 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	21,407,837	21,407,837	—
(ii) Notes and accounts receivable - trade (*1)	23,070,052	23,070,052	—
(iii) Investment securities			
Shares of subsidiaries and associates	11,958,131	65,496,036	53,537,904
Other securities	3,522,998	3,522,998	—
(iv) Notes and accounts payable - trade	(9,486,207)	(9,486,207)	—
(v) Short-term loans payable	(2,000,000)	(2,000,000)	—
(vi) Accounts payable - other	(1,572,606)	(1,572,606)	—
(vii) Long-term loans payable (including current portion of long-term loans payable)	(2,790,000)	(2,796,923)	(6,923)

(*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 … shares of subsidiaries and associates and 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) 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)	66,133
Investment securities (other)	955
Investments and other assets (promissory notes)	1,882,070

(*) 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	21,407,837	—
Notes and accounts receivable - trade	23,071,412	—
Investments and other assets (promissory notes)	—	1,882,070

(*) 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	2,000,000	—	—
Current portion of long-term loans payable	2,790,000	—	—

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	—	—	—
Current portion of long-term loans payable	—	—	—

8. Notes concerning information per one share

(1) Net assets per share ¥2,299.49

(2) Profits per share ¥961.28

9. 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 relating to business divestitures

The Company sold a part of its shares in SiTime Corporation, a consolidated subsidiary located in the U.S., through a secondary offering of shares on June 16, 2020 (U.S. local time). In addition, SiTime Corporation increased its capital by issuing new shares on the same day. As a result, SiTime Corporation was changed from a consolidated subsidiary to an equity-method affiliate.

(i)Name and outline of the subsidiary

A. Name and outline of the subsidiary

Name	SiTime Corporation
Location	5451 Patrick Henry Drive, Santa Clara, California 95054 U.S.A.
Name of representative	CEO Rajesh Vashist
Amount of capital	USD $1,000
Net assets	USD $62,140 thousand
Total assets	USD $123,391 thousand
Relationship to the Company	There are transactions such as the purchase of products.

(Note) The above information is current s of December 31, 2019.

B. Details of the subsidiary's business

The subsidiary provides silicon timing solutions based on MEMS (Micro-Electro-Mechanical Systems).

C. Main reason for the sale of shares

Amidst the rapid changes in the business environment surrounding the MegaChips Group, the Company has decided to sell a portion of its shares in SiTime Corporation after much deliberation with a view to the future growth of the Company and SiTime Corporation.

As a result, the MegaChips Group has concentrated its management resources on the system LSI businesses targeting, among others, the fields of automotive, industrial equipment, and 5G telecommunications infrastructure, where future growth is expected, thereby strengthening its measures for sustainable growth in the medium and long term. At the same time, SiTime Corporation, by becoming an affiliated company of the Company, will enhance its management independence and promote its own growth strategy in the timing device market, with the aim of increasing the corporate value of both SiTime Corporation and the Company going forward.

D. Date of sale of shares and date of issuance of new shares

June 16, 2020 (U.S. local time)

E. Other matters concerning the outline of the transaction, including its legal form

(Offering of SiTime Corporation shares owned by the Company)

Number of shares sold: 2,500,000 shares

Sales price: US$32 per share

Total sales price: US$80 million

(SiTime Corporation's newly issued shares)

Number of shares issued: 1,525,000 shares

Issue price: US$32

Total amount paid: US$48 million

(Number and percentage of SiTime Corporation's shares held by the Company)

Prior to the change: 10,000,000 shares, 66.4% (as of March 31, 2020)

After the change: 7,500,000 shares, 45.2%

(ii) Summary of accounting treatment carried out

A. Amount of gain or loss on transfer

Gain on sales of shares of subsidiaries and associates ¥3,627,111 thousand

Gains on the sales of shares of subsidiaries and associates include gains from the sales of shares in SiTime Corporation as well as gains from changes in the Company’s equity ratio arising from SiTime Corporation’s capital increase.

B. Fair carrying amount of assets and liabilities related to the transferred business and their major breakdown:

Current assets	¥16,407,267 thousand
Fixed assets	¥2,529,484 thousand
Current liabilities	¥6,775,223 thousand
Non-current liabilities	¥1,477,278 thousand
Goodwill	¥7,535,681 thousand
Technical assets	¥2,301,365 thousand

C. Accounting treatment

The sale of the shares was treated as a business divestiture for accounting purposes in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, (revised) January 16, 2019) and the Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, (revised) January 16, 2019).

(iii) Name of reporting segments in which the subsidiary is included

The Group's main business is to provide total solutions, from design, development to production, for LSIs and MEMS timing devices using its proprietary analog, digital, and MEMS technologies. The Group’s subsidiaries are included in this single business segment.

(iv) Estimated amount of gain and loss relating to the subsidiary recorded in the consolidated statement of income for the current consolidated fiscal year:

Net sales	¥2.2 billion
Operating loss	¥500 million

(3) Others

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

Individual notes to Non-Consolidated Financial Statements

1. Notes on matters related to significant accounting policies

(1) Valuation standards and valuation methods for securities

(i) Shares of subsidiaries and related companies — Recorded at cost using the moving average method

(ii) 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.

(2) Valuation standards and valuation methods for inventory

(i) Finished goods/raw materials: 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) 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.)

(3) Depreciation method for non-current assets

(i) Property, plant and equipment — Chiefly the declining balance method
However, the straight-line method is applied to reticles used for KSI manufacturing.

The principal useful lives are 3 to 50 years for buildings and 2 to 20 years for tools, furniture and fixtures.

(ii) Intangible assets: Straight-line method
However, 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.

(iii) 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)

・Other — Equal installment method

(4) Standards for recording provisions and allowances

(i) 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.
(ii) Provision for bonuses:	In preparation for the payment of bonuses to employees, the expected amount of payment that should be borne in the fiscal year under review is recorded.
(iii) 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.

(5) Basis for recording revenue and expenses

Basis for recording revenue on construction contracts

・Construction contracts for which the outcome is deemed certain by the end of the 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

(6) Other matters that are to become the basis for preparation of financial statements

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

2. Change in reporting method

(Application of the "Accounting Standard for Disclosures of Accounting Estimates")

The "Accounting Standard for Disclosures of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) has been applied to the consolidated financial statements and documents starting from the end of the current consolidated fiscal year and notes regarding significant accounting estimates are included in the consolidated financial statements.

3. Notes on significant accounting estimates

(Valuation of accounts receivable included in investments and other assets)

(1) Amount recorded in the consolidated financial statements for the current consolidated fiscal year:

In the balance sheet for the current fiscal year, accounts receivable of ¥1,936,539 thousand transferred from MegaChips Technology America Corporation ("MCA"), a consolidated subsidiary that was liquidated in March 2020, is included in "other" under "investments and other assets". This account receivable is the consideration received when MCA transferred its Smart Connectivity business to Kinetic Technologies, Inc. ("Kinetic") in December 2019 which is primarily comprised of certificates of payment with a maturity of three years.

A portion of the accounts receivable includes ¥441,290 thousand of conditional consideration received, the recovery amount of which fluctuates depending on the actual gross profit for the fiscal years ending December 31, 2020 and December 31, 2021, respectively from the business transferred to Kinetic. The consideration received is not included in accounts receivable in the consolidated financial statements in consideration of the recovery risk.

(2) Other information that helps to understand the details of the accounting estimates

Based on the Accounting Standard for Financial Instruments, when the recoverable amount of the accounts receivable is less than the carrying amount of the accounts receivable, the difference is recorded as a provision of allowance for doubtful accounts (the portion that is definitely unrecoverable is recorded as bad debts expenses).

The measurement of the recoverable amount is subject to uncertainties in the forecast of Kinetic's business performance, and the recoverable amount will fluctuate depending on the impact of these uncertainties. In the current fiscal year, as a result of the re-estimation of the relevant accounts receivable, the recoverable amount was lower than the carrying amount, so the Company recorded a provision of allowance for doubtful accounts of ¥453,915 thousand and bad debts expenses of ¥333,104 thousand.

4. Notes on balance sheet

(1) Amount of accumulated depreciation on property, plant and equipment ¥8,260,770thousand

(2) Monetary claims against associates

Short-term monetary claims ¥1,759thousand

(3) Monetary claims against associates

Short-term monetary claims ¥108,886thousand

5. Notes on 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 ¥12,041thousand

(2) Provision for loss on construction contracts included in the cost of sales ¥34,934thousand

(3) Volume of transactions with associates

Volume of transactions due to business transactions ¥3,393,216thousand

Volume of transactions due to transactions other than business transactions ¥67,738thousand

(4) Gain on sales of shares of subsidiaries and associates

This is due to the sale of a portion of the Company's shares in SiTime Corporation, an affiliate company.

(5) Gain on transfer of business

This is due to the finalization of the valuation related to the transfer of the Smart Connectivity (DisplayPort) business conducted in the previous fiscal year.

(6) Loss on liquidation of subsidiaries and associates

This is due to the completion of liquidation procedures of MegaChips Corporation, China, a consolidated subsidiary.

(7) Loss on liquidation of business

This is a loss on valuation of inventories due to the new development of timing controller LSIs for liquid crystal panels and the cessation of orders for major products.

(8) Loss on transfer of lease contract

This is a loss borne by the parent company in connection with the transfer of the office lease contract of MegaChips LSI USA Corporation, a consolidated subsidiary, to a new lessee.

6. Notes on statements of changes in shareholder's equity

Matters on type and number of treasury shares

Type of shares	Number of shares at beginning of the fiscal year under review	Increase in number of shares during the fiscal year under review	Decrease in number of shares during the fiscal year under review	Number of shares as of the end of the fiscal year under review
Common shares	1,275,420 shares	111 shares	—	1,275,531 shares

(Notes) 1. The number of treasury shares (common shares) increased by 111 shares with the acquisition of shares less than one unit.

7. Notes on deferred tax accounting

Breakdown of major factors giving rise to deferred tax assets and liabilities

Deferred tax assets	
Allowance for doubtful accounts	¥140,846thousand
Provision for bonuses	¥201,668 thousand
Provision for loss on construction contracts	¥5,011 thousand
Accrued enterprise tax	¥328,833 thousand
Accrued legal welfare expenses	¥33,112 thousand
Loss on valuation of inventories	¥93,549 thousand
Loss on retirement of non-current assets	¥228,202 thousand
Excess depreciation of software, etc.	¥593,781 thousand
Excess depreciation of long-term prepaid expenses	¥339,003thousand
Impairment loss	¥113,589 thousand
Loss on valuation of investment securities	¥85,225 thousand
Other	¥130,615 thousand
Subtotal deferred tax assets	¥2,293,440 thousand
Valuation allowances	(¥292,099) thousand
Total deferred tax assets	¥2,001,340 thousand
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(¥325) thousand
Total deferred tax liabilities	(¥325) thousand
Net deferred tax assets	¥2,001,015 thousand

8. Notes on transactions with related parties

Subsidiaries and associates, etc. of the Company

Category	Name of company, etc.	Location	Capital stock or investment in capital	Content of business or occupation	Ratio of voting rights held by the Company (by the related party)	Relationship with related party	Description of transactions	Transaction amount (Thousands of Yen)	Account	Balance at end of the fiscal year (Thousands of Yen)
Subsidiary	MegaChips LSI USA Corporation	Campbell, California, US	USD$3,000	Semiconductor development, marketing, and sales support	100.0%	Acceptance of services Holding office of directorate concurrently	Underwriting of capital increase	4,037,500	Affiliated company	4,372,900

(Note) The underwriting of the capital increase of MegaChips LSI USA Corporation was due to the underwriting of the capital increase conducted by this subsidiary.

9. Notes concerning information per one share

(1) Net assets per share ¥2,212.66

(2) Profit per share ¥621.00

10. Other notes

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