

Brief Statement of Accounts (Japanese Accounting Standards) for the First Three Quarters of the Year Ending March 31, 2016 (Consolidated)

January 29, 2016

MegaChips Corporation

Code number: 6875

Representative: Akira Takata, President and CEO

Contact: Masayuki Fujii, Senior Managing Director, Officer,
and General Manager of the Corporate Control Division

Listed exchange: TSE

<http://www.megachips.co.jp/>

Tel: +81-6-6399-2884

Scheduled date for submission of quarterly report: February 9, 2016

Scheduled date of start of payment of dividends: -

Supplementary documents for quarterly results: Yes

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

(Amounts less than one million yen are omitted)

1. Consolidated operating results for the first three quarters of the year ending March 31, 2016

(From April 1, 2015 to December 31, 2015)

(1) Consolidated operating results (Figures in % refer to change from the same period a year earlier)

	Net sales		Operating income		Ordinary income		Profit Loss Attributable To Owners Of Parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First three quarters of the year ending March 31, 2016	43,471	-14.4	197	-95.2	556	-82.2	-418	-
First three quarters of the year ended March 31, 2015	50,807	8.7	4,122	6.1	3,125	-20.7	1,552	-68.3

(Note) Comprehensive income: -1,452 million yen (-%) for the first three quarters of the year ending March 31, 2016
2,447 million yen (-53.0%) for the first three quarters of the year ended March 31, 2015

	Net income per share	Net income per share (fully diluted)
	Yen	Yen
First three quarters of the year ending March 31, 2016	-18.73	-
First three quarters of the year ended March 31, 2015	68.87	-

(2) Consolidated financial condition

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
First three quarters of the year ending March 31, 2016	77,414	30,142	38.8	1,342.74
Year ended March 31, 2015	77,830	32,355	41.3	1,438.09

(Reference) Shareholders' equity: As of the first three quarters of the year ending March 31, 2016: ¥30,008 million
Year ended March 31, 2015: ¥32,139 million

2. Dividends

	Dividend per share				
	First quarter -end	Second quarter- end	Third quarter -end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2015	-	-	-	34.00	34.00
Year ending March 31, 2016	-	-	-		
Year ending March 31, 2016 (forecast)				34.00	34.00

(Note) Revisions made to the forecasts dividend published most recently: Yes

We pay dividends once per year based on the dividend policy, using the year-end date as the record date. Amount of dividends paid is determined as equivalent to more than 30% of consolidated net income for the year taking medium-term business condition into consideration.

3. Forecast of consolidated operating results (from April 1, 2015 to March 31, 2016)

(Figures in % indicate change from the corresponding period of the year ended March 31, 2015)

	Net sales		Operating income		Ordinary income		Profit Loss Attributable To Owners Of Parent		Net income per share
Full-year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	56,000	-12.8	-500	—	100	-97.1	-900	—	-40.27

(Note) Revisions to operating results forecasts published most recently: Yes

* Notes

(1) Changes in key subsidiaries during the term

(changes in specific subsidiaries resulting in changes in the scope of consolidation): None

New: —

Exception: —

(2) Adoption of unique accounting method to the preparation of quarterly consolidated financial statements: Yes

(Note) For details, please refer to the Accompanying Materials, Page 4, 2. Matters Relating to Summary Information (Notes).

(3) Changes in accounting policies and changes or restatement of accounting estimates:

1) Changes in accounting policies due to revised accounting standards: Yes

2) Changes in accounting policies other than that described above: Yes

3) Changes in accounting estimates: None

4) Restatement: None

(Note) For details, please refer to the Accompanying Materials, Page 4, 2. Matters Relating to Summary Information (Notes).

(4) Number of shares outstanding (common stock)

1) Number of outstanding shares at the end of the period (including treasury stock)

First three quarters of the year ending March 31, 2016 24,038,400 shares

Year ended March 31, 2015 24,038,400 shares

2) Number of shares of treasury stock at the end of the period

First three quarters of the year ending March 31, 2016 1,689,450 shares

Year ended March 31, 2015 1,689,450 shares

3) Average number of shares outstanding during the period (or the cumulative consolidated accounting period as of the end of the term)

First three quarters of the year ending March 31, 2016 22,348,950 shares

First three quarters of the year ended March 31, 2015 22,539,407 shares

* Status of quarterly review

This financial summary does not need to undergo a quarterly review under the Financial Instruments and Exchange Act. The quarterly consolidated financial statements under the Financial Instruments and Exchange Act have not been reviewed at the time of the announcement of this financial summary.

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

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

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

(Method to acquire supplementary documents for quarterly results)

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

Accompanying Materials – Contents

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1. Qualitative Information on the Consolidated Operating Results for the First Three Quarters of the Year Ending March 31, 2016

(1) Explanation of consolidated operating results

In the electronic machinery and equipment industry in which the MegaChips Group operates, although demand for consumer electronic equipment declined, that for electronic parts and devices increased. Consequently, the entire electronic machinery and equipment market grew on a year-on-year basis.

In the ASIC business, the Group provides optimal solutions for customers' equipment and service applications for major customers both inside and outside of Japan, mainly in the areas of game consoles and digital cameras, office machines. The Group's competitiveness lies in its ability to harness its deep understanding of customers' applications and unique technologies to offer the development and supply of system LSIs incorporating original algorithms and architecture and offering outstanding performance and cost competitiveness through an integrated support system that covers all aspects from upstream logical design to downstream physical design, manufacturing operations and quality assurance.

To respond to changes in the market environment in Japan and overseas and to achieve further growth, taking advantage of the advent of IoT, the Group has launched an ASSP business for major global companies in growing device markets and is working to restructure its business portfolio. The Group is expanding its product lineup, primarily products in the IoT fields, which will constitute platforms. Meanwhile, to expand business relationships with major global companies in growing device markets, the Group is endeavoring to cultivate human resources that can work globally and is promoting changes in its businesses and earnings structure.

During the consolidated cumulative third quarter under review, the demand for ASSP products including the Smart Connectivity (DisplayPort) and MEMS timing devices, which the Group is focusing on as a new growth field progressed steadily. In contrast, demands of LSIs for game software storage (custom memories), liquid crystal panels and digital video monitoring systems for security and monitoring applications declined. Consolidated net sales stood at ¥43,471 million (down 14.4 year on year). Expenses of ¥2,898 million arose from the amortization of goodwill and intangible assets associated with aggressive acquisitions of overseas companies, and operating income came to ¥197 million (down 95.2% year-on-year). Ordinary income was ¥556 million (down 82.2%). The loss attributable to owners of parent was ¥418 million (compared with a profit attributable to owners of parent of ¥1,552 million a year ago).

From the first quarter under review, the Group is applying the Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21; September 13, 2013) etc. Under the accounting standard applied, net loss is presented as "loss attributable to owners of parent."

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

(2) Explanation of consolidated financial position

Total assets as of the end of the first three quarters of the fiscal year under review amounted to ¥77,414 million (down ¥415 million from the previous fiscal year). Comparing major asset items with the previous consolidated fiscal year, the other category under intangible assets and the other category under total investments and other assets increased ¥866 million and ¥1,081 million respectively, while cash and deposits, and goodwill declined ¥821 million and ¥1,504 million respectively.

Total liabilities were ¥47,272 million (up ¥1,796 million). Comparing major items with the previous consolidated fiscal year, short-term loans payable and long-term loans payable increased ¥4,904 million and ¥1,500 million respectively, while the current portion of long-term loans payable and other current liabilities declined ¥1,416 million and ¥3,426 million respectively. Total net assets stood at ¥30,142 million (down ¥2,212 million). As a result, the shareholders' equity ratio fell 2.5 percentage point from the previous fiscal year, to 38.8%.

Cash and cash equivalents ("net cash") at the end of the first three quarters of the fiscal year under review decreased ¥777 million from the previous fiscal year, to ¥12,250 million (compared with an increase of ¥277 million in the same period of the previous fiscal year). The status of cash flows for the first three quarters of the fiscal year under review is as shown below.

Net cash used in operating activities amounted to ¥275 million (compared with net cash of ¥4,165 million used in the same period of the previous fiscal year). This was chiefly attributable to quarterly net income before taxes of ¥580 million (down 81.1% year-on-year), depreciation of ¥1,547 million, the amortization of goodwill of ¥1,485 million, a decrease in other liabilities of ¥2,992 million, and income taxes of ¥762 million.

Net cash used in investment activities was ¥4,621 million (compared with net cash of ¥24,438 million used in the same period of the previous fiscal year). This was mainly attributable to the purchase of property, plant and equipment of ¥944 million, purchase of intangible assets of ¥1,449 million, and purchase of long-term prepaid expenses of ¥1,450 million. As a result, free cash flow, which is the sum of net cash provided by or used in operating activities and net cash provided by or used in investment activities, was net cash used of ¥4,896 million (compared with ¥28,604 million in net cash used in the same period of the previous fiscal year).

Net cash provided by financing activities was ¥4,225 million (compared with net cash of ¥28,324 million provided in the same period of the previous fiscal year). This was mostly attributable to a net increase in short-term loans payable of 4,899 million and proceeds from long-term loans payable of ¥3,000 million, which was partially offset by repayments of long-term loans payable of ¥2,916 million.

(3) Explanation of information on future forecasts, such as consolidated operating results forecasts

Please refer to the “Notice of a Revision to the Full-Year Forecasts and the Posting of Foreign Exchange Gains,” which was disclosed today, for a revision to the forecast of consolidated results for the fiscal year ending March 2016, which is stated in the Brief Statement of Accounts (Japanese Accounting Standards) for the First Half of the Year Ending March 31, 2016 (Consolidated) as announced on October 30, 2015.

2. Matters Relating to Summary Information (Notes)

(1) Adoption of unique accounting method to the preparation of quarterly consolidated financial statements

Calculation of tax expenses

Tax expenses are calculated based on a logical estimate of the effective tax rate after applying tax effect accounting to net income before tax for the consolidated fiscal year and then multiplying net income before tax for the quarter by the estimated effective tax rate.

(2) Changes in accounting policies and accounting estimate and restatement

(Changes in accounting policies)

(Application of the Accounting Standard for Business Combinations)

Starting the first quarter under review, the Company is applying the Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21; September 13, 2013), the Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22; September 13, 2013), and the Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7; September 13, 2013). Under these accounting standards, company recorded the difference by change in equity to subsidiaries that it continuously has full controlling interest as the capital surplus, and changed its counting method to record the acquisition-related cost as the expense of the consolidated financial year. For the business combinations conducted after the beginning of the term of the consolidated accounting period of the current first quarter, the review of the distribution of the acquisition cost by the tentative accounting settlement is reflected on the quarterly consolidated financial statements of the quarterly consolidated accounting period that the business combination date is included. In addition, the company changed the presentation of the quarterly net income as well as the presentation from the minority interests to the non-controlling interests. In order to reflect these changes in presentations, the company implemented the reclassification of the quarterly consolidated financial statements and the consolidated financial statements for previous consolidated nine month ended December 31th, 2014 and previous consolidated financial year. The company follows a transitional handlings specified in Article 58-2 (4) of Account Standard for Business Combinations, Article 44-5 (4) of Accounting Standard for Business Divestures and Article 57-4 (4) of Accounting Standard for Consolidated Statements for the application of Accounting Standard for Business Combinations since the beginning of the term of the consolidated accounting period of the current first quarter through the future. The changes have no impact on our profits and losses.

(Change in the method for valuating inventories)

The Company applied mainly the cost method using the weighted average method or the first-in first-out method to value inventories (excluding work in process). As the Company introduced a new mission-critical system, it reviewed the valuation method to better calculate appraised values and to improve operational efficiency and changed the valuation method. Starting the first quarter under review, the Company is applying mainly the cost method using the moving average method or the first-in first-out method.

Because the effect of the change is minor, the Company does not apply the new method retroactively.

3. Consolidated Financial Statements

(1) Consolidated balance sheet

(Thousand yen)

	FY 2014 (As of March 31, 2015)	Q3 FY 2015 (As of December 31, 2015)
Assets		
Current assets:		
Cash and deposits	13,182,156	12,360,958
Notes and accounts receivable - trade	17,046,826	17,245,983
Merchandise and finished goods	2,087,683	2,178,459
Work in process	2,707,564	2,552,287
Raw materials and supplies	671,070	1,171,011
Deferred tax assets	2,054,508	1,998,806
Other	1,281,288	1,564,680
Allowance for doubtful accounts	(132,297)	(5,232)
Total current assets	38,898,799	39,066,954
Non-current assets:		
Property, plant and equipment		
Buildings	3,942,161	3,939,322
Accumulated depreciation	(2,916,510)	(2,979,715)
Buildings, net	1,025,651	959,607
Other	7,794,375	8,731,163
Accumulated depreciation	(6,611,714)	(6,786,080)
Other, net	1,182,660	1,945,083
Total property, plant and equipment	2,208,311	2,904,690
Intangible assets		
Goodwill	19,498,248	17,993,483
Technical assets	6,979,823	6,311,519
Other	1,784,269	2,651,052
Total intangible assets	28,262,342	26,956,054
Investments and other assets		
Investment securities	1,808,949	1,051,357
Long-term prepaid expenses	3,516,785	3,200,688
Deferred tax assets	1,608,390	1,637,929
Other	1,527,201	2,608,704
Allowance for doubtful accounts	-	(11,508)
Total investment and other assets	8,461,326	8,487,171
Total non-current assets	38,931,980	38,347,917
Total assets	77,830,780	77,414,872

(Thousand yen)

	FY 2014 (As of March 31, 2015)	Q3 FY 2015 (As of December 31, 2015)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	5,201,778	5,517,982
Short-term loans payable	11,701,700	16,605,700
Current portion of long-term loans payable	3,416,670	2,000,000
Income taxes payable	253,972	1,052,841
Provision for bonuses	691,459	292,059
Provision for loss on construction contracts	291,442	52,667
Other provision	-	74,247
Deferred tax liabilities	304,465	74,134
Other	7,321,424	3,895,424
Total current liabilities	29,182,912	29,565,056
Non-current liabilities:		
Long-term loans payable	12,000,000	13,500,000
Deferred tax liabilities	2,873,912	2,582,738
Other	1,418,615	1,624,361
Total non-current liabilities	16,292,527	17,707,100
Total liabilities	45,475,440	47,272,156
Net assets		
Shareholders' equity:		
Capital stock	4,840,313	4,840,313
Capital surplus	6,181,300	6,181,300
Retained earnings	21,754,605	20,576,124
Treasury shares	(2,318,962)	(2,318,962)
Total shareholders' equity	30,457,256	29,278,775
Other accumulated comprehensive income:		
Valuation difference on available-for-sale securities	(75,807)	(717,628)
Foreign currency translation adjustment	1,758,447	1,447,608
Total other accumulated comprehensive income	1,682,640	729,980
Minority interests	215,442	133,959
Total net assets	32,355,339	30,142,715
Total liabilities and net assets	77,830,780	77,414,872

(2) Consolidated statements of income and statements of comprehensive income
(Consolidated first three quarters)

(Thousand yen)

	Q3 FY 2014 (From April 1, 2014 to December 31, 2014)	Q3 FY 2015 (From April 1, 2015 to December 31, 2015)
Net sales	50,807,177	43,471,611
Cost of sales	36,458,885	30,732,638
Gross profit	14,348,291	12,738,972
Selling, general and administrative expenses	10,225,364	12,541,078
Operating income	4,122,926	197,894
Non-operating income		
Interest income	7,666	5,952
Dividends income	475	–
Gain on investments in partnership	7,424	18,160
Gain on forfeiture of unclaimed dividends	4,297	3,698
Foreign exchange gains	–	465,968
Proceeds from miscellaneous income	17,625	10,723
Total non-operating income	37,488	504,504
Non-operating expenses		
Interest expenses	48,759	122,636
Borrowing fee	30,491	–
Foreign exchange losses	943,228	–
Miscellaneous loss	12,764	23,347
Total non-operating expenses	1,035,244	145,983
Ordinary income	3,125,171	556,414
Extraordinary income		
Gain on sales of non-current assets	509	–
Gain on sales of investment securities	–	59,647
Total extraordinary income	509	59,647
Extraordinary loss		
Loss on retirement of non-current assets	3,540	35,168
Loss on valuation of investment securities	17,402	–
Special retirement expenses	28,186	–
Total extraordinary loss	49,129	35,168
Income (loss) before income taxes	3,076,551	580,893
Income taxes	1,547,585	1,075,424
Profit (loss)	1,528,965	(494,531)
(Profit attributable to)		
Profit (loss) attributable to owners of parent	1,552,270	(418,617)
Loss attributable to non-controlling interests	(23,305)	(75,914)
Other comprehensive income		
Valuation difference on available-for-sale securities	25,559	(641,820)
Foreign currency translation adjustment	892,621	(316,407)
Total other comprehensive income	918,181	(958,228)
Comprehensive income	2,447,147	(1,452,759)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	2,452,392	(1,371,277)
Comprehensive income attributable to minority interests	(5,245)	(81,482)

(3) Consolidated statements of cash flows

(Thousand yen)

	Q3 FY 2014 (From April 1, 2014 to December 31, 2014)	Q3 FY 2015 (From April 1, 2015 to December 31, 2015)
Cash flows from operating activities		
Net income before taxes	3,076,551	580,893
Depreciation	580,034	1,547,331
Amortization of goodwill	70,328	1,485,584
Amortization of long-term prepaid expenses	811,467	736,162
Increase (decrease) in provision for bonuses	(292,181)	(399,399)
Increase (decrease) in provision for loss on construction contracts	(162,820)	(238,775)
Interest and dividend income	(8,141)	(5,952)
Interest expenses	48,759	122,636
Loss (gain) on sales of investment securities	–	(59,647)
Loss (gain) on valuation of investment securities	17,402	–
Decrease (increase) in notes and accounts receivable - trade	(10,519,746)	(311,404)
Decrease (increase) in inventories	684,141	(461,043)
Increase (decrease) in notes and accounts payable - trade	956,007	454,773
Decrease (increase) in other assets	342,280	53,296
Increase (decrease) in other liabilities	360,877	(2,992,408)
Other	64,729	82,246
Subtotal	(3,970,308)	594,292
Interest and dividends income received	8,227	6,061
Interest expenses paid	(43,199)	(113,439)
Income taxes refund	286,812	367
Income taxes paid	(447,431)	(762,935)
Net cash provided by (used in) operating activities	(4,165,899)	(275,653)
Cash flows from investing activities		
Payments into time deposits	(113,250)	–
Proceeds from withdrawal of time deposits	–	36,657
Purchase of property, plant and equipment	(564,780)	(944,802)
Purchase of intangible assets	(453,200)	(1,449,482)
Proceeds from sales of investment securities	–	65,517
Purchase of long-term prepaid expenses	(958,422)	(1,450,259)
Payments of loans receivable	(1,220,538)	(19,641)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(19,496,537)	–
Proceeds from shares of subsidiaries resulting in change in scope of consolidation	86,622	–
Payments for transfer of business	(1,145,225)	–
Other	(573,497)	(859,189)
Net cash provided by (used in) investment activities	(24,438,830)	(4,621,200)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	32,502,750	4,899,600
Proceeds from long-term loans payable	–	3,000,000
Repayments of long-term loans payable	(2,124,999)	(2,916,670)
Purchase of treasury shares	(1,262,987)	–
Cash dividends paid	(790,546)	(757,402)
Net cash provided by (used in) financing activities	28,324,216	4,225,527
Effect of exchange rate change on cash and cash equivalents	558,103	(105,994)
Net increase (decrease) in cash and cash equivalents	277,591	(777,320)
Cash and cash equivalents at beginning of period	10,440,669	13,028,308
Cash and cash equivalents at end of period	10,718,260	12,250,987

(4) Notes relating to quarterly consolidated financial statements

Note on going concern assumptions

None

Notes to significant changes in shareholders' equity

None

Material subsequent events

(Acquisition of treasury stock)

At the Meeting of Board of Directors held on January 29, 2016, the Company determined matters concerning the acquisition of treasury stock in accordance with the provisions of the Articles of Incorporation pursuant to Paragraph 1 of Article 459 of the Companies Act.

1. Details of resolution of the Board of Directors concerning the acquisition of treasury stock

(1) Purposes of acquisition

The Company has decided to acquire treasury stock for the purpose of implementing flexible capital policies in response to changes in the management environment while enhancing the return of profits to shareholders.

(2) Class of shares to be acquired

Shares of common stock of the Company

(3) Total number of shares to be acquired

Up to 920,000 shares

(4) Total price of stock acquisition

Up to 1,000,000,000 yen

(5) Acquisition period

From February 1, 2016 to February 29, 2016

(6) Method of acquisition

Open-market purchases on the Tokyo Stock Exchange

(Retirement of treasury stock)

At the Meeting of Board of Directors held on January 29, 2016, the Company resolved to retire treasury stock pursuant to Article 178 of the Companies Act.

1. Number of shares to be retired

1,000,000 shares

2. Scheduled date of retirement

February 29, 2016

3. Total number of shares outstanding after retirement (including treasury shares)

23,038,400 shares