

## Consolidated Financial Results for the Three Months Ended June 30, 2016 [Japanese GAAP]

July 29, 2016

Company name: MegaChips Corporation  
 Stock exchange listing: Tokyo Stock Exchange  
 Code number: 6875  
 URL: <http://www.megachips.co.jp/>  
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 Scheduled date of filing quarterly securities report: August 9, 2016  
 Scheduled date of commencing dividend payments: —  
 Availability of supplementary briefing material on quarterly financial results: Available  
 Schedule of quarterly financial results briefing session: Scheduled (for securities analysts and institutional investors)

(Amounts of less than one million yen are rounded down.)

### 1. Consolidated Financial Results for the Three Months Ended June 30, 2016 (From April 1, 2016 to June 30, 2016)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2016	10,256	(20.1)	(718)	—	(712)	—	(706)	—
June 30, 2015	12,840	(3.6)	(176)	—	(270)	—	(559)	—

(Note) Comprehensive income: Three months ended June 30, 2016: ¥(2,647) million [-%]

Three months ended June 30, 2015: ¥(414) million [-%]

	Basic earnings per share	Diluted earnings per share
Three months ended June 30, 2016	Yen (32.96)	Yen —
June 30, 2015	(25.01)	—

## (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of June 30, 2016	Million yen 65,034	Million yen 25,471	% 39.1	Yen 1,185.30
As of March 31, 2016	69,921	28,846	41.1	1,341.86

(Reference) Equity: As of June 30, 2016: ¥25,399 million

As of March 31, 2016: ¥28,754 million

## 2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2016	Yen —	Yen —	Yen —	Yen 34.00	Yen 34.00
Fiscal year ending March 31, 2017	—	—	—	—	—
Fiscal year ending March 31, 2017 (Forecast)	—	—	—	—	—

(Note) Revision to the forecast for dividends announced most recently: No

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 profit attributable to owners of parent for the year, taking into consideration the medium-term business outlook. Since the concrete dividend forecast is yet to be decided, “-” is shown for the year-end dividend.

**3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2017 (From April 1, 2016 to March 31, 2017)**

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	27,000	(6.2)	(600)	—	(700)	—	(1,900)	—	(88.67)
Full year	60,000	7.8	1,200	—	1,000	219.4	(800)	—	(37.33)

(Note) Revision to the financial results forecast announced most recently: Yes

**\* Notes**

(1) Changes in significant subsidiaries during the three months ended June 30, 2016 (changes in specified subsidiaries resulting in changes in scope of consolidation): No

New: –

Exception: –

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

(Note) For details, please refer to the Accompanying Material p.3, “2. Matters Concerning Summary Information (Notes).”

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(Note) For details, please refer to the Accompanying Material p.3, “2. Matters Concerning Summary Information (Notes).”

(4) Number of shares outstanding (common stock)

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

June 30, 2016: 23,038,400 shares

March 31, 2016: 23,038,400 shares

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

June 30, 2016: 1,609,450 shares

March 31, 2016: 1,609,450 shares

3) Average number of shares outstanding during the period

Three months ended June 30, 2016: 21,428,950 shares

Three months ended June 30, 2015: 22,348,950 shares

**\* Presentation regarding the implementation status of the quarterly review process**

These quarterly financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these quarterly financial results, review procedures for the quarterly financial statements under the Financial Instruments and Exchange Act have not been completed.

**\* Explanation of the proper use of financial results forecast and other notes**

(Note on the forward-looking statements)

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as of the date of publication of this document. The Company does not guarantee the forecast results. Actual results may differ significantly from these forecasts due to a wide range of factors.

(Method to acquire supplementary documents for quarterly financial results)

Supplementary briefing material on quarterly financial 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 Financial Results for the First Quarter of FY2016 (the fiscal year ending March 31, 2017)

### (1) Explanation of operating results

In the electronic machinery and equipment industry, in which the MegaChips Group operates, demand for both industrial electronic equipment and electronic parts and devices declined. Consequently, the entire electronic machinery and equipment market shrank 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, digital cameras, and 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 competitors and 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 establish closer business relationships with major global companies in growing device markets, the Group is endeavoring intensively to cultivate human resources that can work globally and is promoting changes in its earnings structure.

During the first quarter under review, the demand for ASSP products including both Smart Connectivity (DisplayPort) and MEMS timing device businesses, which the Group is focusing on as a new growth field in a medium- to long-term perspective, progressed steadily. After the 2016 Kumamoto Earthquake, however, production adjustment of our customers resulted in declines in demand, especially for LSIs for digital cameras. As a result, consolidated net sales stood at ¥10,256 million (down 20.1% year on year). Expenses of ¥719 million arose from the amortization of goodwill and intangible assets associated with acquisitions of overseas companies, resulting in operating income before depreciation and amortization of ¥1 million, an operating loss after depreciation and amortization of ¥718 million yen (compared with an operating loss of ¥176 million yen a year ago), an ordinary loss of ¥712 million yen (a loss of ¥270 million a year ago), and a loss attributable to owners of parent of ¥706 million (a loss of ¥559 million a year ago).

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

### (2) Explanation of financial position

Total assets as of the end of the first quarter of the fiscal year under review amounted to ¥65,034 million (down ¥4,887 million from the previous consolidated fiscal year). Comparing major asset items with the previous consolidated fiscal year, cash and deposits declined by ¥3,081 million and notes and accounts receivable - trade fell by ¥1,639 million.

Total liabilities were ¥39,562 million (down ¥1,511 million). Comparing major items with the previous consolidated fiscal year, notes and accounts payable-trade, provision for bonuses, and long-term loans payable declined ¥324 million, ¥397 million, and ¥500 million, respectively.

Total net assets stood at ¥25,471 million (down ¥3,375 million). As a result, the shareholders' equity ratio declined 2.1 percentage points from the previous fiscal year, to 39.1%.

Cash and cash equivalents ("net cash") at the end of the first quarter of the fiscal year under review increased ¥20 million from the previous consolidated fiscal year, to ¥10,753 million (compared with a decrease of ¥2,492 million in the same period of the previous fiscal year). The status of cash flows for the first quarter of the fiscal year under review is as shown below.

Net cash provided by operating activities amounted to ¥2,684 million (compared with net cash of ¥3,395 million provided in the same period of the previous fiscal year). This was chiefly attributable to a quarterly loss before taxes of ¥712 million (loss of ¥243 million in the same period of the previous fiscal year), and an increase in inventories of ¥525 million, together with depreciation and amortization of goodwill of ¥469 million and ¥461 million, respectively, and a decrease in notes and accounts receivable-trade of ¥2,840 million.

Net cash used in investment activities was ¥1,630 million (compared with net cash of ¥2,142 million used in the same period of the previous fiscal year). This was mainly attributable to the purchase of property, plant and equipment of ¥384 million, that of intangible assets of ¥668 million, and that of investment securities of ¥242 million. As a result, free cash flow, which is the sum of net cash provided by or used in operating activities and net cash provided by or used in investment activities, resulted in net cash provided of ¥1,053 million (compared with ¥1,253 million in net cash provided in the same period of the previous fiscal year).

Net cash used in financing activities was ¥884 million (compared with net cash of ¥3,744 million used in the same period of the previous fiscal year). This was mostly attributable to, despite a net increase in short-term loans payable of ¥300 million, repayments of long-term loans payable of ¥500 million, and cash dividends paid of ¥684 million.

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

Please refer to the "Notice on Revisions of Financial Forecasts", released today, for the revisions to the consolidated financial forecasts for the first half and full-year of FY 2016 (the fiscal year ending March 31, 2017), stated in the "Consolidated Financial Results for the Fiscal Year Ended March 31, 2016 [Japanese GAAP]" as announced on May 13, 2016.

2. Matters Relating to Summary Information (Notes)

(1) Adoption of unique accounting method for 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 changes or restatement of accounting estimates

(Application of the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)

Pursuant to an amendment in the Corporation Tax Act, the Company has applied the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016 (Practical Issue Task Force (PITF) No.32 issued on June 17, 2016) from the first quarter of the current fiscal year. Accordingly, the Company changed the depreciation method for facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method.

The changes have no impact on our profits and losses.

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly consolidated balance sheet

(Thousand yen)

	Previous consolidated fiscal year (ended March 31, 2016)	First quarter of consolidated fiscal year under review (ended June 30, 2016)
<b>Assets</b>		
Current assets:		
Cash and deposits	10,949,946	10,951,761
Notes and accounts receivable-trade	13,358,667	10,277,006
Merchandise and finished goods	2,019,432	2,442,019
Work in process	2,092,163	2,058,963
Raw materials and supplies	1,006,713	976,850
Deferred tax assets	1,146,507	1,124,976
Other	1,440,013	1,217,675
Allowance for doubtful accounts	(4,145)	(3,149)
<b>Total current assets</b>	<b>32,009,297</b>	<b>29,046,103</b>
Non-current assets:		
Property, plant and equipment		
Buildings	3,932,407	3,925,008
Accumulated depreciation	(2,996,991)	(3,012,167)
Buildings, net	935,415	912,840
Other	8,937,809	9,157,162
Accumulated depreciation	(6,781,369)	(6,841,172)
Other, net	2,156,440	2,315,989
<b>Total property, plant and equipment</b>	<b>3,091,855</b>	<b>3,228,829</b>
Intangible assets		
Goodwill	17,478,244	15,839,095
Technical assets	6,106,168	5,502,438
Other	2,957,620	3,373,787
<b>Total intangible assets</b>	<b>26,542,032</b>	<b>24,715,321</b>
Investments and other assets		
Investment securities	1,173,226	1,250,177
Long-term prepaid expenses	3,086,797	2,950,787
Deferred tax assets	1,461,001	1,453,942
Other	2,569,001	2,400,605
Allowance for doubtful accounts	(11,508)	(11,508)
<b>Total investment and other assets</b>	<b>8,278,517</b>	<b>8,044,004</b>
<b>Total non-current assets</b>	<b>37,912,406</b>	<b>35,988,155</b>
<b>Total assets</b>	<b>69,921,704</b>	<b>65,034,258</b>

(Thousand yen)

	Previous consolidated fiscal year (ended March 31, 2016)	First quarter of consolidated fiscal year under review (ended June 30, 2016)
<b>Liabilities</b>		
Current liabilities:		
Notes and accounts payable-trade	4,242,223	3,917,629
Short-term loans payable	13,394,730	13,493,940
Current portion of long-term loans payable	2,000,000	2,000,000
Income taxes payable	337,595	246,963
Provision for bonuses	555,981	158,100
Provision for loss on construction contracts	4,689	4,904
Other provision	-	10,826
Other	3,611,510	3,776,922
<b>Total current liabilities</b>	<b>24,146,731</b>	<b>23,609,286</b>
Non-current liabilities:		
Long-term loans payable	13,000,000	12,500,000
Deferred tax liabilities	2,507,079	2,258,482
Other	1,421,011	1,195,210
<b>Total non-current liabilities</b>	<b>16,928,091</b>	<b>15,953,693</b>
<b>Total liabilities</b>	<b>41,074,823</b>	<b>39,562,979</b>
<b>Net assets</b>		
Shareholders' equity:		
Capital stock	4,840,313	4,840,313
Capital surplus	6,181,300	6,181,300
Retained earnings	18,950,506	17,515,584
Treasury shares	(2,030,200)	(2,030,200)
<b>Total shareholders' equity</b>	<b>27,941,919</b>	<b>26,506,998</b>
Other accumulated comprehensive income:		
Valuation difference on available-for-sale securities	(599,967)	(688,680)
Foreign currency translation adjustment	1,412,620	(418,653)
<b>Total other accumulated comprehensive income</b>	<b>812,653</b>	<b>(1,107,334)</b>
Non-controlling interests	92,308	71,615
<b>Total net assets</b>	<b>28,846,881</b>	<b>25,471,279</b>
<b>Total liabilities and net assets</b>	<b>69,921,704</b>	<b>65,034,258</b>



## (2) Quarterly consolidated statements of income and statements of comprehensive income

(Consolidated first quarter)

(Thousand yen)

	First quarter of previous consolidated fiscal year (From April 1, 2015 to June 30, 2015)	First quarter of consolidated fiscal year under review (From April 1, 2016 to June 30, 2016)
Net sales	12,840,069	10,256,430
Cost of sales	8,878,131	7,209,440
Gross profit	3,961,937	3,046,990
Selling, general and administrative expenses	4,138,863	3,765,598
Operating income (loss)	(176,925)	(718,608)
Non-operating income		
Interest income	2,954	1,349
Gain on forfeiture of unclaimed dividends	-	3,296
Foreign exchange gains	-	41,108
Proceeds from miscellaneous income	2,439	4,661
Total non-operating income	5,394	50,415
Non-operating expenses		
Interest expenses	40,170	40,483
Foreign exchange losses	52,521	-
Miscellaneous loss	6,596	3,549
Total non-operating expenses	99,288	44,033
Ordinary income (loss)	(270,819)	(712,226)
Extraordinary income		
Gain on sales of investment securities	59,647	-
Total extraordinary income	59,647	-
Extraordinary loss		
Loss on retirement of non-current assets	32,323	-
Total extraordinary loss	32,323	-
Loss before income taxes	(243,496)	(712,226)
Income taxes	342,043	11,799
Loss	(585,539)	(724,026)
(Profit attributable to)		
Loss attributable to owners of parent	(559,035)	(706,337)
Loss attributable to non-controlling interests	(26,504)	(17,688)
Other comprehensive income		
Valuation difference on available-for-sale securities	122,184	(88,713)
Foreign currency translation adjustment	48,376	(1,834,278)
Total other comprehensive income	170,561	(1,922,991)
Comprehensive income	(414,978)	(2,647,018)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	(391,783)	(2,626,325)
Comprehensive income attributable to minority interests	(23,195)	(20,692)

## (3) Quarterly consolidated statements of cash flows

	(Thousand yen)	
	First quarter of previous consolidated fiscal year (From April 1, 2015 to June 30, 2015)	First quarter of consolidated fiscal year under review (From April 1, 2016 to June 30, 2016)
<b>Cash flows from operating activities</b>		
Loss before income taxes	(243,496)	(712,226)
Depreciation	531,527	469,499
Amortization of goodwill	495,687	461,227
Amortization of long-term prepaid expenses	294,901	178,008
Increase (decrease) in provision for bonuses	(493,619)	(397,880)
Increase (decrease) in provision for loss on construction contracts	(180,189)	214
Interest and dividend income	(2,954)	(1,349)
Interest expenses	40,170	40,483
Loss (gain) on sales of investment securities	(59,647)	-
Decrease (increase) in notes and accounts receivable - trade	4,683,339	2,840,779
Decrease (increase) in inventories	(90,690)	(525,908)
Increase (decrease) in notes and accounts payable - trade	(368,827)	(87,635)
Decrease (increase) in other assets	(88,023)	319,268
Increase (decrease) in other liabilities	(760,283)	351,424
Other	76,055	(49,163)
<b>Subtotal</b>	<b>3,833,951</b>	<b>2,886,741</b>
Interest and dividends income received	2,289	1,500
Interest expenses paid	(38,587)	(41,781)
Income taxes refund	50	-
Income taxes paid	(401,794)	(162,150)
<b>Net cash provided by (used in) operating activities</b>	<b>3,395,909</b>	<b>2,684,310</b>
<b>Cash flows from investing activities</b>		
Proceeds from withdrawal of time deposits	39,714	63,756
Payments into time deposits	-	(63,756)
Purchase of property, plant and equipment	(290,871)	(384,044)
Purchase of intangible assets	(395,713)	(668,142)
Proceeds from sales of investment securities	65,517	-
Purchase of investment securities	-	(242,993)
Purchase of long-term prepaid expenses	(1,023,063)	(228,237)
Payments of loans receivable	(13,956)	(4,740)
Other	(524,507)	(102,591)
<b>Net cash provided by (used in) investment activities</b>	<b>(2,142,880)</b>	<b>(1,630,749)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short term loans payable	(1,800,000)	300,000
Repayments of long-term loans payable	(1,208,333)	(500,000)
Cash dividends paid	(735,930)	(684,702)
<b>Net cash provided by (used in) financing activities</b>	<b>(3,744,263)</b>	<b>(884,702)</b>
Effect of exchange rate change on cash and cash equivalents	(918)	(147,978)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,492,153)</b>	<b>20,880</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>13,028,308</b>	<b>10,732,361</b>
<b>Cash and cash equivalents at end of period</b>	<b>10,536,154</b>	<b>10,753,241</b>

#### (4) Notes relating to quarterly consolidated financial statements

(Note ongoing concern assumptions)

None

(Notes to significant changes in shareholders' equity)

None

(Material subsequent events)

(Loss on valuation of investment securities)

Shun Yin Investment Ltd., a consolidated subsidiary of the Company (headquartered in Taipei, Republic of China; Account closing month: December), holds some equity in Macronix International Co., Ltd. (TWSE: 2337) as part of its investment securities (available-for-sale securities). With a substantial fall of its stock price recognized as of June 30, 2016, we determined it should be written down, deciding that a loss on valuation of investment securities be reported for that.

For the event, a loss on valuation of investment securities of ¥1,001.076 million will be stated as extraordinary loss in the consolidated financial results for the first half of FY 2016 (the fiscal year ending March 31, 2017).

(Conclusion of an incentive contract)

As of July 20, 2016, the Company has concluded a "Restricted Stock Unit Agreement" with SiTime Corporation ("SiTime"), a subsidiary of ours, and 35 individuals of its directors and employees to provide them with incentives for their retention.

Incentives provided for directors and employees of SiTime

Name of contract	Restricted Stock Unit Agreement	
Date of conclusion	July 20, 2016	
Concluded with	SiTime, and 35 individuals of its directors and employees	
Outlines	(1) The Company and SiTime offer the directors and employees Restricted Stock Units;	
	(2) Stocks are allocated as of July 20, 2016.	
	(3) They are allocated treasury stock of the Company as third-party. In addition, the Company compensates them for withholding tax on that;	
	(4) A share is allocated for a payment of one cent;	
	(5) Allotments of rights (payment dates and number of shares disposed on each date) are scheduled as listed below (total for all the directors and employees). Rights are allotted to them on the condition that they belong to SiTime as of the payment date.	
	1st: September 15, 2016	45,380 shares
	2nd: December 15, 2016	45,380 shares
	3rd: March 15, 2017	45,380 shares
	4th: June 15, 2017	45,384 shares
	5th: September 15, 2017	39,588 shares
	6th: December 15, 2017	39,588 shares
7th: March 15, 2018	39,588 shares	
8th: June 15, 2018	39,623 shares	
Total	339,911 shares	