

Consolidated Financial Results
for the Six Months Ended September 30, 2016
[Japanese GAAP]

October 28, 2016

Company name: MegaChips Corporation
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 6875
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 Scheduled date of filing quarterly securities report: November 10, 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 Six Months Ended September 30, 2016 (From April 1, 2016 to September 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	%
Six months ended September 30, 2016	29,481	2.4	(30)	—	(146)	—	(1,611)	—
September 30, 2015	28,781	(5.6)	100	(94.4)	347	(75.3)	(367)	—

(Note) Comprehensive income: Six months ended September 30, 2016: ¥(4,807) million [-%]

Six months ended September 30, 2015: ¥(274) million [-%]

	Basic earnings per share	Diluted earnings per share
Six months ended September 30, 2016	Yen (75.21)	Yen —
September 30, 2015	(16.42)	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of September 30, 2016	Million yen 67,541	Million yen 23,367	% 34.5	Yen 1,086.11
As of March 31, 2016	69,921	28,846	41.1	1,341.86

(Reference) Equity: As of September 30, 2016: ¥23,323 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
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	60,000	7.8	1,200	—	1,000	219.4	(800)	—	(37.33)

(Note) Revision to the financial results forecast announced most recently: No

*** Notes**

(1) Changes in significant subsidiaries during the six months ended September 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)

September 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

September 30, 2016: 1,564,317 shares

March 31, 2016: 1,609,450 shares

3) Average number of shares outstanding during the period

Six months ended September 30, 2016: 21,432,896 shares

Six months ended September 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 Second 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 our existing core business areas of game consoles, digital cameras, and office machines, and additionally in the areas of factory automation, robotics, and other industrial machines. The Group's competitiveness lies in its ability to harness its deep understanding of customers' applications and unique core technologies to offer the development and supply of system LSIs incorporating original algorithms and architecture that offer 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 with products in the IoT field, which will constitute platforms. Meanwhile, to establish closer business relationships with major global companies in growing device markets, the Group is striving to cultivate human resources that can work globally and is promoting changes in its earnings structure.

During the second quarter under review, despite a decline in demand mainly for LSIs for LCD panels, LSIs for game software storage (custom memories) saw improved demand. As a result, consolidated net sales stood at ¥29,481 million (up 2.4% year on year). Expenses of ¥1,326 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 ¥1,296 million, an operating loss after depreciation and amortization of ¥30 million (compared with an operating profit of ¥100 million yen a year ago), an ordinary loss of ¥146 million (a profit of ¥347 million a year ago), an extraordinary loss of 1,001 million yen in relation to the valuation of investment securities, and a loss attributable to the owners of the parent company of ¥1,611 million (a loss of ¥367 million a year ago).

The Smart Connectivity (DisplayPort) and MEMS timing devices, which the Group is focusing on as products in a new growth field in the medium to long terms, both made good progress, and we will continue working to put them on a growth track.

Because the MegaChips Group operates as 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 second quarter of the fiscal year under review amounted to ¥67,541 million (down ¥2,379 million from the previous fiscal year). Comparing major asset items with the previous consolidated fiscal year, notes and accounts receivable-trade increased by 5,155 million yen while cash and deposit, goodwill, and technical assets declined by 2,676 million yen, 3,344 million yen, and 1,244 million yen, respectively.

Total liabilities were ¥44,173 million (up ¥3,099 million). Comparing major items with the previous consolidated fiscal year, notes and accounts payable-trade, and the current portion of long-term loans payable increased by ¥5,086 million and ¥3,000 million, respectively, while long-term loans payable declined by ¥4,000 million.

Total net assets stood at ¥23,367 million (down ¥5,479 million). As a result, the shareholders' equity ratio declined 6.6 percentage points from the previous fiscal year, to 34.5%.

Cash and cash equivalents ("net cash") at the end of the second quarter of the fiscal year under review decreased ¥2,656 million from the previous consolidated fiscal year, to ¥8,075 million (compared with a decrease of ¥2,793 million in the same period of the previous fiscal year). The status of cash flows for the second quarter of the fiscal year under review is as shown below.

Net cash provided by operating activities amounted to ¥1,513 million (compared with net cash of ¥160 million provided in the same period of the previous fiscal year). This was chiefly attributable to a quarterly loss before taxes of ¥1,147 million (loss of ¥374 million in the same period of the previous fiscal year), and an increase in notes and accounts receivable - trade of ¥5,452 million, together with depreciation, amortization of goodwill, and an extraordinary loss in relation to the valuation of the investment securities of ¥955 million, ¥848 million, and ¥1,001 million, respectively, and an increase in notes and accounts payable - trade of ¥5,319 million.

Net cash used in investment activities was ¥2,818 million (compared with net cash of ¥3,035 million used in the same period of the previous fiscal year). This was mainly attributable to the purchase of property, plant and equipment of ¥679 million, that of intangible assets of ¥1,386 million, and that of investment securities of ¥221 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 used of ¥1,304 million (compared with ¥2,874 million in net cash used in the same period of the previous fiscal year).

Net cash used in financing activities was ¥1,013 million (compared with net cash of ¥26 million provided in the same period of the previous fiscal year). This was mostly attributable to, despite a net increase in short-term loans payable of ¥711 million, repayments of long-term loans payable of ¥1,000 million, and cash dividends paid of ¥724 million.

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

No revision is made to the consolidated business results forecasts for the fiscal year ending March 31, 2017, stated in the "Consolidated Financial Results for the Three Months Ended June 30, 2016 [Japanese GAAP]," announced on July 29, 2016.

2. Matters Concerning 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 only a slight 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)	Second quarter of consolidated fiscal year under review (ended September 30, 2016)
Assets		
Current assets:		
Cash and deposits	10,949,946	8,273,825
Notes and accounts receivable-trade	13,358,667	18,514,121
Merchandise and finished goods	2,019,432	1,847,089
Work in process	2,092,163	1,977,410
Raw materials and supplies	1,006,713	1,094,318
Deferred tax assets	1,146,507	1,111,934
Other	1,440,013	1,134,147
Allowance for doubtful accounts	(4,145)	(5,216)
Total current assets	32,009,297	33,947,631
Non-current assets:		
Property, plant and equipment		
Buildings	3,932,407	3,922,884
Accumulated depreciation	(2,996,991)	(3,029,671)
Buildings, net	935,415	893,212
Other	8,937,809	9,290,933
Accumulated depreciation	(6,781,369)	(6,862,921)
Other, net	2,156,440	2,428,012
Total property, plant and equipment	3,091,855	3,321,225
Intangible assets		
Goodwill	17,478,244	14,134,205
Technical assets	6,106,168	4,861,445
Other	2,957,620	3,847,973
Total intangible assets	26,542,032	22,843,625
Investments and other assets		
Investment securities	1,173,226	814,019
Long-term prepaid expenses	3,086,797	2,786,264
Deferred tax assets	1,461,001	1,469,880
Other	2,569,001	2,370,683
Allowance for doubtful accounts	(11,508)	(11,508)
Total investment and other assets	8,278,517	7,429,340
Total non-current assets	37,912,406	33,594,191
Total assets	69,921,704	67,541,822

(Thousand yen)

	Previous consolidated fiscal year (ended March 31, 2016)	Second quarter of consolidated fiscal year under review (ended September 30, 2016)
Liabilities		
Current liabilities:		
Notes and accounts payable-trade	4,242,223	9,328,923
Short-term loans payable	13,394,730	13,760,670
Current portion of long-term loans payable	2,000,000	5,000,000
Income taxes payable	337,595	740,812
Provision for bonuses	555,981	447,425
Provision for loss on construction contracts	4,689	49,477
Other	3,611,510	2,797,962
Total current liabilities	24,146,731	32,125,271
Non-current liabilities:		
Long-term loans payable	13,000,000	9,000,000
Deferred tax liabilities	2,507,079	1,986,163
Other	1,421,011	1,062,531
Total non-current liabilities	16,928,091	12,048,694
Total liabilities	41,074,823	44,173,966
Net assets		
Shareholders' equity:		
Capital stock	4,840,313	4,840,313
Capital surplus	6,181,300	6,181,643
Retained earnings	18,950,506	16,610,026
Treasury shares	(2,030,200)	(1,973,268)
Total shareholders' equity	27,941,919	25,658,715
Other accumulated comprehensive income:		
Valuation difference on available-for-sale securities	(599,967)	42,341
Foreign currency translation adjustment	1,412,620	(2,377,776)
Total other accumulated comprehensive income	812,653	(2,335,435)
Non-controlling interests	92,308	44,576
Total net assets	28,846,881	23,367,856
Total liabilities and net assets	69,921,704	67,541,822

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

(Consolidated second quarter)

(Thousand yen)

	Second quarter of previous consolidated fiscal year (From April 1, 2015 to September 30, 2015)	Second quarter of consolidated fiscal year under review (From April 1, 2016 to September 30, 2016)
Net sales	28,781,193	29,481,947
Cost of sales	20,129,970	22,002,731
Gross profit	8,651,222	7,479,216
Selling, general and administrative expenses	8,551,051	7,509,311
Operating income (loss)	100,170	(30,094)
Non-operating income		
Interest income	4,644	2,472
Gain on investments in partnership	18,160	-
Gain on forfeiture of unclaimed dividends	3,698	3,296
Foreign exchange gains	315,832	-
Proceeds from miscellaneous income	5,873	4,430
Total non-operating income	348,209	10,198
Non-operating expenses		
Interest expenses	78,462	73,348
Loss on investments in partnership	-	988
Foreign exchange losses	-	44,886
Miscellaneous loss	22,033	7,591
Total non-operating expenses	100,495	126,814
Ordinary income (loss)	347,884	(146,709)
Extraordinary income		
Gain on sales of investment securities	59,647	-
Total extraordinary income	59,647	-
Extraordinary loss		
Loss on retirement of non-current assets	33,294	-
Loss on valuation of investment securities	-	1,001,076
Total extraordinary loss	33,294	1,001,076
Profit (loss) before income taxes	374,236	(1,147,786)
Income taxes	796,377	503,520
Profit (loss)	(422,140)	(1,651,306)
(Profit attributable to)		
Loss attributable to owners of parent	(367,007)	(1,611,894)
Loss attributable to non-controlling interests	(55,133)	(39,411)
Other comprehensive income		
Valuation difference on available-for-sale securities	(292,789)	642,308
Foreign currency translation adjustment	440,907	(3,798,717)
Total other comprehensive income	148,117	(3,156,408)
Comprehensive income	(274,023)	(4,807,715)
(Profit attributable to)		
Comprehensive income attributable to owners of parent	(228,151)	(4,759,984)
Comprehensive income attributable to non-controlling interests	(45,871)	(47,731)

(3) Quarterly consolidated statements of cash flows

	(Thousand yen)	
	Second quarter of previous consolidated fiscal year (From April 1, 2015 to September 30, 2015)	Second quarter of consolidated fiscal year under review (From April 1, 2016 to September 30, 2016)
Cash flows from operating activities		
Profit (loss) before income taxes	374,236	(1,147,786)
Depreciation	1,051,506	955,358
Amortization of goodwill	1,006,435	848,111
Amortization of long-term prepaid expenses	562,139	354,187
Increase (decrease) in provision for bonuses	(189,036)	(108,555)
Increase (decrease) in provision for loss on construction contracts	(259,897)	44,787
Interest and dividend income	(4,644)	(2,472)
Interest expenses	78,462	73,348
Loss (gain) on sales of investment securities	(59,647)	-
Loss (gain) on valuation of investment securities	-	1,001,076
Decrease (increase) in notes and accounts receivable - trade	316,524	(5,452,238)
Decrease (increase) in inventories	(399,923)	(92,098)
Increase (decrease) in notes and accounts payable - trade	1,199,295	5,319,602
Decrease (increase) in other assets	248,395	444,940
Increase (decrease) in other liabilities	(3,281,262)	(368,247)
Other	77,859	12,800
Subtotal	720,444	1,882,815
Interest and dividends income received	4,721	2,633
Interest expenses paid	(71,116)	(78,387)
Income taxes refund	703	354
Income taxes paid	(494,480)	(294,228)
Net cash provided by (used in) operating activities	160,272	1,513,187
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	36,403	202,792
Payments into time deposits	-	(201,017)
Purchase of property, plant and equipment	(554,417)	(679,009)
Purchase of intangible assets	(886,228)	(1,386,674)
Proceeds from sales of investment securities	65,517	-
Purchase of investment securities	-	(221,381)
Purchase of long-term prepaid expenses	(1,164,555)	(257,561)
Payments of loans receivable	(14,926)	(7,937)
Other	(516,922)	(267,262)
Net cash provided by (used in) investment activities	(3,035,130)	(2,818,052)
Cash flows from financing activities		
Net increase (decrease) in short term loans payable	200,000	711,640
Proceeds from long-term loans payable	3,000,000	-
Repayments of long-term loans payable	(2,416,670)	(1,000,000)
Cash dividends paid	(756,811)	(724,872)
Other	-	46
Cash flows from financing activities	26,518	(1,013,186)
Effect of exchange rate change on cash and cash equivalents	54,533	(338,548)
Net increase (decrease) in cash and cash equivalents	(2,793,804)	(2,656,599)
Cash and cash equivalents at beginning of period	13,028,308	10,732,361
Cash and cash equivalents at end of period	10,234,503	8,075,761

(4) Notes relating to quarterly consolidated financial statements

(Notes on going concern assumptions)

None

(Notes to significant changes in shareholders' equity)

None