

FOR IMMEDIATE RELEASE



November 27, 2019

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Notice Concerning Partial Business Transfer of a Subsidiary and Posting of its Associated Extraordinary Loss, Dissolution of a Subsidiary and Posting of its Associated Foreign Exchange Gains and Income taxes-deferred

MegaChips Corporation (“the Company” hereinafter) today announces that the Company decided to transfer to Kinetic Technologies (“Kinetic” hereinafter) the “Smart Connectivity (DisplayPort) business (“SC business” hereinafter) divisions of MegaChips Technology America (“MCA” hereinafter) and MegaChips Taiwan Corporation (“MCT” hereinafter) as of November 26, 2019 (US Pacific Time) and signed an agreement with Kinetic.

After transfer of SC business division, MCA will be dissolved, and MegaChips LSI USA Corporation (“MLU” hereinafter), a consolidated subsidiary in the US, will take over business activities as a new base.

1. Purpose of transfer

As a R&D base in the US, MCA has developed cutting-edge technology, performed effective marketing in the north America, EU and middle east, and promoted business activities as the Company’s global development base. In September 2014, MCA acquired SC business from STMicroelectronics and the Company established SC business division in MCT as sales and technical support base in Taiwan and China regions to offer various products including PC, Game device, AV equipment and LCD monitor that realize interface between digital equipment.

The Company has been making efforts toward reform for the Group’s sustainable growth and the enhancement of efficient management system, thus determined to transfer SC business divisions of MCA and MCT to Kinetic.

In order to streamline bases, the Company decided to dissolve MCA after transfer of SC business division and move its business functions to MLU as a new base for global development of ASIC business.

The Company will focus its managerial resources to growth market including automotive, industrial equipment and 5G telecommunication and strengthen measures for the mid-term sustainable growth.

2. Overview of transfer of SC business divisions

(1) Overview of subsidiaries to transfer the business (as of March 31, 2019)

US subsidiary (MCA)

① Name	MegaChips Technology America Corporation		
② Location	2755 Orchard Parkway, San Jose, CA 95134 U.S.A.		
③ Representative	Koichi Akeyama, CEO (The Company's director)		
④ Lines of business	Development, marketing and sale of semiconductor		
⑤ Capital	US\$ 4,570 thousand (¥362 million)		
⑥ Established	December 1994		
⑦ Major shareholders and interests	The Company, 100%		
⑧ Relationship between the Company and MCA			
Capital	100% ownership by the Company		
Personnel	2 directors and 1 employee of the Company serve concurrently as officers of MCA.		
Business	Sales and purchase of products, and loan of fund		
Related party status	The Company's subsidiary and applicable to related party.		
⑨ Assets and liabilities and financial results of MCA for past 3 years	FY2016 (ended in Mar 2017)	FY2017 (ended in Mar 2018)	FY2018 (ended in Mar 2019)
Net assets	¥ 2,986 Million	¥ 2,890 Million	¥ 2,628 Million
Total assets	¥ 5,462 Million	¥ 6,098 Million	¥ 5,780 Million
Net sales	¥ 8,399 Million	¥ 7,757 Million	¥ 7,750 Million
Operating income (loss)	¥ 275 Million	¥ 161 Million	(¥ 153 Million)
Net income (loss)	¥ 261 Million	¥ 62 Million	(¥ 390 Million)
Dividend per share	—	—	—

(Note) Calculation of “⑤ Capital” is based on the exchange rate on the acquisition date and “⑨ Assets and liabilities and financial results of MCA for past 3 years” is based on closing rate.

Taiwan subsidiary (MCT)

① Name	MegaChips Taiwan Corporation
② Location	RM. B 2F, Worldwide House, No.129, Min Sheng E.Rd., Sec.3, Taipei 105 Taiwan
③ Representative	Kyoichi Kissei, President
④ Lines of business	Development, production management and sale of semiconductor
⑤ Capital	NTD 610,000 thousand (¥2,035 million)
⑥ Established	September 2013
⑦ Major shareholders and interests	The Company 59% Shun Yin Investment Ltd. (100% subsidiary of the Company) 41%

(Note) Calculation of “⑤ Capital” is based on the exchange rate on the acquisition date.

(2) Performance of SC business division for most recent fiscal year (ended March 2019)

	SC division (a)	Consolidated results (b)	Ratio (a/b)
Consolidated net sales	¥6,614 million	¥95,145 million	6.9%

(Note) Conversion into yen is based on the rate as of March 31, 2019.

(3) Assets and liabilities of SC business division (as of March 31, 2019)

US subsidiary (MCA)

Assets		Liabilities	
Item	Book value	Item	Book value
Current assets	¥1,394 Million	Current liabilities	¥676 Million
Fixed assets	¥3,505 Million	Fixed liabilities	¥41 Million
Total	¥4,899 Million	Total	¥717 Million

(Note) Conversion into yen is based on the rate as of March 31, 2019.

Taiwan subsidiary (MCT)

Assets		Liabilities	
Item	Book value	Item	Book value
Current assets	¥449 Million	Current liabilities	¥417 Million
Fixed assets	¥33 Million	Fixed liabilities	—
Total	¥483 Million	Total	¥417 Million

(Note) Conversion into yen is based on the rate as of March 31, 2019.

(4) Transfer amount and payment

Transfer amount	US\$25 Million (¥2.75 Billion)
Payment	Cash at the closing US\$8 Million (¥880 Million) Payment certificate at the closing US\$17 Million (¥1.87 Billion)

(Note) Conversion into yen is based on forecasted rate of FY2019 (@¥110).

(5) Overview of Kinetic (as of September 30, 2019)

① Name	Kinetic Technologies
② Location	PO Box 309, Uglan House, Grand Cayman, KY1-1104.
③ Representative	CEO Kin Edward Shum
④ Lines of business	Design, development and sale of high-performance analog and mixed-signal semiconductors for personal electronics, industrial, Telecom and Enterprise markets
⑤ Capital	US\$ 12,826 thousand (¥ 1,384 million)
⑥ Established	May 17, 2006
⑦ Net assets	US\$ 19,278 thousand (¥ 2,080 million)
⑧ Total assets	US\$ 29,522 thousand (¥ 3,186 million)
⑨ Major shareholders (top3)	—
⑩ Relationship between the Company and Kinetic	
Capital	Not applicable
Personnel	Not applicable
Business	Not applicable
Related party status	Kinetic is not a related party of the Company.

(Note) Conversion into yen is based on the rate as of September 30, 2019.

(6) Implementation program of business transfer

Decision	November 26, 2019 (US Pacific Time)
Conclusion of the relevant contract	November 26, 2019 (US Pacific Time)
Transfer date	December 2019 (tentative)

3. Overview of dissolution of MCA

(1) Overview of subsidiary to dissolve

Please refer to “(1) Overview of subsidiaries to transfer the business (as of March 31, 2019)” of “2. Overview of transfer of SC business divisions”.

(2) Schedule of dissolution

Decision	November 26, 2019 (US Pacific Time)
Dissolution date	December 2019 (tentative)
Completion of liquidation	March 2020 (tentative)

4. Accounting treatments

The accounting of this business transfer will be treated based on “Accounting Standard for Business Divestitures and Implementation Guidance” (Accounting Standard - ASBJ Statement No. 7 Released on November 18, 2014) as an entity divesting its business.

5. Future outlook

In the consolidated financial settlement for fiscal year ending March 2020, the loss on transfer of business for about ¥1.8 billion due to this business transfer, approximately ¥500 million of exchange gain and minus in income taxes payments for about ¥600 million (profit) in association with dissolution of subsidiary are expected to be posted, however, the amount is subject to change depending on future business environment.

The forecasted amount has not been included in the full-year business forecast for fiscal year ending March 2020 that was published on May 10, 2019. Please note that, while all related factors are still under the Company’s closer investigation, the company will make timely disclosure of the impact of the transfer on the consolidated results for the fiscal year ending in March 2020 once it is determined.

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