

3. Forecast of consolidated operating results (from April 1, 2013 to March 31, 2014)

(Percentages denote the rate of increase or decrease from the previous year in "Full-year" and from the same period of the previous year in "Six-month period ending September 30, 2013.")

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six-month period ending September 30, 2013	31,500	27.4	2,000	-15.7	2,000	-14.5	3,600	29.8	154.18
Full-year	63,000	17.5	4,200	6.0	4,200	1.9	4,900	21.2	209.86

(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): Yes

New: -

Exception: 1 companies (Kawasaki Microelectronics, Inc.)

(Note) For details, please refer to the Accompanying Materials, Page 3, 2. Matters Relating to Summary Information (Notes).

(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 3, 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: None

2) Changes in accounting policies other than that described above: None

3) Changes in accounting estimates: None

4) Restatement: None

(4) Number of shares outstanding (common stock)

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

First quarter of the year ending March 31, 2014 24,038,400 shares

Year ended March 31, 2013 24,038,400 shares

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

First quarter of the year ending March 31, 2014 689,418 shares

Year ended March 31, 2013 689,486 shares

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

First quarter of the year ending March 31, 2014 23,348,976 shares

First quarter of the year ended March 31, 2013 23,954,380 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

Accompanying Materials – Contents

1. Qualitative Information on Consolidated Operating Results, etc. for the First Quarter of the Year ending March 31, 2014	P. 2
(1) Qualitative information on consolidated operating results.....	P. 2
(2) Qualitative information on consolidated financial position	P. 2
(3) Qualitative information on consolidated business outlook.....	P. 3
2. Matters Relating to Summary Information (Notes)	P. 3
(1) Adoption of unique accounting method to the preparation of quarterly consolidated financial statements	P. 3
(2) Changes in accounting policies and changes or restatement of accounting estimates.....	P. 3
3. Consolidated Financial Statements.....	P. 4
(1) Consolidated balance sheet	P. 4
(2) Consolidated statements of income and statements of comprehensive income Consolidated first quarter.....	P. 6
(3) Consolidated statements of cash flows.....	P. 7
(4) Note on going concern assumptions	P. 8
(5) Notes to significant changes in shareholders' equity	P. 8
(6) Material subsequent events	P. 8

1. Qualitative Information on Consolidated Operating Results for the First Quarter of the Year ending March 31, 2014

(1) Qualitative information on consolidated operating results

During the first quarter under review, delay in the recovery of the Japanese economy, attributable to factors such as improved export conditions and the positive effects generated by the economic measures and financial policies being implemented. Under these conditions, exports showed signs of recovery and earnings improved for companies centered on manufacturing. Despite this progress, potential downturns in the overseas economy remain as downside economic risks.

In the electronic machinery and equipment industry, in which the MegaChips Group operates, demand for consumer and industrial electronic equipment products fell, in spite of year-on-year growth in certain electronic components. As a result, the electronic machinery and equipment market continued to shrink from the previous year.

Under these challenging circumstances, the Company merged with Kawasaki Microelectronics, Inc. (hereinafter “Kawasaki Micro”) and began operating as the new MegaChips Corporation effective April 1, 2013.

The MegaChips Group is moving forward with the following operations, focusing on applications, systems planning, and the provision of solutions, using its stable support system, which covers upstream logical design, downstream physical design, manufacturing operations, and quality assurance, for planning and supply as its new source of strength, in addition to offering diverse products and original solutions based on its technologies for compressing and decompressing images, audio, and music, and the telecommunications that comprise its expertise.

The Group is developing and selling LSIs, such as memory for specific-use applications, system LSIs, and electronic components mounted with the Group’s own LSIs, for its leading customers in Japan and abroad, mainly in the areas of amusement, digital home electronics, office machines, energy-saving products, and home networking equipment.

In the area of security monitoring, the Group is developing and selling the products on which its system LSIs are mounted, such as system devices specializing in the transmission and recording of digital video.

Both consolidated revenues and profits increased year on year for the first quarter under review, reflecting the contributions made by new LSIs for digital cameras and the addition of the operating results for Kawasaki Micro, which had been placed outside the scope of consolidation in the first quarter of the previous fiscal year. As a result, consolidated net sales amounted to ¥13,589 million (up 106.9% from the first quarter of the previous fiscal year). Consolidated operating income came to ¥1,011 million (up 155.2% year on year). Consolidated ordinary income amounted to ¥1,151 million (up 183.1% year on year). Consolidated net income reached ¥2,889 million (compared with the income of ¥236 million posted for the first quarter of the previous fiscal year) due to factors including a gain on the adjustment of tax amounts of ¥2,450 million that arose from the posting of deferred tax assets as a result of the Company’s merger with Kawasaki Micro.

(2) Qualitative information on consolidated financial position

Total assets at the end of the first quarter of the fiscal year under review were ¥46,665 million (an increase of ¥2,590 million from the previous fiscal year). Major items contributing to this increase included growth in cash and deposits of ¥839 million, a rise in deferred tax assets (current assets) of ¥831 million resulting from the Company’s merger with a subsidiary, and an increase in deferred tax assets (noncurrent assets) of ¥1,609 million, offsetting a decrease in notes and accounts receivable—trade of ¥1,584 million.

Total liabilities were ¥16,689 million (an increase of ¥210 million from the previous fiscal year). Major items contributing to this growth were an increase in notes and accounts payable—trade of ¥1,204 million, offsetting a decrease in long-term loans payable of ¥708 million.

Total net assets were ¥29,976 million (an increase of ¥2,380 million from the previous fiscal year). As a result, the shareholders’ equity ratio was 64.2% (an increase of 1.6 percentage points from the previous fiscal year).

Cash and cash equivalents (“net cash”) reached ¥11,270 million for the first quarter of the consolidated fiscal year under review, increased ¥839 million from the previous consolidated fiscal year (compared with a rise of ¥12,071 million in the same period of the previous consolidated fiscal year). The status of cash flows for the first quarter of the consolidated fiscal year under review was as follows:

Net cash provided by operating activities was ¥2,714 million (compared with net cash of ¥5,091 million such activities provided in the same period of the previous fiscal year). Major factors that contributed to the net cash balance were net income before taxes of ¥1,131 million (up 178.4% from the same period of the previous fiscal year), a decrease of ¥1,605 million in notes and accounts receivable—trade and an increase of ¥1,185 million in notes and accounts payable—trade.

Net cash used in investment activities was ¥655 million (compared with net cash such activities used of ¥1,057 million in the same period of the previous fiscal year). Major factors that contributed to these outflows included the purchase of long-term prepaid expenses of ¥213 million and the payment of other expenses of ¥294 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 a net cash acquisition of ¥2,059 million (compared to a net cash acquisition of ¥4,034 million in the same period of the previous fiscal year).

Net cash used in financing activities was ¥1,467 million (compared with net cash such activities provided of ¥7,885 million in the same period of the previous fiscal year). Major factors that contributed to these outflows included the repayment of long-term loans payable of ¥708 million and cash dividend payments of ¥759 million.

(3) Qualitative information on consolidated business outlook

Please refer to the Notice of the Revision of Operating Results Forecasts and the Posting of Deferred Tax Assets, published today, for the revision of the consolidated operating results forecasts for the first six months and the full period of the year ending March 31, 2014, which the Company released on May 8, 2013.

2. Matters Relating to Summary Information (Notes)

(1) Changes in key subsidiaries during the term

Material changes in the scope of consolidation

Starting in the first quarter under review, the Company eliminated Kawasaki Microelectronics, Inc., which had been a consolidated subsidiary, from its scope of consolidation as the subsidiary ceased to exist after an absorption-type merger in which the Company became the surviving company.

(2) 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.

3. Consolidated Financial Statements

(1) Consolidated balance sheet

(Thousand yen)

	FY 2012 (As of March 31, 2013)	Q1 FY 2013 (As of June 30, 2013)
Assets		
Current assets:		
Cash and deposits	10,431,546	11,270,780
Notes and accounts receivable-trade	16,877,890	15,293,070
Merchandise and finished goods	1,298,176	1,837,965
Work in process	1,510,267	1,378,897
Raw materials and supplies	892,883	619,289
Deferred tax assets	1,343,077	2,174,333
Other	734,991	759,048
Allowance for doubtful accounts	(924)	(1,079)
Total current assets	33,087,908	33,332,305
Noncurrent assets:		
Property, plant and equipment		
Buildings	3,853,526	3,849,821
Accumulated depreciation	(2,794,865)	(2,767,134)
Buildings, net	1,058,661	1,082,687
Other	6,862,290	6,920,485
Accumulated depreciation	(6,027,057)	(6,065,338)
Other, net	835,232	855,146
Total property, plant and equipment	1,893,893	1,937,834
Intangible assets		
Other	689,330	657,277
Total intangible assets	689,330	657,277
Investments and other assets		
Investment securities	2,440,619	2,571,187
Long-term prepaid expenses	1,754,537	2,090,593
Deferred tax assets	2,961,178	4,570,226
Other	1,247,542	1,506,132
Total investment and other assets	8,403,876	10,738,139
Total noncurrent assets	10,987,100	13,333,252
Total assets	44,075,009	46,665,557

(Thousand yen)

	FY 2012 (As of March 31, 2013)	Q1 FY 2013 (As of June 30, 2013)
Liabilities		
Current liabilities:		
Notes and accounts payable–trade	3,443,211	4,647,821
Current portion of long-term loans payable	2,833,332	2,833,332
Income taxes payable	529,310	708,515
Provision for bonuses	633,554	308,271
Provision for loss on construction contracts	759,978	586,838
Other provision	–	37,500
Other	2,897,931	2,856,758
Total current liabilities	11,097,317	11,979,036
Noncurrent liabilities:		
Long-term loans payable	4,250,002	3,541,669
Other	1,131,944	1,168,754
Total noncurrent liabilities	5,381,946	4,710,423
Total liabilities	16,479,263	16,689,460
Net assets		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	6,181,300	6,181,300
Retained earnings	17,364,960	19,460,845
Treasury stock	(1,056,030)	(1,055,926)
Total shareholders' equity	27,330,543	29,426,532
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	267,293	308,214
Foreign currency translation adjustment	(2,091)	241,349
Total other accumulated comprehensive income	265,201	549,563
Total net assets	27,595,745	29,976,096
Total liabilities and net assets	44,075,009	46,665,557

(2) Consolidated statements of income and statements of comprehensive income
(Consolidated first quarter)

(Thousand yen)

	Q1 FY 2012 (From April 1, 2012 to June 30, 2012)	Q1 FY 2013 (From April 1, 2013 to June 30, 2013)
Net sales	6,567,154	13,589,928
Cost of sales	5,192,743	10,099,868
Gross profit	1,374,411	3,490,059
Selling, general and administrative expenses	978,178	2,478,779
Operating income	396,232	1,011,280
Non-operating income		
Interest income	1,742	2,054
Dividends income	825	3,667
Gain on forfeiture of unclaimed dividends	7,807	6,306
Foreign exchange gains	–	150,311
Miscellaneous income	726	5,344
Total non-operating income	11,101	167,683
Non-operating expenses		
Interest expenses	530	15,163
Foreign exchange losses	43	–
Miscellaneous loss	77	12,641
Total non-operating expenses	651	27,804
Ordinary income	406,682	1,151,159
Extraordinary loss		
Loss on retirement of noncurrent assets	386	19,926
Total extraordinary loss	386	19,926
Net income before taxes	406,296	1,131,232
Income taxes	169,789	(1,758,523)
Income before minority interests	236,506	2,889,756
Net income	236,506	2,889,756
Income before minority interests	236,506	2,889,756
Other comprehensive income		
Valuation difference on available-for-sale securities	(160,524)	40,921
Foreign currency translation adjustment	240,637	243,440
Total other comprehensive income	80,113	284,362
Comprehensive income	316,620	3,174,118
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	316,620	3,174,118
Comprehensive income attributable to minority interests	–	–

(3) Consolidated statements of cash flows

(Thousand yen)

	Q1 FY 2012 (From April 1, 2012 to June 30, 2012)	Q1 FY 2013 (From April 1, 2013 to June 30, 2013)
Net cash provided by (used in) operating activities		
Net income before taxes	406,296	1,131,232
Depreciation and amortization	37,331	150,257
Amortization of long-term prepaid expenses	18,289	238,755
Increase (decrease) in provision for bonuses	(177,479)	(325,283)
Increase (decrease) in provision for loss on construction contracts	3,554	(173,140)
Interest and dividends income	(2,567)	(5,721)
Interest expenses	530	15,163
Decrease (increase) in notes and accounts receivable-trade	4,459,857	1,605,342
Decrease (increase) in inventories	(67,360)	(102,262)
Increase (decrease) in notes and accounts payable-trade	512,163	1,185,036
Decrease (increase) in other current assets	84,093	40,452
Increase (decrease) in other current liabilities	398,622	(536,312)
Other	26,552	(34,806)
Subtotal	5,699,884	3,188,713
Interest and dividends income received	2,775	5,721
Interest expenses paid	–	(15,870)
Income taxes paid	(611,413)	(464,189)
Net cash provided by (used in) operating activities	5,091,245	2,714,375
Net cash provided by (used in) investment activities		
Purchase of property, plant and equipment	(9,037)	(86,928)
Purchase of intangible assets	(12,623)	(59,893)
Purchase of long-term prepaid expenses	(380,952)	(213,561)
Payments of loans receivable	(550,000)	–
Other	(104,590)	(294,827)
Net cash provided by (used in) investment activities	(1,057,203)	(655,211)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	8,500,000	–
Repayment of long-term loans payable	–	(708,333)
Proceeds from disposal of treasury stock	–	95
Cash dividends paid	(614,339)	(759,333)
Net cash provided by (used in) financing activities	7,885,660	(1,467,570)
Effect of exchange rate change on cash and cash equivalents	151,609	247,640
Net increase (decrease) in cash and cash equivalents	12,071,311	839,233
Cash and cash equivalents at beginning of period	7,228,018	10,431,546
Cash and cash equivalents at end of period	19,299,330	11,270,780

(4) Note on going concern assumptions

None

(5) Notes to significant changes in shareholders' equity

None

(6) Material subsequent events

The Board of Directors of the Company resolved to set up a wholly owned subsidiary in Taiwan and transfer the operations of the Company's Taiwan Branch to this subsidiary at its meeting held on July 26, 2013.

1. Reasons for establishing the subsidiary

The MegaChips Group has been engaged in various businesses in Taiwan for many years. In addition, the Taiwan Branch, which the Company took over from Kawasaki Microelectronics, Inc. through an absorption-type merger on April 1, 2013, has been engaged in business activities in the country focused on the manufacture of LSIs for LCD panels. The Company plans to establish this subsidiary as its regional headquarters in Asia to bolster its sales and marketing, development, field application engineering (FAE), and production management functions in order to expand its operations in Asia.

With the establishment of this subsidiary in the same country, the Company plans to close the Taiwan Branch after completing the transfer of the Branch's functions to the subsidiary.

2. Summary of the subsidiary to be established

- | | |
|---------------------------------|--|
| (i) Name | MegaChips Taiwan Corporation (tentative) |
| (ii) Address | Room B 2F, Worldwide House, No. 129, Min Sheng E. Rd., Sec. 3, Taipei 105
Taiwan |
| (iii) Representative | Chairman:
Shigeki Matsuoka (Executive Vice President of the Company and Officer of the Corporate Business Management Office) |
| (iv) Business activities | Sales, production management, support, and other functions for Group products as the Group headquarters for its businesses in Asia |
| (v) Account settlement date | March |
| (vi) Capital (investment ratio) | 360,000,000 Taiwan dollars (invested by the Company at a ratio of 100%) |
- (Note) This subsidiary will correspond to a specified subsidiary of the Company.

3. Schedule

- | | |
|-----------------------------------|---|
| (i) Board of Directors resolution | July 26, 2013 |
| (ii) Date of establishment | An unspecified date in October 2013 (projected) |
| (iii) Date of operational launch | An unspecified date in January 2014 (projected) |