



# Summary of Consolidated Financial Statements for the Second Quarter Ended September 30, 2014 (Japanese GAAP)

October 24, 2014

Name of listed company: Axell Corporation Stock Exchange: Tokyo  
 Code #: 6730 URL: <http://www.axell.co.jp/>  
 Representative (Post): Kazunori Matsuura (President)  
 Inquiries (Post): Nobuhiro Sendai (Director) Phone: (03) 5298-1670  
 Scheduled date of release of Quarterly Report: November 7, 2014  
 Scheduled date of dividend payment: November 19, 2014  
 Availability of supplementary explanatory materials prepared for quarterly financial results: Available  
 Briefing session on quarterly financial results to be held: Yes (for analysts and institutional investors)

(Figures are rounded down to the nearest million yen.)

## 1. Consolidated Business Results for Second Quarter of Fiscal Year 2014 (April 1, 2014 to September 30, 2014)

### (1) Consolidated operating results (cumulative) (Percentage figures indicate the rate of year-on-year increase (decrease).)

	Net sales		Operating income		Ordinary income		Net income	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
Q2 FY 2014	5,936	4.6	1,096	22.0	1,103	23.1	781	36.4
Q2 FY 2013	5,675	(40.4)	898	(57.9)	896	(58.2)	572	(59.6)

(Note) Comprehensive income Q2 FY 2014: 770 million yen (34.0%) Q2 FY 2013: 574 million yen ((59.1)%)

	Basic net income per share	Diluted net income per share
	Yen	Yen
Q2 FY 2014	62.99	—
Q2 FY 2013	46.20	—

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
Q2 FY 2014	14,470	13,374	92.4	1,078.43
FY 2013	13,855	12,976	93.7	1,046.32

(Reference) Equity capital Q2 FY 2014: 13,374 million yen FY 2013: 12,976 million yen

## 2. Dividend Payments

	Annual Dividend				
	1Q	2Q	3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2013	—	25.00	—	30.00	55.00
FY 2014	—	25.00			
FY 2014 (Projection)			—	25.00	50.00

(Note) Revision of dividend projection from recently announced figures: None

### 3. Consolidated Forecast Results for FY 2014 (April 1, 2014 to March 31, 2015)

(Percentage figures indicate the rate of year-on-year increase (decrease).)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
Full Year	10,700	(3.1)	1,350	(30.3)	1,350	(30.4)	950	(4.9)	76.59

(Note) Revision of forecast results from recently announced figures: None

#### \* Matters of Note

##### (1) Significant changes in subsidiaries during the period under review (Changes in specific subsidiaries involving changes in scope of consolidation): None

New: — company Name: —

Exclusion: — company Name: —

##### (2) Application of special accounting processes for the preparation of Consolidated Financial Statements: Yes

(Note) For details, please refer to [Appendix] P. 5 “2. Matters Related to Summary Information (Matters of Note) (2) Application of special accounting processes for the preparation of Consolidated Financial Statements.”

##### (3) Changes to accounting policies, changes to accounting estimates, and restatements:

- 1) Changes to accounting policies accompanying the revision of accounting standards, etc.: None
- 2) Changes to accounting policies other than 1) above: None
- 3) Changes to accounting estimates: None
- 4) Restatements: None

##### (4) Number of shares issued (common shares)

1) The number of shares issued at end of period (including treasury stock)	Q2 FY 2014	12,402,252 shares	FY 2013	12,402,252 shares
2) The number of shares of treasury stock at end of period	Q2 FY 2014	54 shares	FY 2013	54 shares
3) Average number of shares of common shares during period (cumulative)	Q2 FY 2014	12,402,198 shares	Q2 FY 2013	12,402,198 shares

#### \* Presentation regarding execution status of quarterly review procedures

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

#### \* Explanation of appropriate use of results forecasts, other matters of note:

##### (Note on forward-looking statements, etc.)

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the date of publication of this document. Actual results may differ significantly from these forecasts due to various factors. Please refer to [Appendix] P. 4 “1. Qualitative Information on Quarterly Financial Results (3) Explanation of future forecast information such as consolidated results forecasts.”

#### (Method of obtaining supplementary explanatory materials and contents of the quarterly briefing session)

Supplementary explanatory materials are disclosed on TDnet on the same day.

The Company is planning to hold a briefing session for analysts and institutional investors on Monday, October 27, 2014. The video of the briefing session is scheduled to be posted on the Company’s website immediately after the session.

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## **1. Qualitative Information on Quarterly Financial Results**

### **(1) Explanation of business results**

During the second quarter of fiscal 2014, a moderate recovery trend continued in the Japanese economy including improvements in corporate earnings and the employment situation due to the government's economic policies and monetary easing measures by the Bank of Japan. However, the economic outlook remained uncertain, due to the rising cost of import materials and energy costs caused by yen depreciation, and the impact of the consumption tax hike.

In the amusement device market (pachinko and pachislot machine market), which is the primary market for the Group, while sales of the few popular models from which stable operations could be expected remained strong, conditions continued to hover at low levels overall due to the harsh profit environment for amusement facilities. Additionally, as tests relating to the manufacture of pachislot machines have undergone changes and voluntary controls have been imposed starting from September 2014, close attention will need to be paid to the sales trends of pachislot machines going forward.

Under such circumstances, the Group channeled its energies into expanding business scale in the pachinko and pachislot machine market by concentrating its efforts on promoting the sale of various products, focusing on Graphics LSI products (Note 1) targeted at the pachinko and pachislot machine market, which are the Group's mainstay products (including an integrated product that fulfills multiple functions such as sound-generating and LED (Note 2) driver functions). Furthermore, the Group has been striving to expand the adoption of Graphics LSI products for customers in the embedded system market (Note 3), and also concentrated its efforts on development and sales in the field of Radio by NEW ZONE CORPORATION, a wholly-owned subsidiary. As for Graphics LSI products, which are the Group's mainstay products and targeted at the pachinko and pachislot machine market, sales volume decreased by approximately 20,000 units year-on-year to approximately 620,000 units, reflecting the market environment as well as the effects of reuse of AG4. Regarding other products targeted at the pachinko and pachislot machine market, while sales LED driver LSI products (Note 4) fell below those of the previous corresponding period, sales of memory-module products increased significantly from the previous corresponding period, reflecting trends in demand of particular customers. As a result, total sales of LSI products targeted at the pachinko and pachislot machine market amounted to 5,748 million yen (up 4.8% year-on-year). In terms of Graphics LSI products targeted at the embedded system market, net sales decreased 14.3% year-on-year to 95 million yen. As for other products, including development-support software for customers and evaluation circuit boards, net sales increased 15.0% year-on-year to 92 million yen. As a result, for the second quarter of fiscal 2014, the Group recorded net sales of 5,936 million yen (up 4.6% year-on-year).

In terms of gross profit, the Group recorded 2,464 million yen (up 2.7% year-on-year) due to the increase in net sales. While the gross profit ratio decreased by 0.8 points from the previous corresponding period to 41.5%, the gross profit ratio for Graphics LSI products targeted at the pachinko and pachislot machine market, the Group's mainstay products, improved somewhat due primarily to the effects of reducing purchasing costs.

Selling, general and administrative expenses decreased 8.9% year-on-year to 1,368 million yen. Research and development expenses decreased 14.1% year-on-year to 843 million yen, due to the lack of major expenditures, such as expenditures for the development of next-generation LSI prototypes.

Consequently, for the second quarter of fiscal 2014, the Group recorded operating income of 1,096 million yen

(up 22.0% year-on-year), ordinary income of 1,103 million yen (up 23.1% year-on-year) and net income of 781 million yen (up 36.4% year-on-year).

(Note 1) “Graphics LSI” refers to LSI products that enable graphics to be shown on LCDs and other display devices.

(Note 2) “LED” is an acronym for “Light Emitting Diode.” It refers to semiconductor elements that emit light when electricity is applied.

(Note 3) “Embedded system market” refers to the market relating to the manufacture of embedded systems, excluding the pachinko and pachislot machines. Embedded systems refer to electronic devices that have a computer embedded that carries out a particular processing specific to a certain application. Embedded systems include devices of various types and in various areas, ranging from medical devices, vending machines, to home electric appliances.

(Note 4) “LED driver LSI product” refers to the Company’s LSI products designed to efficiently control LED equipped in pachinko and pachislot machines.

## **(2) Explanation of financial position**

### **1) Status of assets, liabilities, and net assets**

Total assets as of the end of the second quarter of fiscal 2014 increased 615 million yen from the end of the previous fiscal year to 14,470 million yen (up 4.4% year-on-year). This was due mainly to factors such as the increase of 954 million yen in cash and deposits and the increase of 248 million yen in merchandise and finished goods, offset by the decrease of 421 million yen in accounts receivable-trade.

Total liabilities as of the end of the second quarter of fiscal 2014 increased 216 million yen from the end of the previous fiscal year to 1,095 million yen (up 24.7% year-on-year). This was due mainly to the increase of 327 million yen in income taxes payable.

Total net assets as of the end of the second quarter of fiscal 2014 increased 398 million yen from the end of the previous fiscal year to 13,374 million yen (up 3.1% year-on-year). This was due mainly to the increase of 409 million yen in retained earnings.

### **2) Status of cash flows**

Cash and cash equivalents as of the end of the second quarter of fiscal 2014 stood at 10,862 million yen (up 3.4% year-on-year). The status of cash flows for the second quarter of fiscal 2014 was as follows:

#### **(Cash flows from operating activities)**

Funds provided by operating activities for the second quarter of fiscal 2014 amounted to 1,403 million yen (a cash outflow of 1,772 million yen in the same period of the previous fiscal year). This was mainly attributable to factors such as the increase in inventories (248 million yen) and the decrease in other current liabilities (194 million yen), while income before income taxes and minority interests for the second quarter ended September 30, 2014 (1,103 million yen), the decrease in notes and accounts receivable-trade (421 million yen), and income taxes refund (232 million yen) were recorded.

#### **(Cash flows from investing activities)**

Funds used in investing activities for the second quarter of fiscal 2014 amounted to 74 million yen (a cash outflow of 119 million yen in the same period of the previous fiscal year). This was attributable to the purchase of property, plant and equipment (49 million yen).

**(Cash flows from financing activities)**

Funds used in financing activities for the second quarter of fiscal 2014 amounted to 373 million yen (a cash outflow of 867 million yen in the same period of the previous fiscal year). This was mainly attributable to cash dividends paid (372 million yen).

**(3) Explanation of future forecast information such as consolidated results forecasts**

Consolidated forecast results for fiscal 2014 are as stated in the “Notice of Revision of Earnings Forecast for the First Half and Full Year of Fiscal 2014” disclosed on August 15, 2014. As stated in the “Notice of Business Transfer from a Consolidated Subsidiary and the Dissolution of the Subsidiary,” dated today, the Company has resolved to accept the transfer of the entire business of NEW ZONE CORPORATION, its consolidated subsidiary, and to dissolve and liquidate the said company. However, as NEW ZONE CORPORATION is a wholly-owned subsidiary, its impact on the Company’s consolidated results is expected to be minimal. Additionally, due to the financial condition, etc. of NEW ZONE CORPORATION, its impact on the non-consolidated results is also expected to be minimal.

## **2. Matters Related to Summary Information (Matters of Note)**

### **(1) Significant changes in subsidiaries during the period under review**

N/A

### **(2) Application of special accounting processes for the preparation of Consolidated Financial Statements**

Tax expenses have been calculated by multiplying income before income taxes and minority interests by an effective tax rate reasonably estimated after the application of tax effect accounting to income before income taxes and minority interests for the consolidated fiscal year including the second quarter of fiscal 2014.

**3. Consolidated Financial Statements****(1) Consolidated Quarterly Balance Sheets**

(In millions of yen)

	FY 2013 (As of March 31, 2014)	Q2 FY 2014 (As of September 30, 2014)
<b>Assets</b>		
Current assets		
Cash and deposits	5,908	6,863
Accounts receivable - trade	997	575
Securities	3,999	3,999
Merchandise and finished goods	1,565	1,813
Raw materials and supplies	0	1
Other	546	320
Total current assets	13,018	13,574
Non-current assets		
Property, plant and equipment	271	334
Intangible assets	44	41
Investments and other assets	521	519
Total non-current assets	836	895
Total assets	13,855	14,470
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	358	295
Income taxes payable	-	327
Other	487	436
Total current liabilities	845	1,059
Non-current liabilities		
Asset retirement obligations	32	33
Other	-	2
Total non-current liabilities	32	35
Total liabilities	878	1,095
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,018	1,018
Capital surplus	861	861
Retained earnings	11,063	11,472
Treasury shares	(0)	(0)
Total shareholders' equity	12,944	13,353
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	32	21
Total accumulated other comprehensive income	32	21
Total net assets	12,976	13,374
Total liabilities and net assets	13,855	14,470



## (2) Consolidated Quarterly Statements of Income and Comprehensive Income

### (Consolidated Quarterly Statements of Income)

(Second quarter)

	(In millions of yen)	
	Q2 FY 2013 (From April 1, 2013 to September 30, 2013)	Q2 FY 2014 (From April 1, 2014 to September 30, 2014)
Net sales	5,675	5,936
Cost of sales	3,275	3,472
Gross profit	2,399	2,464
Selling, general and administrative expenses	1,501	1,368
Operating income	898	1,096
Non-operating income		
Interest income	2	0
Dividend income	0	1
Interest on refund	0	4
Other	1	2
Total non-operating income	4	8
Non-operating expenses		
Loss on investments in partnership	1	1
Other	5	1
Total non-operating expenses	6	2
Ordinary income	896	1,103
Income before income taxes and minority interests	896	1,103
Income taxes	323	321
Income before minority interests	572	781
Net income	572	781

(Consolidated Quarterly Statements of Comprehensive Income)

(Second quarter)

(In millions of yen)

	Q2 FY 2013 (From April 1, 2013 to September 30, 2013)	Q2 FY 2014 (From April 1, 2014 to September 30, 2014)
Income before minority interests	572	781
Other comprehensive income		
Valuation difference on available-for-sale securities	1	(11)
Total other comprehensive income	1	(11)
Comprehensive income	574	770
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	574	770
Comprehensive income attributable to minority interests	-	-

## (3) Consolidated Quarterly Statements of Cash Flows

(In millions of yen)

	Q2 FY 2013 (From April 1, 2013 to September 30, 2013)	Q2 FY 2014 (From April 1, 2014 to September 30, 2014)
Cash flows from operating activities		
Income before income taxes and minority interests	896	1,103
Depreciation	62	59
Interest and dividend income	(3)	(2)
Loss (gain) on investments in partnership	1	1
Decrease (increase) in notes and accounts receivable - trade	(358)	421
Decrease (increase) in inventories	(438)	(248)
Decrease (increase) in other current assets	(157)	(83)
Increase (decrease) in notes and accounts payable - trade	(2)	(63)
Increase (decrease) in other current liabilities	(593)	(194)
Other, net	(159)	174
Subtotal	(753)	1,167
Interest and dividend income received	3	2
Income taxes refund	-	232
Income taxes paid	(1,023)	-
Net cash provided by (used in) operating activities	(1,772)	1,403
Cash flows from investing activities		
Purchase of property, plant and equipment	(82)	(49)
Purchase of intangible assets	(17)	(6)
Payments for asset retirement obligations	(17)	-
Other, net	(2)	(18)
Net cash provided by (used in) investing activities	(119)	(74)
Cash flows from financing activities		
Repayments of lease obligations	(0)	(1)
Cash dividends paid	(866)	(372)
Net cash provided by (used in) financing activities	(867)	(373)
Net increase (decrease) in cash and cash equivalents	(2,759)	954
Cash and cash equivalents at beginning of period	13,264	9,908
Cash and cash equivalents at end of period	10,504	10,862

(4) Notes to Consolidated Financial Statements

(Notes regarding going concern assumption)

N/A

(Notes in cases where there are significant changes in amount of shareholders' equity)

N/A

(Major subsequent events)

The Company, at its Board of Directors Meeting held on October 24, 2014, resolved to accept the transfer of the entire business of NEW ZONE CORPORATION, its consolidated subsidiary, and to dissolve and liquidate NEW ZONE CORPORATION upon completion of the business transfer.

1. Reason for the business transfer and dissolution

The Company has decided to accept the transfer of the entire business of NEW ZONE CORPORATION, which has developed its business in the field of Digital Convenience Radio, and to dissolve and liquidate the company after the completion of the business transfer, as part of the Group's efforts to streamline and enhance the efficiency of management.

2. Overview of the subsidiary

(1) Company name: NEW ZONE CORPORATION

(2) Location of head office: 14-1 Sotokanda 4-chome, Chiyoda-ku, Tokyo

(3) Representative: Yuzuru Sasaki, President

(4) Business description: Development and sales of semiconductors and electronic equipment

(5) Capital: 250 million yen

(6) Date of establishment: December 1, 2010

(7) Shareholder composition: Wholly-owned by the Company

3. Assets and liabilities of the subsidiary (as of March 31, 2014)

Assets: 76 million yen

Liabilities: 8 million yen

4. Schedule

October 24, 2014 Resolution of the Board of Directors Meeting

October 24, 2014 Conclusion of business transfer agreement

December 1, 2014 Effective date of business transfer (tentative)

December 1, 2014 Resolution to dissolve the company at the extraordinary general meeting of shareholders of the subsidiary (tentative)

Late-March 2015 Completion of liquidation of the subsidiary (tentative)

5. Loss expected due to the dissolution of the subsidiary

The impact of this dissolution and liquidation on the consolidated and non-consolidated results is expected to be minimal.

6. The impact of the dissolution of the subsidiary on operating activities, etc.

The impact of this dissolution and liquidation on operating activities, etc. is expected to be minimal.

## 4. Supplementary Information

### (1) Production, order and sales status

#### 1) Production

Production results for the second quarter of FY 2014 are as follows:

(Unit: millions of yen)

Classification	Q2 FY 2014 (From April 1, 2014 to September 30, 2014)	Change (%)
LSI products targeted at the pachinko and pachislot machine market	6,143	(1.3)
LSI products targeted at the embedded system market	225	129.8
Other	132	126.8
Total	6,501	1.9

- (Notes) 1. Amounts are according to sales price.  
2. Above figures are stated net of consumption taxes.

#### 2) Orders

Orders for the second quarter of FY 2014 are as follows:

(Unit: millions of yen)

Classification	Q2 FY 2014 (From April 1, 2014 to September 30, 2014)			
	Orders received	Change (%)	Outstanding orders	Change (%)
LSI products targeted at the pachinko and pachislot machine market	5,982	(14.6)	3,258	(12.1)
LSI products targeted at the embedded system market	105	2.4	47	5.4
Other	100	25.1	20	171.2
Total	6,188	(13.9)	3,326	(11.5)

- (Notes) 1. Amounts are according to sales price.  
2. Above figures are stated net of consumption taxes.

#### 3) Sales

Sales during the second quarter of FY 2014 are as follows:

(Unit: millions of yen)

Classification	Q2 FY 2014 (From April 1, 2014 to September 30, 2014)	Change (%)
LSI products targeted at the pachinko and pachislot machine market	5,748	4.8
LSI products targeted at the embedded system market	95	(14.3)
Other	92	15.0
Total	5,936	4.6

- (Notes) 1. Above figures are stated net of consumption taxes.  
2. Sales to the Company's main sales agent and the proportion of such sales to total sales in the second quarter of fiscal 2014 and the previous corresponding period are as follows:

Sales agent	Q2 FY 2013 (From April 1, 2013 to September 30, 2013)		Q2 FY 2014 (From April 1, 2014 to September 30, 2014)	
	Amount (millions of yen)	Percentage (%)	Amount (millions of yen)	Percentage (%)
Midoriya Electric Co., Ltd.	5,381	94.8	5,705	96.1

(Note) Above figures are stated net of consumption taxes.

**(2) Recent trends in quarterly business results (consolidated)****Year ending March 31, 2015**

(Unit: millions of yen)

	Q1 FY 2014 From April 2014 to June 2014	Q2 FY 2014 From July 2014 to September 2014	Q3 FY 2014 From October 2014 to December 2014	Q4 FY 2014 From January 2015 to March 2015
Net sales	3,326	2,610	—	—
Gross profit	1,569	894	—	—
Operating income	888	208	—	—
Ordinary income	890	212	—	—
Income before income taxes and minority interests	890	212	—	—
Net income	634	147	—	—
Comprehensive income	637	132	—	—
Net income per share	51.13 yen	11.86 yen	—	—
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	14,013	14,470	—	—
Net assets	13,242	13,374	—	—
Net assets per share	1,067.72 yen	1,078.43 yen	—	—

**Year ended March 31, 2014**

(Unit: millions of yen)

	Q1 FY 2013 From April 2013 to June 2013	Q2 FY 2013 From July 2013 to September 2013	Q3 FY 2013 From October 2013 to December 2013	Q4 FY 2013 From January 2014 to March 2014
Net sales	3,154	2,521	3,264	2,102
Gross profit	1,190	1,209	1,695	1,110
Operating income	521	376	812	226
Ordinary income	518	377	817	226
Income before income taxes and minority interests	518	377	417	226
Net income	338	234	256	169
Comprehensive income	336	238	268	185
Net income per share	27.28 yen	18.91 yen	20.67 yen	13.64 yen
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	14,169	13,896	13,930	13,855
Net assets	12,594	12,832	12,791	12,976
Net assets per share	1,015.52 yen	1,034.71 yen	1,031.35 yen	1,046.32 yen