



Summary of Financial Statements (Non-consolidated) for the First Quarter Ended June 30, 2018 (Japanese GAAP)

July 25, 2018

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 Availability of supplementary explanatory materials prepared for quarterly financial results: Available
 Briefing session on quarterly financial results to be held: None

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

1. Business Results for the First Quarter of Fiscal Year 2018 (April 1, 2018 to June 30, 2018)

(1) Operating results (cumulative)

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

	Net sales		Operating profit		Ordinary profit		Profit	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
Q1 FY 2018	724	(49.5)	(1,258)	—	(1,247)	—	(871)	—
Q1 FY 2017	1,434	(15.4)	(316)	—	(311)	—	(136)	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q1 FY 2018	(77.88)	—
Q1 FY 2017	(12.20)	—

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
Q1 FY 2018	10,995	10,455	95.1	934.60
FY 2017	13,035	11,418	87.6	1,020.67

(Reference) Equity capital Q1 FY 2018: 10,455 million yen FY 2017: 11,418 million yen

2. Dividend Payments

	Annual Dividend				
	1Q	2Q	3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2017	—	0.00	—	5.00	5.00
FY 2018	—				
FY 2018 (Projection)		0.00	—	0.00	0.00

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

3. Forecast Results for Fiscal Year 2018 (April 1, 2018 to March 31, 2019)

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

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
1st Half	2,200	(35.1)	(1,600)	-	(1,600)	-	(1,100)	-	(98.32)
Full Year	6,300	(25.7)	(1,450)	-	(1,450)	-	(1,050)	-	(93.85)

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

*** Matters of Note**

(1) Application of special accounting processes for the preparation of Financial Statements: Yes

(Note) For details, please refer to [Appendix] P. 6 “2. Quarterly Financial Statements and Primary Notes

(3) Notes to Quarterly Financial Statements (Application of special accounting processes for the preparation of Quarterly Financial Statements).”

(2) 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

(3) Number of shares issued (common shares)

1) The number of shares issued at end of period (including treasury stock)	Q1 FY 2018	11,187,749 shares	FY 2017	11,187,749 shares
2) The number of shares of treasury stock at end of period	Q1 FY 2018	152 shares	FY 2017	152 shares
3) Average number of shares of common shares during period (cumulative)	Q1 FY 2018	11,187,597 shares	Q1 FY 2017	11,187,597 shares

*** These quarterly financial results are outside the scope of quarterly review by certified public accountants or an audit firm.**

*** 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. For assumed conditions of the earnings forecasts and precautions, etc. in using the earnings forecasts, please refer to [Appendix] P. 3 “1. Qualitative Information on Quarterly Financial Results (3) Explanation of future forecast information such as results forecasts.”

(Method of obtaining supplementary explanatory materials for quarterly financial results)

Supplementary explanatory materials on quarterly financial results are provided on TDnet on the same date.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of business results

During the three months ended June 30, 2018, a moderate recovery trend continued in the Japanese economy including improvements in the employment and income conditions, along with signs of improvements in personal consumption. However, the global economic outlook has remained uncertain due mainly to impact of volatility in the financial and capital markets, in addition to the escalation of uncertainties over the global economy.

The pachinko and pachislot machine market, which is the main market for the Company, has continued to face a challenging market environment, due mainly to the diversification of leisure and the effects of self-imposed regulations implemented in recent years by industry organizations as preventive measures against addictive gambling, leading to a gradual decrease in the population of players. In addition, as a result of the revised “Ordinance for Enforcement of the Act on Control and Improvement of Amusement and Entertainment Business, etc.” that came into force in February 2018, the current market environment is becoming increasingly harsh due to sluggish demand for new machines at amusement facilities reflecting uncertainty about the future prospects.

Under such circumstances, the Company continued to channel its energies into sales activities for Graphics LSI products for customers in the embedded system market (Note), in addition to various products targeted at the pachinko and pachislot machine market. Aiming to establish new businesses, the Company also focused on activities for commercializing three areas such as middleware, cryptographic technology, and machine learning. As for cryptographic technology, the Company has decided to enter the blockchain business and established a fully-owned subsidiary VIPPOOL Inc. on July 2, 2018 to promote the business.

Net sales for the three months ended June 30, 2018 decreased 709 million yen from the previous corresponding period (down 49.5% year-on-year) to 724 million yen.

As for various LSI products targeted at the pachinko and pachislot machine market, net sales decreased 719 million yen from the previous corresponding period (down 51.8% year-on-year) to 669 million yen. With regards to the Company’s mainstay Graphics LSI products targeted at this market, sales were approximately 30,000 units, approximately 110,000 units less compared to the previous corresponding period, affected by sluggish market conditions, as well as a temporary inventory adjustment in the market and a rise in reuse of device components including the Company’s products. As for other products targeted at the said market (LED driver LSI products, memory module products, etc.), net sales remained relatively flat year on year.

In terms of Graphics LSI products targeted at the embedded system market, net sales increased 14 million yen from the previous corresponding period (up 56.6% year-on-year) to 40 million yen due to trends in demand of manufacturers which adopt the Company’s products. As for other products, including development-support software for customers, evaluation circuit boards, and other middleware products, net sales decreased 4 million yen from the previous corresponding period (down 23.6% year-on-year) to 15 million yen.

Along with a decrease in net sales, gross profit decreased 347 million yen from the previous corresponding period (down 57.4% year-on-year) to 257 million yen, and gross profit ratio decreased by 6.6 percentage points from the previous corresponding period to 35.6%. A drop in gross profit ratio was due mainly to a shift in the composition ratio of products sold. Despite efforts to reduce overall expenses, selling, general and administrative expenses increased 594 million yen from the previous corresponding period (up 64.5% year-on-year) to 1,516 million yen, due mainly to recognition of a portion of prototype development expenses for next-generation mainstay products. Of selling, general and administrative expenses, research and development expenses increased 577 million yen from the previous corresponding period (up 81.8% year-on-year) to 1,283 million yen. As development expenses for next-generation mainstay products generally returned to normal during the first quarter ended June 30, 2018, research and development expenses are expected to gradually decrease from the second quarter.

Consequently, for the three months ended June 30, 2018, the Company recorded an operating loss of 1,258 million yen (operating loss of 316 million yen for the previous corresponding period), an ordinary loss of 1,247 million yen (ordinary loss of 311 million yen for the previous corresponding period) and a loss of 871 million yen (loss of 136 million yen for the previous corresponding period).

(Note) “Embedded system market” refers to the market relating to the manufacture of embedded systems, excluding 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.

(2) Explanation of financial position

Total assets as of the end of the first quarter of fiscal 2018 decreased 2,039 million yen from the end of the previous fiscal year to 10,995 million yen (down 15.6% from the end of the previous fiscal year). This was due mainly to factors such as the increase of 782 million yen in cash and deposits and the increase of 525 million in merchandise and finished goods, offset by the decrease of 3,023 million yen in accounts receivable – trade.

Total liabilities as of the end of the first quarter of fiscal 2018 decreased 1,076 million yen from the end of the previous fiscal year to 539 million yen (down 66.6% from the end of the previous fiscal year). This was due mainly to factors such as the decrease of 1,015 million yen in accounts payable - trade.

Total net assets as of the end of the first quarter of fiscal 2018 decreased 962 million yen from the end of fiscal 2017 to 10,455 million yen (down 8.4% from the end of the previous fiscal year). This was due mainly to factors such as the decrease of 927 million yen in retained earnings.

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

Forecast results for fiscal 2018 are as stated in the “Summary of Financial Statements for the Year Ended March 31, 2018” disclosed on April 25, 2018. Additionally, as the business plan for fiscal 2018 attaches weight to the second half of the fiscal year due to revised regulations and time of recognizing research and development expenses, results for the three months ended June 30, 2018 are considered to have generally progressed in line with forecasts.

2. Quarterly Financial Statements and Primary Notes**(1) Quarterly Balance Sheets**

(In millions of yen)

	FY 2017 (As of March 31, 2018)	Q1 FY 2018 (As of June 30, 2018)
Assets		
Current assets		
Cash and deposits	6,868	7,650
Accounts receivable - trade	3,304	280
Merchandise and finished goods	480	1,006
Raw materials and supplies	0	0
Other	825	164
Total current assets	11,479	9,102
Non-current assets		
Property, plant and equipment	266	241
Intangible assets	32	28
Investments and other assets	1,256	1,623
Total non-current assets	1,556	1,892
Total assets	13,035	10,995
Liabilities		
Current liabilities		
Accounts payable - trade	1,344	329
Income taxes payable	43	2
Other	193	172
Total current liabilities	1,580	503
Non-current liabilities		
Asset retirement obligations	35	35
Total non-current liabilities	35	35
Total liabilities	1,616	539
Net assets		
Shareholders' equity		
Capital stock	1,018	1,018
Capital surplus	861	861
Retained earnings	9,398	8,470
Treasury shares	(0)	(0)
Total shareholders' equity	11,278	10,351
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	140	104
Total valuation and translation adjustments	140	104
Total net assets	11,418	10,455
Total liabilities and net assets	13,035	10,995

(2) Quarterly Statements of Income

(First quarter)

(In millions of yen)

	Q1 FY 2017 (From April 1, 2017 to June 30, 2017)	Q1 FY 2018 (From April 1, 2018 to June 30, 2018)
Net sales	1,434	724
Cost of sales	829	466
Gross profit	604	257
Selling, general and administrative expenses	921	1,516
Operating loss	(316)	(1,258)
Non-operating income		
Interest income	0	0
Dividend income	4	2
Foreign exchange gains	0	8
Other	0	0
Total non-operating income	5	11
Non-operating expenses		
Other	—	0
Total non-operating expenses	—	0
Ordinary loss	(311)	(1,247)
Extraordinary income		
Gain on sales of investment securities	64	—
Total extraordinary income	64	—
Loss before income taxes	(246)	(1,247)
Income taxes	(109)	(375)
Loss	(136)	(871)

**(3) Notes to Quarterly Financial Statements
(Notes regarding going concern assumption)**

N/A

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

N/A

(Application of special accounting processes for the preparation of Quarterly Financial Statements)

(Calculation of tax expenses)

Tax expenses have been calculated by multiplying profit before income taxes by an effective tax rate reasonably estimated after the application of tax effect accounting to profit before income taxes for the fiscal year including the first quarter of fiscal 2018.

(Additional Information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan ("ASBJ") Statement No. 28, February 16, 2018) effective from the beginning of the first quarter ended June 30, 2018. Accordingly, the Company has presented deferred tax assets in investments and other assets section.

3. Others

(1) Production, orders and sales status

1) Production

Production results for the three months ended June 30, 2018 are as follows:

(In millions of yen)

Classification	Q1 FY 2018 (From April 1, 2018 to June 30, 2018)	Change (%)
LSI products for pachinko and pachislot machines	1,884	132.2
LSI products for embedded systems	29	(31.7)
Other	12	(41.9)
Total	1,925	119.9

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

2) Orders

Orders for the three months ended June 30, 2018 are as follows:

(In millions of yen)

Classification	Q1 FY 2018 (From April 1, 2018 to June 30, 2018)			
	Orders received	Change (%)	Outstanding orders	Change (%)
LSI products for pachinko and pachislot machines	1,214	(41.5)	1,962	8.7
LSI products for embedded systems	66	389.4	67	111.0
Other	18	(10.6)	9	409.0
Total	1,299	(38.4)	2,038	10.9

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

3) Sales

Sales during the three months ended June 30, 2018 are as follows:

(In millions of yen)

Classification	Q1 FY 2018 (From April 1, 2018 to June 30, 2018)	Change (%)
LSI products for pachinko and pachislot machines	669	(51.8)
LSI products for embedded systems	40	56.6
Other	15	(23.6)
Total	724	(49.5)

- (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 over the past two fiscal years are as follows:

(In millions of yen)

Sales agent	Q1 FY 2017 (From April 1, 2017 to June 30, 2017)		Q1 FY 2018 (From April 1, 2018 to June 30, 2018)	
	Amount	Percentage (%)	Amount	Percentage (%)
Midoriya Electric Co., Ltd.	1,050	73.2	352	48.6
OKAYA ELECTRONICS CORP.	287	20.1	127	17.6
Fujitsu Electronics Inc.	59	4.2	116	16.1
KAGA ELECTRONICS CO., LTD.	9	0.7	97	13.4

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

(2) Recent trends in quarterly business results**Year ending March 31, 2019**

(In millions of yen)

	Q1 FY 2018 From April 2018 to June 2018	Q2 FY 2018 From July 2018 to September 2018	Q3 FY 2018 From October 2018 to December 2018	Q4 FY 2018 From January 2019 to March 2019
Net sales	724	—	—	—
Gross profit	257	—	—	—
Operating income (loss)	(1,258)	—	—	—
Ordinary income (loss)	(1,247)	—	—	—
Profit (loss) before income taxes	(1,247)	—	—	—
Profit (loss)	(871)	—	—	—
Basic earnings (loss) per share	(77.88) yen	—	—	—
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	10,995	—	—	—
Net assets	10,455	—	—	—
Net assets per share	934.60 yen	—	—	—

Year ended March 31, 2018

(In millions of yen)

	Q1 FY 2017 From April 2017 to June 2017	Q2 FY 2017 From July 2017 to September 2017	Q3 FY 2017 From October 2017 to December 2017	Q4 FY 2017 From January 2018 to March 2018
Net sales	1,434	1,953	1,225	3,864
Gross profit	604	747	527	1,261
Operating income (loss)	(316)	20	(150)	602
Ordinary income (loss)	(311)	22	(143)	596
Profit (loss) before income taxes	(246)	21	(281)	684
Profit (loss)	(136)	12	(21)	225
Basic earnings (loss) per share	(12.20) yen	1.14 yen	(1.90) yen	20.15 yen
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	11,608	11,715	11,798	13,035
Net assets	11,172	11,221	11,245	11,418
Net assets per share	998.62 yen	1,002.98 yen	1,005.19 yen	1,020.67 yen