

(Translation)

May 15, 2003

Dear Sirs,

Name of the Company: MegaChips Corporation
Representative: Shigeki Matsuoka
President and Representative
Director
(Code No. 6875, the First Section of the Tokyo Stock Exchange)

Person to contact: Tetsuo Hikawa
Director and Executive Officer,
responsible for Corporate Planning
(TEL 06-6399-2884)

Name of the Company: MegaFusion Corporation
Representative: Masahiro Shindo
President and Representative Director (CEO)

(Code No. 4294, JASDAQ)

Person to contact:
Masayuki Fujii
Corporate Executive Officer
(TEL 03-3512-5080)

Notice of Share Exchange Agreement
in Preparation for Shift to a System of Pure Holding Company

MegaChips Corporation ("MegaChips") and MegaFusion Corporation ("MegaFusion"), at the meetings of their respective Boards of Directors held on May 15, 2003, resolved to shift the group of MegaChips (the "Group") to a system of pure holding company and restructure and consolidate its LSI business, system business and audio business into wholly owned subsidiaries.

It is hereby notified that for the purpose of such shift, MegaChips and MegaFusion, at the meetings of their respective Boards of Directors held on May 15, 2003, resolved that MegaChips should make MegaFusion its wholly owned subsidiary through a share exchange as of October 1, 2003 and entered into a share exchange agreement, as described below:

Description

1. Purpose of making MegaFusion a wholly owned subsidiary through a share exchange
 - (1) Background of the incorporation of MegaChips and MegaFusion

MegaChips, with a competitive edge derived from its capabilities to develop technologies and LSIs in the areas of images, sounds and communications, started business in April 1990 as an R&D-oriented, fabless company to develop system LSIs and consign manufacturing thereof to third parties and has since supplied unique products to meet customer needs. In October 1995, MegaChips, taking the advent of a full-fledged broadband era as a business opportunity, started a system business by developing system products that can digitalize, record and transmit moving images and sounds.

On the other hand, for the purpose of expanding the system business, MegaFusion has been incorporated as a company specializing in system integration.

Thereafter, in line with the prevalence of high-speed networks through an "IT Revolution," which occurred in the United States, among other nations, fields of application of rich media, or multiple information comprising images, sounds, music and text data expanded substantially. By positioning the provision of solutions concerning rich media as its core business, MegaFusion was expected to grow independently from and synergistically with the business of MegaChips. Consequently, MegaFusion was listed on JASDAQ.

In these market conditions, with regard to the system business, MegaChips has engaged in developing hardware products and technologies for image communications, while MegaFusion has acquired software technologies and a customer base in wide areas covering audio and visual authoring, streaming and servers. Thus, both companies in collaboration have successfully expanded their business areas from security and monitoring to rich media communications to assistances to knowledge-building activities by audio and video authoring.

With regard to the LSI business, MegaChips has concentrated its efforts on developing and expanding application-specific LSIs for use in next-generation mobile phones, digital cameras, digital TVs and other devices, as a new growth acceleration to follow customer-specific LSIs.

(2) Changes in business conditions

However, the "IT Revolution" that initially raised people's hopes changed to an "IT Bubble," while a sudden drop in the U.S. stock market, the 9/11 terrorist attacks, distrust of accounting practices of the leading U.S. companies, among other things, discouraged many companies from investment. Consequently, the Japanese economy has been seriously affected.

The system business of the Group remained in a difficult market condition due to a delay in the takeoff initially projected, arising from the circumstances surrounding the system business, including

- (i) Changes in the qualities of investments (corporate investments has shifted from anticipatory investments to capture market to investments intended to improve operational efficiencies and increase profitability, such as CRM (Client Relation Management) and SCM (Supply Chain Management));
- (ii) Delays in installation of broadband networks and creation of environments for

users' convenience; and

- (iii) Underdevelopment of conveniences to meet users' needs for new services.

However, from a long-term perspective, the development and utilization of broadband networks will no doubt advance and the importance of business of providing total solutions in the area of rich media communications is increasing. Hence, MegaChips and MegaFusion have agreed on the recognition that it is inevitable for sharpening their competitive edge and nurturing business to integrate their management resources, including their functions, technologies and knowledge and experiences of manpower, and adopt a business promotion system by which they can exert their collective strength.

With regard to the LSI business, MegaChips has steadily developed application-specific LSIs. However, competition is expected to intensify in that market with the potential of huge expansion in the future. Hence, it is important to secure a central position in the market promptly by pouring its management resources more vigorously.

(3) Group strategy in the future

To increase the enterprise value of the Group in response to changes in these business conditions, MegaChips and MegaFusion have recognized that it is important to create new added value of the Group as a whole by focusing their management resources on strengthening competitiveness of their core business, or LSI business on a medium- and long-term basis and establishing a basis for higher profitability, and accelerating improvement of profitability of the system business and determined to restructure and consolidate their businesses into LSI business, system business and audio business. MegaChips and MegaFusion have arrived at a conclusion that to increase shareholder value, it will be the best measure to

- (i) Make efficient allocation of management resources through decision-making on strategies from the viewpoint of the Group as a whole, strengthen competitiveness of its core business division and focus on intensive cost reduction and cash flow management;
- (ii) Clearly define the functions and responsibilities of each business division to make quick business judgment, develop and launch original products to meet customers' need properly and swiftly and improve customer services;
- (iii) Increase the operational efficiency of each business division to improve profitability;

and make efficient use of their management resources under a uniform strategy.

Against such background and for such purposes as described above, MegaChips and MegaFusion, at the meetings of their respective Boards of Directors, resolved to make a share exchange to allow MegaChips to make MegaFusion its wholly owned subsidiary and entered into a share exchange agreement to shift the Group to a system of pure holding company.

Management believes that the integration and consolidation will enable the Group to

promote efficient use of the results of cooperation and improve efficiencies, integrate and utilize its acquired technologies, knowledge, experiences and other properties to provide solutions most suitable to customers, and accelerate the creation of new added values, whereby contributing to society and meeting the shareholders' expectations.

2. Terms of share exchange, etc.

(1) Schedule of share exchange

Meeting of the Board of Directors to approve the share exchange agreement:	May 15, 2003
Execution of the share exchange agreement:	May 15, 2003
General Meeting of Shareholders to approve the share exchange agreement:	
MegaChips Corporation	June 24, 2003 (Expected)
MegaFusion Corporation	June 26, 2003 (Expected)
Delisting of shares of MegaFusion Corporation:	September 25, 2003 (Expected)
Deadline for submission of share certificates of MegaFusion Corporation:	September 30, 2003 (Expected)
Date of share exchange:	October 1, 2003 (Expected)

(2) Share exchange ratio

	MegaChips Corporation (Full parent company)	MegaFusion Corporation (Wholly owned subsidiary)
Share exchange ratio:	1	166

(Notes) 1. Share allocation rate

For each one share of common stock of MegaFusion Corporation, 166 shares of common stock of MegaChips Corporation shall be allocated and delivered; provided, however, that for 7,375 shares of common stock of MegaFusion Corporation held by MegaChips Corporation, no shares of common stock of MegaChips Corporation shall be allocated and delivered.

2. Basis of calculation of the share exchange ratio

Prior to entering into negotiations over the share exchange ratio, MegaChips Corporation requested All Business Consulting Co., Ltd., and MegaFusion requested Daiwa Securities SMBC Co. Ltd., to determine a share exchange ratio to secure the fairness and adequacy thereof. Based on their comprehensive analyses of the stock prices and other factors, both companies have agreed upon the abovementioned share exchange ratio.

3. Number of new shares to be issued upon the share exchange

1,278,200 shares of common stock of MegaChips Corporation

4. Dividend accrual date

The dividend accrual date in respect of new shares to be issued upon the share exchange shall be October 1, 2003.

(3) Cash distribution upon the share exchange

None.

(4) Assumption of new share subscription rights

The new share subscription rights granted by MegaFusion to its officers, employees, etc. as stock options (the "Prior Rights") shall be assumed by MegaChips pursuant to Article 352, paragraph 3 of the Commercial Code of Japan, as described below:

(i) Class of shares to be transferred upon exercise of new share subscription rights

Shares of common stock of MegaChips Corporation

(ii) Number of shares to be transferred upon exercise of new share subscription rights

The number of shares to be transferred upon exercise of the Prior Rights multiplied by the share allocation rate, with any fraction of one share discarded.

(iii) Amount to be paid in upon exercise of a new share subscription right

A paid-in amount for each share to be issued by MegaChips upon exercise of a new share subscription right, multiplied by the number of shares granted.

(iv) New share subscription right exercise period

Same as the Prior Rights.

3. Outline of the parties to the share exchange (as of March 31, 2003)

(1)	Trade name	MegaChips Corporation (Full parent company)	MegaFusion Corporation (Wholly owned subsidiary)																				
(2)	Contents of business	<ul style="list-style-type: none"> •Development, manufacture (by consignment) and sale of LSI products •Development, manufacture (by consignment) and sale of system products 	<ul style="list-style-type: none"> •Sale, support and system integration of system products •Rich media services •Sale of authoring systems 																				
(3)	Establishment	April 4, 1990	December 8, 1998																				
(4)	Location of head office	1-6, Miyahara 4-chome, Yodogawa-ku, Osaka-shi, Osaka	17-6, Ichiban-cho, Chiyoda-ku, Tokyo																				
(5)	Representative	Shigeki Matsuoka President and Representative Director	Masahiro Shindo President and Representative Director																				
(6)	Capital	¥4,840 million	¥646 million																				
(7)	Total number of issued shares	24,661,017 shares	15,076 shares																				
(8)	Shareholders' equity	¥15,388 million	¥1,159 million																				
(9)	Total assets	¥19,039 million	¥2,311 million																				
(10)	Date of settlement of accounts	March 31 of each year	March 31 of each year																				
(11)	Number of employees	171	80																				
(12)	Principal clients	Nintendo Co., Ltd. and other consumer electronics makers, trading firms, etc.	SECOM Co., Ltd. and other commercial equipment makers, sales companies, etc.																				
(13)	Principle shareholders and shareholding ratios (ratios of voting rights)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Yugen Kaisha Shindo</td> <td style="text-align: right;">9.23%</td> </tr> <tr> <td>Masahiro Shindo</td> <td style="text-align: right;">7.87%</td> </tr> <tr> <td>Shigeki Matsuoka</td> <td style="text-align: right;">7.43%</td> </tr> <tr> <td>Ritsuko Shindo</td> <td style="text-align: right;">4.50%</td> </tr> <tr> <td>The Master Trust Bank of Japan, Ltd., Trust Account</td> <td style="text-align: right;">3.38%</td> </tr> </table>	Yugen Kaisha Shindo	9.23%	Masahiro Shindo	7.87%	Shigeki Matsuoka	7.43%	Ritsuko Shindo	4.50%	The Master Trust Bank of Japan, Ltd., Trust Account	3.38%	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">MegaChips Corporation</td> <td style="text-align: right;">48.94%</td> </tr> <tr> <td>Shindo and Associates</td> <td style="text-align: right;">9.17%</td> </tr> <tr> <td>Mitsui & Co., Ltd.</td> <td style="text-align: right;">3.41%</td> </tr> <tr> <td>Masahiro Shindo</td> <td style="text-align: right;">3.21%</td> </tr> <tr> <td>UFJ Trust Bank, Limited</td> <td style="text-align: right;">2.89%</td> </tr> </table>	MegaChips Corporation	48.94%	Shindo and Associates	9.17%	Mitsui & Co., Ltd.	3.41%	Masahiro Shindo	3.21%	UFJ Trust Bank, Limited	2.89%
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(14)	Principal correspondent banks	The Bank of Tokyo-Mitsubishi, Ltd. Resona Bank, Limited UFJ Bank Limited Mizuho Corporate Bank, Ltd. The Iyo Bank, Ltd.	Resona Bank, Limited The Bank of Tokyo-Mitsubishi, Ltd. The Mitsubishi Trust and Banking Corporation																				

(15) Relationships between the parties

Capital relationship:	MegaChips Corporation holds 48.94% (ratio of voting rights) of the number of issued shares of MegaFusion Corporation.
Personnel relationship:	Two (2) Directors of MegaChips Corporation concurrently serve as Directors of MegaFusion Corporation. Three (3) Statutory Auditors of MegaChips Corporation concurrently serve as Statutory Auditors of MegaFusion Corporation.
Transaction relationship:	MegaChips Corporation sells its system products to MegaFusion Corporation.

(16) Business results for the last three business years

Business year	MegaChips Corporation (Full parent company)			MegaFusion Corporation (Wholly owned subsidiary)		
	2001 (from April 1, 2000 to March 31, 2001)	2002 (from April 1, 2001 to March 31, 2002)	2003 (from April 1, 2002 to March 31, 2003)	2001 (from April 1, 2000 to March 31, 2001)	2002 (from April 1, 2001 to March 31, 2002)	2003 (from April 1, 2002 to March 31, 2003)
Sales (million yen)	51,347	34,649	27,172	5,461	4,700	3,626
Operating profit (million yen)	3,177	2,706	1,954	194	283	205
Ordinary profit (million yen)	3,622	2,728	1,954	184	254	202
Per-share profit for the year (¥)	74.53	54.51	15.01	16,865.34	20,459.99	22,270.64
Annual dividend per share (¥)	10.00	10.00	10.00	2,500.00	4,000.00	0.00
Shareholders' equity per share (¥)	615.40	643.19	631.24	76,747.84	207,489.78	76,924.19

4. State of the parties after the share exchange

(1) Trade names, locations of head offices and representatives of the parties

Not changed.

(2) Capital

No capital of MegaChips Corporation will be increased upon the share exchange.

(3) Effect on operating results:

MegaFusion is a consolidated subsidiary of MegaChips. The share exchange is considered to have no significant effect on the consolidated operating results of MegaChips. However, MegaChips and MegaFusion will further improve efficiencies of their operations and carry out reforms and thus improve performance through the synergistic effect of the collective efforts of the Group.

(4) Others

The shares of MegaFusion, which will become a wholly-owned subsidiary of MegaChips as of October 1, 2003, will be delisted.

5. System of pure holding company

For the purpose of restructuring of business operations in question, MegaChips is studying the possibility of shifting to a pure holding company. At present, MegaChips plans to form three operating subsidiaries under the control of a corporate headquarters responsible for devising group strategies and administering group functions: (1) a company focusing on the LSI business of MegaChips, (2) a company focusing on the system business integrating the system business of MegaChips and the visual system business and rich media business of MegaFusion and (3) a company focusing on the audio authoring business of MegaFusion.

The selection of a system of pure holding company is considered to be the most suitable to the Group, as the system will

- (i) Facilitate flexible management to maximize group value based on group business strategies;
- (ii) Allow the independence and operational responsibilities of each business division to be clearly defined; and
- (iii) Facilitate M&A and business reconstruction.

As to the outline of the steps to restructuring to shift to the system of pure holding company, please refer to the attached document ("For reference").

The particulars of the system of pure holding company, which remain undecided, will be notified as soon as they become available.

Attention:

Of the current plans, estimates, prospects, strategies, beliefs, etc. of the companies disclosed herein, those which are not historical facts are forward-looking statements. Forecasts of operating results in the future are not limited to any statements using "beliefs," "expectations," "plans," "strategies," "prospects," "estimates," "projections," "possibilities" or their synonyms in the explanations of operating activities and results in the future.

Such statements are based on management's judgments of the companies formed by using the information available as of the date hereof. Hence, actual operating results may substantially differ from these forecasts of operating results due to various material factors in the future. You should not rely solely on these forecasts comprehensively and excessively. Additionally, the companies may not always revise the future forecasts in spite of new information, future events and other results.

Risks and uncertainties include material and unforeseeable influences arising from future events. This document is not prepared to solicit investment. In making investment, you should act on your own judgment.

- END -

(For reference): (translation omitted)