

(Excerpt translation)

June 3, 2005

To the Shareholders:

NOTICE OF THE 15TH ORDINARY GENERAL MEETING  
OF SHAREHOLDERS

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Dear Shareholders:

Please take notice that the 15th Ordinary General Meeting of Shareholders of the Company will be held as described below and you are cordially invited to attend the meeting.

If you are not expected to be present at the meeting, please go over the information set forth below and send us by return mail the enclosed voting form indicating your approval or disapproval of the propositions and affixing your name and seal.

Yours very truly,

Shigeki Matsuoka  
President and Representative Director

MegaChips Corporation  
1-6, Miyahara 4-chome,  
Yodogawa-ku, Osaka

Description

1. Date and hour:

June 24 (Friday), 2005, 10:00 a.m.

2. Place:

Osaka Science & Technology Center, 8F Large Hall  
8-4, Utsubo-Honmachi 1-chome, Nishi-ku, Osaka

3. Matters forming the objects of the meeting:

Matters to be reported:

1. Report on the business report, consolidated balance sheet and consolidated statement of income for the 15th business year (from April 1, 2004 to March 31, 2005) and the results of audit of the consolidated financial statements for the 15th business year by the account auditors and the Board of Statutory Auditors
2. Report on the balance sheet and statement of income for the 15th business year (from April 1, 2004 to March 31, 2005) and the purchase by the Company of its own shares in accordance with the resolution of the Board of Directors as authorized by the Articles of Incorporation.

Matters to be resolved:

- |                    |  |
|--------------------|--|
| Proposition No. 1: | Approval of the proposed appropriation of retained earnings for the 15th business year |
| Proposition No. 2: | Amendment to the Articles of Incorporation   |
| Proposition No. 3: | Election of six Directors  |
| Proposition No. 4: | Election of one Statutory Auditor  |
| Proposition No. 5: | Issuance of stock acquisition rights as stock options                                  |

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In attending the meeting, please present the enclosed voting form to a receptionist at the meeting.

(Attached document)

## BUSINESS REPORT

(For the period from April 1, 2004 to March 31, 2005)

### **1. Outline of business activities**

#### (1) Business trend and achievement of the Company's corporate group (the "Group"):

The Japanese economy during the business year under review registered tones of slow recovery as corporate earnings continued to improve and the market of digital home electric appliances and mobile phones expanded, resulting in improving consumer confidence through corporate efforts to develop new products.

In the electronic machinery and equipment industry in which the Company belongs, the market for consumer audiovisual equipment and mobile phones expanded. However, the market for the industry in general increased only slightly in comparison with the previous business year.

Under these circumstances, the Group focused its efforts on developing and marketing customer-specific LSIs (ASIC), the core of its business, as well as application-specific LSIs (ASSP), which have competitive edges with the Group's unique technologies of image compression and extension and sound and music compression, extension and transmission, and original system products mounted with the Group's system LSIs.

Specifically, with the prevalence of digitalization of images, sounds, music and other media, broadband networks and 3G mobile phone networks, the Group has widened its appeal in the information communication area. For the growing area, the Group has exerted its active efforts to develop and market system LSIs for high-performance digital cameras and system LSIs for 3G mobile phones, as well as develop and market system products for transmitting and recording digital images, specifically, for use in the security and monitoring area.

As a result, on a consolidated basis, sales and ordinary profit amounted to ¥30,122 million (a 16.4% increase from the previous business year) and ¥2,168 million (a 48.5% increase), respectively. Profit for the year amounted to ¥1,174 million (a 318.9% increase).

With regard to dividends for the business year under review, management proposes to pay an ordinary dividend of ¥10 per share, as well as a commemorative dividend of ¥5 per share to celebrate the 15th anniversary of establishment, totaling ¥15 per share, in appreciation of the shareholders' support. Additionally, the Company intends to maintain its shareholder special benefit plan, under which the Company will send small gifts to the shareholders holding 100 shares (one unit of shares) or more as of March 31, 2005.

(2) Business performance by department of the Group:

1) LSI business:

Consolidated sales of customer-specific LSIs (ASIC) amounted to ¥21,032 million (a 30.0% increase from the previous business year) as demand for LSIs for storing game software (custom mask ROMs) for use in conventional game consoles, as well as demand for LSIs for storing game software for use in new game consoles, increased steadily. However, consolidated sales of application-specific LSIs (ASSP) amounted to ¥6,021 million (a 9.3% decrease from the previous business year) as demand for LSIs for processing images, sounds and communications for 3G mobile phones decreased while demand for LSIs for digital still cameras increased steadily.

Consequently, consolidated sales in the LSI business, including sales of other LSIs, totaled ¥27,057 million (an 18.5% increase).

2) System business:

Consolidated sales in the industrial system business amounted to ¥2,379 million (a 47.4% increase from the previous business year) as demand for system products for transmitting and recording digital images in the area of security and monitoring increased steadily. In the consumer system business, consolidated sales amounted to ¥94 million (a 123.2% increase) as a result of the launch of new network cameras.

Consequently, consolidated sales in the system business as a whole, including sales of other systems, amounted to ¥2,547 million.

3) Audio authoring business

The Company sold Cameo Interactive, Ltd. to the group of e frontier, Inc. and consequently, Cameo Interactive, Ltd. was excluded from consolidation as of October 1, 2004. For the interim period of the business year under review, consolidated sales in the audio authoring business amounted to ¥517 million.

(Note) Upon the transfer of the audio authoring business from MegaChips System Solutions Inc. to Cameo Interactive, Ltd. in April 2004, the segmentation of businesses has been altered to separate the audio authoring business from the previous "system business" segment and create an "audio authoring" segment. Consequently, with regard to consolidated sales of the system business as a whole and the audio authoring business, no comparison with the previous business year is presented.

(3) Investment in plant and equipment by the Group:

During the business year under review, capital investment was made principally in design development assistant equipment, which amounted to ¥45 million.

(4) Financing by the Group:

To apply to working capital requirements, the Company borrows short-term loans from financial institutions as the necessity arises. There were no borrowings outstanding from the financial institutions as of the close of the business year under review.

During the business year under review, the Company did not raise funds by a capital increase or bond issue.

(5) Future challenges to the Group:

In spite of negative factors to economic recovery, such as export slowdown due to the higher yen and higher oil prices, the Japanese economy is expected to continue to register tones of slow recovery as corporate earnings have shown signs of improvement owing to steady exports and slow recovery of capital investment, the pace of price deflation has slowed down and consumer confidence has been improved by corporate efforts to develop new products such as mobile phones and digital consumer equipment. In the social environment surrounding the businesses of the Group, due to the prevalence of the wired and wireless broadband networks, the digitalization of broadcasting and the development of LSI technologies, a further sophisticated information society is expected to come to pass where anyone can make, send, receive and use digital images, music and sounds easily at any place. The Group intends to expand business by concentrating its resources on system LSIs and system products needed for materializing such environment.

In the LSI business, the Group intends to strengthen its capabilities to develop both software and hardware by increasing development personnel and actively invest in development to swiftly launch system LSIs with competitive edges to the market. The Group also intends to strengthen its capabilities of marketing and supporting customers and develop customers both in Japan and overseas. Simultaneously, to accelerate these developments, the Group intends to strengthen strategic partnerships.

In the system business, the Group will, through the selection and concentration of businesses, improve operating efficiencies, build up its revenue-generating base and enlarge its profit-earning opportunities to raise profits. Additionally, the Group will strengthen its capabilities of planning, capabilities of responding to cost fluctuations and marketing channels to expand business.

The Group shifted to a pure holding company system in April 2004. Under the new system, the efficient allocation of management resources will improve competitiveness of the core areas and the clarification of the functions and responsibilities of each business will materialize swifter business judgment and more efficient management, whereby improving profitability. Additionally, by securing hard-core human resources and strengthening human resources development, the Group intends to accelerate the establishment of a basis for high profitability of its core LSI business in a

medium- and long-term perspective and improve profitability of its system business to improve its corporate value.

Management sincerely hopes that its shareholders will continue giving the Company their full support and encouragement.

(6) Recent business performance and assets of the Group and the Company:

1) Recent business performance and assets of the Group:

	<b>12th</b> April 1, 2001 - March 31, 2002	<b>13th</b> April 1, 2002 - March 31, 2003	<b>14th</b> April 1, 2003 - March 31, 2004	<b>15th</b> April 1, 2004 - March 31, 2005
Sales (millions of yen)	36,898	29,055	25,878	30,122
Ordinary profit (millions of yen)	2,829	1,721	1,460	2,168
Profit for the year (millions of yen)	1,647	192	280	1,174
Per-share profit for the year (yen)	67.02	7.85	10.09	44.73
Net assets (millions of yen)	16,053	15,430	15,371	16,262
Net assets per share (yen)	653.14	632.95	607.49	642.13
Total assets (millions of yen)	20,712	19,996	18,183	20,597

2) Recent business performance and assets of the Company:

	<b>12th</b> April 1, 2001 - March 31, 2002	<b>13th</b> April 1, 2002 - March 31, 2003	<b>14th</b> April 1, 2003 - March 31, 2004	<b>15th</b> April 1, 2004 - March 31, 2005
Sales or operating profit (millions of yen)	34,649	27,172	24,311	825
Ordinary profit (millions of yen)	2,728	1,954	1,741	89
Profit or loss for the year (millions of yen)	1,339	367	755	(-) 129
Per-share profit or loss for the year (yen)	54.51	15.01	29.15	(-) 6.03
Net assets (millions of yen)	15,808	15,388	15,731	15,318

Net assets per share (yen)	643.19	631.24	621.72	605.61
Total assets (millions of yen)	19,581	19,039	18,325	15,576

(Note) The Company became a pure holding company as of April 1, 2004. Consequently, the management indexes for the 15th business year are substantially different from those for and prior to the 14th business year. With regard to sales, sales for the 14th business year and theretofore were comprised primarily of sales of products in the LSI business, system business, etc., while the Company will only receive dividends from its subsidiaries and gains on acceptance of business as from the 15th business year. Hence, these incomes are shown as "operating profit".

## 2. Outline of the Group and the Company (as of March 31, 2005)

### (1) Major businesses of the Group:

The Company is a holding company that controls and supervises operating activities of its group companies by holding their shares.

The Group is comprised of the Company and its two subsidiaries. Major businesses of the Group are as follows:

Items	Contents
LSI Business	<ul style="list-style-type: none"> <li>·Planning, development, manufacture and sale of customer-specific LSIs</li> <li>·Planning, development, manufacture and sale of application-specific LSIs</li> <li>·Purchase and sale of other LSIs (standard LSIs developed by semiconductor manufacturing partners)</li> </ul>
System Business	<ul style="list-style-type: none"> <li>·Planning, development, manufacture and sale of industrial system products</li> <li>·Planning, development, manufacture and sale of consumer system products</li> </ul>

### (2) Main offices and plants of the Group:

(Translation omitted)

### (3) State of shares:

- 1) Total number of shares authorized to be issued by the Company:

Shares of common stock	40,000,000 shares
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- 2) Total number of issued shares:

Shares of common stock	25,939,217 shares
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- 3) Number of shareholders:

15,353 persons	(Increase of 667 persons from March 31, 2004)
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(4) Principal shareholders:

Name	Shares in the Company held by them	
	(shares)	Ratio of voting rights (%)
Shindo Corporation	2,250,000	8.67
Japan Trustee Services Bank, Ltd. (Trust Account)	1,948,400	7.51
Shigeki Matsuoka	1,806,000	6.96
Masahiro Shindo	1,292,744	4.98
Ritsuko Shindo	973,600	3.75
The Master Trust Bank of Japan, Ltd. (Trust Account)	888,700	3.43
MegaChips Corporation	683,493	2.63
Yoshimasa Hayashi	668,000	2.58
Noriko Shindo	546,076	2.11
Bank of New York GCM Client Accounts EISG	546,000	2.10

(Note) The numbers of shares held by Japan Trustee Services Bank, Ltd. (trust account), The Master Trust Bank of Japan, Ltd. (trust account) and Bank of New York GCM Client Accounts EISG are those related with their trust business.

(5) Acquisition, disposition and possession by the Company of its own shares:

1) Acquisition of shares:

Shares of common stock	385 shares
Total acquisition prices	¥469,885

2) Disposition of shares:

Shares of common stock	68 shares
Total disposition prices	¥79,730

3) Shares of treasury stock held as of March 31, 2005:

Shares of common stock	683,493 shares
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(6) State of stock acquisition rights:

1) Stock acquisition rights currently outstanding:

1. Number of stock acquisition rights: 100 rights  
(166 shares per stock acquisition right)
2. Class and number of shares to be issued upon exercise of stock acquisition rights: Shares of common stock 16,600 shares
3. Issue price of a stock acquisition right: Free of charge

(Notes) 1. The stock acquisition rights were transferred to the Company pursuant to the share exchange agreement with MegaChips System Solutions Inc. dated October 1, 2003.

2. The stock acquisition rights were issued as a stock option plan.

3. The number of shares to be issued upon exercise of a stock acquisition right shall be 166 shares. The exercise period thereof shall be December 1, 2004 through September 30, 2009. The issue price of each share upon exercise thereof shall be ¥5,946.

(Resolution by the Ordinary General Meeting of Shareholders held on June 25, 2004 and the meeting of the Board of Directors held on March 10, 2005)

1. Number of stock acquisition rights: 2,961 rights  
(100 shares per stock acquisition right)
2. Class and number of shares to be issued upon exercise of stock acquisition rights: Shares of common stock 296,100 shares
3. Issue price of a stock acquisition right: Free of charge

2) Stock acquisition rights issued to parties other than the shareholders on specifically favorable conditions during the business year under review:

1. Number of stock acquisition rights: 2,961 rights  
(100 shares per stock acquisition right)
2. Class and number of shares to be issued upon exercise of stock acquisition rights: Shares of common stock 296,100 shares
3. Issue price of a stock acquisition right: Free of charge
4. Terms of exercise of stock acquisition rights:
  - (a) Paid-in amount upon exercise: ¥1,276 per share
  - (b) Exercise period: September 1, 2006 through September 30, 2009

- (c) Any grantee of stock acquisition rights shall remain in office as director, corporate auditor or employee of the Company or its subsidiaries, or their outside collaborator when he/she exercises the rights, unless he/she leaves office upon expiration of the term of office as director or corporate auditor of the Company or its subsidiaries, or due to his/her mandatory retirement age or any other good reason.
- (d) If any grantee of stock acquisition rights dies, his/her heir shall be entitled to exercise his/her rights, subject to the terms and conditions stipulated in a "contract of granting stock acquisition rights".
- (e) Any grantee of stock acquisition rights shall be entitled to exercise all or part of his/her rights so granted, but one right or any multiple thereof at any time, in a single procedure.
- (f) Any other terms and conditions of the exercise of stock acquisition rights shall be governed by a "contract of granting stock acquisition rights" to be entered into between the Company and the relevant grantee of the stock acquisition rights in accordance with the resolutions to be adopted at the 14th Ordinary General Meeting of Shareholders of the Company and at the meeting of its Board of Directors held on March 10, 2005.

5. Events and conditions to cancel stock acquisition rights:

- (a) In the event that a proposition for the approval of a merger agreement under which the Company shall be merged, or a share exchange agreement or a share transfer under which the Company shall become a wholly-owned subsidiary is approved at a General Meeting of Shareholders, the Company may cancel the stock acquisition rights without consideration.
- (b) In the event that any grantee of stock acquisition rights ceases to meet the terms or conditions to exercise his/her stock acquisition rights, the Company may cancel his/her stock acquisition rights without consideration.

6. Content of the favorable conditions

The Company has issued stock acquisition rights to the Directors and employees of the Company and the directors and employees of its subsidiaries, free of charge.

7. Names of grantees and the number of stock acquisition rights so granted:

(Translation omitted)

(7) State of employees of the Group and the Company:

(Translation omitted)

(8) State of business affiliations

1) State of major subsidiaries:

Company	Capital	Ratio of voting rights of the Company	Main business
MegaChips System Solutions Inc.	¥500 million	100.0%	Planning, development, manufacturing and marketing of system products and related products and provision of support and system integration services.

Company	Capital	Ratio of voting rights of the Company	Main business
MegaChips LSI Solutions Inc.	¥500 million	100.0%	Planning, development, manufacturing and marketing of LSI products.
Cameo Interactive, Ltd.	-	-	Marketing of software and equipment for music and sound production by PC and software for making music notes and provision of system integration services.

2) Development of business affiliations:

1. MegaChips LSI Solutions Inc. incorporated by separation of the Company and became a subsidiary of the Company by transfer of business (*bunsha-gata shinsetsu bunkatsu*) as of April 1, 2004.
2. Cameo Interactive, Ltd. was incorporated by separation of MegaChips System Solutions Inc. and became a subsidiary of the Company (*bunkatsu-gata shinsetsu bunkatsu*) as of April 1, 2004.
3. Cameo Interactive, Ltd. sold to the group of e frontier, Inc. on October 29, 2004. Consequently, it was excluded from consolidation as of October 1, 2004.

3) Result of business affiliations:

The Company has two consolidated subsidiaries. For the business year under review, consolidated sales, consolidated ordinary profit and consolidated profit for the year amounted to ¥30,122 million (a 16.4% increase from the previous business year), ¥2,168 million (a 48.5% increase) and ¥1,174 million (a 318.9% increase), respectively.

4) State of important business tie-ups:

The Company has entered into important business tie-ups with Nintendo Co., Ltd. and Macronix International Co., Ltd., with which the Company has contract manufacturing arrangements with regard to the supply of LSIs for use in computer game consoles.

(9) Principal lender:

Lender	Balance of borrowings (million yen)	Number of shares of the Company's common stock held	
		Shares	Ratio of voting rights (%)
MegaChips System Solutions Inc.	90	-	-

(10) Directors and Statutory Auditors:

Title	Name
President and Representative Director	Shigeki Matsuoka
Managing Director	Yukihiro Ukai
Director	Yoshimasa Hayashi
Director	Tetsuo Hikawa
Director	Takahiro Sonoda
Director	Masayuki Fujii
Director	Hiroyuki Mizuno
Full-time Statutory Auditor	Mitsuo Tsuji
Statutory Auditor	Nozomu Ohara
Statutory Auditor	Keiichi Kitano
Statutory Auditor	Hisakazu Nakanishi

(11) Amount of proprietary benefits such as remuneration and other considerations for performance of duties paid to the Directors and Statutory Auditors:

Item	Director		Statutory Auditor		Total		Note
	Number	Amount of payment (thousand yen)	Number	Amount of payment (thousand yen)	Number	Amount of payment (thousand yen)	
Remuneration pursuant to the Articles of Incorporation or resolution of the General Meeting of Shareholders	7	51,000	4	23,850	11	74,850	(Notes) 1,2,3
Bonuses for officers by appropriation of retained earnings	5	24,000	3	5,000	8	29,000	
Total		75,000		28,850		103,850	

- (Notes) 1. The maximum amount of remuneration to Directors pursuant to the resolution of the General Meeting of Shareholders (under Article 269, paragraph 1, item 1 of the Commercial Code of Japan) adopted on June 16, 1998 is ¥180,000 thousand per annum.
2. The maximum amount of remuneration to Statutory Auditors pursuant to the resolution of the General Meeting of Shareholders (under Article 279 of the Commercial Code of Japan) adopted on February 25, 1998 is ¥50,000 thousand per annum.
3. The Company had seven Directors and four Statutory Auditors as of March 31, 2005.

(12) Amount of remuneration paid to the account auditors:

- |   |                  |
|---|------------------|
| 1) Total amount of remuneration payable to the account auditors by the Company and its subsidiaries:  | ¥42,800 thousand |
| 2) Of the total amount set forth in item (i) above, the total amount of remuneration payable to the account auditors by the Company and its subsidiaries for services under Article 2, paragraph 1 (audit certificate services) of the Certified Public Accountant Law (1948 Law No. 103) of Japan: | ¥35,500 thousand |
| 3) Of the total amount set forth in item (ii) above, the total amount of remuneration payable by the Company to the account auditors:   | ¥12,000 thousand |

(Note) The amount of remuneration for audits under the Law Concerning Special Exceptions to the Commercial Code Relating to Audit, etc. of Stock Corporations of Japan and the amount of remuneration for audits under the Securities and Exchange Law of Japan are not separated in the audit agreement between the Company and the account auditors and cannot actually be separated. Hence, the amount in item (iii) above includes both amounts.

**3. Important facts relating to the state of the Group which occurred subsequent to the closing of accounts:**

- (1) To allow management to implement its capital policies with agility in the future, the Company, at the meeting of its Board of Directors held on March 31, 2005, adopted a resolution to acquire not exceeding 500,000 shares (of common stock of the Company) for the acquisition prices of not exceeding ¥700,000 thousand no later than April 28, 2005, pursuant to 211-3, paragraph 1, item 2 of the Commercial Code of Japan, and carried out the acquisition thereof, as described below:

- |                                  |  |
|----------------------------------|--|
| 1. Acquisition method:           | Purchase on the market established by the Tokyo Stock Exchange |
| 2. Number of shares acquired:    | 500,000 shares   |
| 3. Aggregate acquisition prices: | ¥613,969 thousand  |
| 4. Acquisition period:           | From April 1, 2005 to April 26, 2005                           |

- (2) With the aim of expanding its LSI business and system business in the Chinese market, the Company, at the meeting of its Board of Directors held on May 2, 2005, adopted a resolution to subscribe for new shares to be issued by Shun Yin Investment Ltd.

As a result, Shun Yin Investment Ltd. has become the Company's specified subsidiary.

Outline of Shun Yin Investment Ltd.:

(millions of yen)

Address:	Min-Chuan E. Road, Sec. 3, Taipei, Taiwan, R.O.C
Name of the representative:	Jonathan Lee (Akira Takada will assume the office of representative as of May 13, 2005.)
Content of business:	Investment business
Capital after the capital increase:	NT\$628,040 thousand
Shareholding:	Shareholding ratio of the Company: 100%

- (Note) Figures of the amounts in the business report are stated by discarding any fractions of the units presented.

## CONSOLIDATED BALANCE SHEET

(As of March 31, 2005)

(thousand yen)

### ASSETS

<b>Current assets</b>	<b>18,871,641</b>
Cash and deposits	8,015,260
Trade notes and trade accounts receivable	9,458,015
Inventories	628,317
Deferred tax assets	262,026
Others	509,648
Allowance for doubtful receivables	- 1,627
<b>Fixed assets</b>	<b>1,726,047</b>
Tangible fixed assets	161,774
Buildings	101,492
Others	60,282
Intangible fixed assets	<b>169,501</b>
Others	169,501
Investments and other assets	<b>1,394,771</b>
Investment securities	197,176
Long-term deposit	500,000
Deferred tax assets	281,853
Others	418,587
Allowance for doubtful receivables	- 2,846
<b>TOTAL ASSETS</b>	<b>20,597,689</b>

(thousand yen)

**LIABILITIES**

<b>Current liabilities</b>	<b>4,288,053</b>
Trade accounts payable	2,240,761
Accrued corporate income taxes	1,385,469
Allowance for bonuses	167,355
Others	494,467
<b>Fixed liabilities</b>	<b>47,156</b>
Others	47,156
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<b>TOTAL LIABILITIES</b>	<b>4,335,210</b>

**SHAREHOLDERS' EQUITY**

<b>Capital</b>	<b>4,840,313</b>
<b>Capital surplus</b>	<b>6,181,300</b>
<b>Retained earnings</b>	<b>6,543,168</b>
<b>Valuation difference of other securities</b>	<b>818</b>
<b>Treasury stock</b>	<b>- 1,303,121</b>
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<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>16,262,479</b>
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<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>20,597,689</b>

CONSOLIDATED STATEMENT OF INCOME  
(For the period from April 1, 2004 to March 31, 2005)

(thousand yen)

**Ordinary Profit and Loss**

**Operating profit and loss:**

**Operating profit**

Sales 30,122,391

**Operating expenses**

Cost of sales 24,070,739

Selling, general and administrative expenses 3,878,621 27,949,360

**Operating income** 2,173,030

**Non-operating profit and loss:**

**Non-operating profit**

Interest received 2,160

Gain on acceptance of business 9,812

Other non-operating profit 6,466 18,439

**Non-operating expenses**

Inaugural expenses 4,010

Loss from investments in partnership 7,532

Exchange loss 4,964

Other non-operating expenses 6,437 22,945

**Ordinary profit** 2,168,524

**Special income and loss**

**Special income**

Gain on sales of fixed assets 11,132

Gain on sales of investment securities 17,731

Transfer back from allowance for doubtful receivables 5,251 34,114

**Special loss**

Loss on disposition of system products 130,535

Loss on sales of fixed assets 30,339

Loss on sales of stock of related companies 23,625 184,499

**Pretax net profit for the year**

**2,018,138**

Corporate income taxes, inhabitant taxes and enterprise taxes 1,348,684

Interperiod tax allocation (-) 505,305 843,378

**Profit for the year** 1,174,759

Copy of Account Auditors' Audit Report on Consolidated Financial Statements

INDEPENDENT AUDITOR'S REPORT

May 11, 2005

To: The Board of Directors  
MegaChips Corporation

KPMG AZSA & Co.

By Hiromi Ohashi (seal)  
Specified and Executive Partner  
Certified Public Accountant

By Mikio Naruse (seal)  
Specified and Executive Partner  
Certified Public Accountant

In accordance with the provision of Article 19-2, paragraph 3 of the "Law Concerning Special Exceptions to the Commercial Code Relating to Audit, etc. of Stock Corporations" of Japan, this firm has audited the consolidated financial statements, or consolidated balance sheet and consolidated statement of income for the 15th business year from April 1, 2004 to March 31, 2005 of MegaChips Corporation (the "Company"). Management of the Company is responsible for preparing such consolidated financial statements and our responsibility is to express our opinions thereon from an independent standpoint.

We made such audit in compliance with generally accepted fair and reasonable auditing standards in Japan. The auditing standards require us to have a reasonable assurance whether any material misrepresentation exists in the consolidated financial statements or not. Our audit was made on a test basis and included the examination of the presentations in their entirety in the consolidated financial statements, including the evaluation of the accounting policies and methods of application thereof employed by management and estimates made by management. We consider that as a result of our audit, we have obtained a reasonable basis for expressing our opinions. The auditing procedures also included those followed in respect of any of the subsidiaries of the Company as we considered necessary.

As a result of such audit, this firm is of the opinion that the abovementioned consolidated financial statements fairly present the state of the property and profit and loss of the corporate group consisting of the Company and its consolidated subsidiaries in accordance with laws, ordinances and the Articles of Incorporation.

The subsequent events mentioned in the notes to the consolidated financial statements that the Company acquired its own shares pursuant to 211-3, paragraph 1, item 2 of the Commercial

Code of Japan and that the Company would subscribe for new shares to be issued by Shun Yin Investment Ltd. will have a significant effect on the state of the property and profit and loss of the corporate group consisting of the Company and its consolidated subsidiaries for the following business year or thereafter.

There is no such relation of interests between the Company and this auditing firm or any executive partner thereof as is required to be stated under the Certified Public Accountant Law of Japan.

- END -

Copy of the Board of Statutory Auditors' Audit Report on Consolidated Financial Statements

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

We, the Board of Statutory Auditors of the Company, upon receipt from each Statutory Auditor of his method and results of auditing the consolidated financial statements (consolidated balance sheet and consolidated statement of income) for the 15th business year from April 1, 2004 to March 31, 2005, prepared this audit report upon deliberation and hereby report as follows:

1. Method of Audit by Statutory Auditors in Outline:

Each Statutory Auditor, in accordance with the audit policy, assignment of duties, etc., as determined by the Board of Statutory Auditors, received from Directors, etc. and the account auditors reports and explanations on the consolidated financial statements and audited the same.

We also required the subsidiaries to render reports on their accounts and made investigation into the state of their business activities and properties whenever necessary.

2. Results of Audit:

We are of the opinion:

- (1) That the method and results of the audit made by the Company's account auditors, KPMG AZSA & Co., are proper; and
- (2) That based on the investigations of the subsidiaries, there is nothing to be pointed out with respect to the consolidated financial statements.

3. Subsequent Event:

The Company, at the meeting of its Board of Directors held on May 12, 2005, adopted a resolution to enter into, and entered into on the same day, a strategic business tie-up with Macronix International Co., Ltd. ("Macronix"). Simultaneously, the Company determined to acquire 2.6% (120,050 thousand shares) of the total issued shares of Macronix through its investment subsidiary in Taiwan and appoint a director of Macronix.

May 12, 2005

The Board of Statutory Auditors  
MegaChips Corporation

\_\_\_\_\_  
Mitsuo Tsuji (seal)  
(Full-time) Statutory Auditor

Hisakazu Nakanishi (seal)  
\_\_\_\_\_  
Statutory Auditor

Nozomu Ohara (seal)  
\_\_\_\_\_  
Statutory Auditor

Keiichi Kitano (seal)  
\_\_\_\_\_  
Statutory Auditor

(Note) Statutory Auditors Hisakazu Nakanishi, Nozomu Ohara and Keiichi Kitano are outside statutory auditors as provided for in Article 18, paragraph 1 of the "Law Concerning Special Exceptions to the Commercial Code Relating to Audit, etc. of Stock Corporations" of Japan.

BALANCE SHEET  
(As of March 31, 2005)

(thousand yen)

Assets

<b>Current assets:</b>	<b>10,398,060</b>
Cash and deposits	7,915,118
Stores	312
Prepaid expenses	44,023
Short-term loans to related companies	1,933,969
Deferred tax assets	64,511
Other accounts receivable	11,700
Corporate income taxes recoverable	546
Beneficial interest in trust	200,000
Other current assets	227,879
<b>Fixed assets:</b>	<b>5,178,791</b>
<u>Tangible fixed assets</u>	<u>124,664</u>
Buildings	101,492
Tools, furniture and fixtures	23,172
<u>Intangible fixed assets</u>	<u>124,293</u>
Telephone rights	2,775
Software	121,518
<u>Investment, etc.</u>	<u>4,929,832</u>
Investment securities	91,857
Investment in stocks of related companies	3,973,108
Long-term prepaid expenses	2,507
Deferred tax assets	81,282
Long-term deposits	500,000
Guarantees	263,575
Other investments, etc.	17,500
<hr/>	
<b>Total Assets</b>	<b>15,576,851</b>
<hr/>	

(thousand yen)

Liabilities

<b>Current liabilities:</b>	<b>218,176</b>
Short-term loans payable to related companies	90,027
Accounts payable - others	34,839
Accrued corporate income taxes	12,436
Accrued expenses payable	10,833
Deposit received	37,259
Allowance for bonuses	24,590
Other current liabilities	8,190
<b>Fixed liabilities:</b>	<b>40,591</b>
Other fixed liabilities	40,591
<b>Total Liabilities</b>	<b>258,767</b>

Shareholders' Equity

<b>Capital:</b>	<b>4,840,313</b>
<b>Additional paid-in capital:</b>	<b>6,181,300</b>
Capital reserve	6,181,300
<b>Retained earnings:</b>	<b>5,600,001</b>
Earned surplus reserve	97,042
Voluntary reserve	3,830,500
General reserve	3,830,500
Unappropriated retained earnings for the year	1,672,459
<b>Valuation difference of other securities</b>	<b>(-) 410</b>
<b>Treasury stock</b>	<b>(-) 1,303,121</b>
<b>Total Shareholders' Equity</b>	<b>15,318,083</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>15,576,851</b>

## STATEMENT OF INCOME

(For the period from April 1, 2004 to March 31, 2005)

(thousand yen)

### Ordinary Profit and Loss

#### **Operating profit and loss:**

##### **Operating profit**

Operating profit 825,452

##### **Operating expenses**

Selling, general and administrative expenses 779,970 779,970

**Operating income 45,482**

#### **Non-operating profit and loss:**

##### **Non-operating profit**

Interest and dividends received 39,488  
Gain on acceptance of business 9,812  
Exchange gains 906  
Other non-operating profit 2,306 52,515

##### **Non-operating expenses**

Interest paid 89  
Loss from retirement of fixed assets 795  
Loss from investments in partnership 7,532  
Other non-operating expenses 1 8,418

**Ordinary profit 89,578**

### Special income and loss

#### **Special income**

Gain on sales of fixed assets 11,132  
Gain on sales of investment securities 14,143 25,275

#### **Special loss**

Loss on sales of fixed assets 30,339  
Loss on sales of stock of related companies 266,719 297,058

#### **Pretax net profit for the year**

**182,205**

Corporate income taxes, inhabitant taxes and enterprise taxes 3,169

Interperiod tax allocation (-) 55,993 (-) 52,823

#### **Loss for the year**

**129,382**

Profit brought forward from the previous year 1,801,891

Loss on disposition of treasury stock 49

**Unappropriated retained earnings for the year 1,672,459**

## Significant Accounting Policies:

### 1. Basis and methods for evaluation of securities:

Capital stocks of subsidiaries and affiliated companies:

At cost, determined by the moving average method

Other securities:

Securities with market value: At market value, determined by market prices, etc. as of the close of the business year (Revaluation differences are all transferred directly to capital. Selling costs are determined by the moving average method.)

Securities without market value: At cost, determined by the moving average method

### 2. Basis and methods for evaluation of inventories:

Stores: At cost, determined by the last cost method.

### 3. Method of depreciation of fixed assets:

(1) Tangible fixed assets: Declining balance method

Buildings shall be depreciated over three to 47 years and tools, furniture and fixtures shall be depreciated over two to 15 years.

(2) Trivial depreciable assets: Three-year equal installment method

(3) Intangible fixed assets: Straight line method

However, depreciation of software (for use by the Company) is made by the straight line method based on the useful life (5 years) within the Company.

(4) Long-term prepaid expenses: Equal installment method

### 4. Basis for providing reserves:

(1) Allowance for doubtful receivables:

To provide for losses arising from debts becoming uncollectable, the Company provides an estimated uncollectible amount, by taking into consideration the actual loss rate in respect of general credits and the individual possibilities of collection in respect of specific credits, including possible non-performing credits.

(2) Allowance for bonuses:

An allowance for the bonuses to be paid to employees is provided in an estimated amount due during the accounting period.

5. Method of treatment of lease transactions:

A financial lease other than those in which ownership of leased property is deemed to pass to its lessee is treated in the manner in which ordinary lease transactions are treated.

6. Accounting treatment of consumption tax:

Consumption tax is treated for accounting purpose on a tax-excluded basis.

7. The "provisions of special treatment as to related companies" stipulated in Article 48, paragraph 1 of the Regulations for the Enforcement of the Commercial Code of Japan are applicable.

8. The Company became a pure holding company as of April 1, 2004. With regard to sales, sales for the 14th business year and theretofore were comprised primarily of sales of products in the LSI business, system business, etc., while the Company will only receive dividends from its subsidiaries and gains on acceptance of business as from the 15th business year. Hence, these incomes are shown as "operating profit" and the category of "operating expense" is established to show selling, general and administrative expenses.

NOTES:

(Notes to Balance Sheet)

1. Figures of the above amounts are stated by discarding fractions of one thousand yen.
2. Receivables from and payables to related companies:
  - (1) Short-term receivables: ¥1,936,934 thousand
  - (2) Short-term payables: ¥90,028 thousand
3. Accumulated amount of depreciation of tangible fixed assets: ¥117,197 thousand
4. The Company uses computers, computer peripherals, passenger cars, etc. under lease agreements, in addition to the fixed assets reported in the balance sheet.

- |    |   |                        |                      |
|----|---|------------------------|----------------------|
| 5. | Total number of issued shares:                          | Shares of common stock | 25,939,217 shares    |
|    | Number of shares of treasury stock held by the Company: | Shares of common stock | 683,493 shares       |
| 6. | Guarantee obligations:                                  | ¥516,060 thousand      | (US\$4,805 thousand) |
7. "Short-term loans to related companies" which were included in "Other current assets" under current assets in the balance sheet until the previous business year, are now listed separately as from the business year under review, as they have become more significant. The "short-term loans to related companies" as at the end of the previous business year accounted for ¥331,301 thousand.
8. "Capital investment" (¥76,857 thousand as of March 31, 2005) which was included in "Other investments, etc." under other investments in the balance sheet until the previous business year, is now included in "Investment securities" under other investments as from the business year under review, in accordance with the amendment to the "Practical Guidelines Concerning Accounting for Financial Instruments" (The Japanese Institute of Certified Public Accountants Accounting Committee Report No. 14 dated February 15, 2005).  
The "capital investment" as at the end of the previous business year accounted for ¥95,450 thousand.

(Notes to Statement of Income)

1. Figures of the above amounts are stated by discarding fractions of one thousand yen.
2. Volume of transactions with related companies:
 

(1) Operating profit:	¥825,452 thousand
(2) Operating expenses:	¥1,000 thousand
(3) Transactions other than business transactions:	¥37,552 thousand
3. Loss per share for the year: ¥6.03

PROPOSED APPROPRIATION OF RETAINED EARNINGS

(yen)	
Unappropriated retained earnings at the end of year	1,672,459,640
<b>Total:</b>	<b>1,672,459,640</b>
To be appropriated as follows:	
Dividends	378,835,860
Ordinary dividend:           ¥10 per share	
Commemorative dividend:   ¥5 per share	
Bonuses for officers	23,000,000
(Bonuses for Statutory Auditors)	(5,000,000)
<b>Retained earnings brought forward to the next year</b>	<b>1,270,623,780</b>

(Note) For the purpose of calculating dividends, 683,493 shares of treasury stock are excluded.

Copy of Account Auditors' Audit Report

INDEPENDENT AUDITOR'S REPORT

May 11, 2005

To: The Board of Directors  
MegaChips Corporation

KPMG AZSA & Co.

By Hiromi Ohashi (seal)

Specified and Executive Partner

Certified Public Accountant

By Mikio Naruse (seal)

Specified and Executive Partner

Certified Public Accountant

In accordance with the provision of Article 2, paragraph 1 of the "Law Concerning Special Exceptions to the Commercial Code Relating to Audit, etc. of Stock Corporations" of Japan, we, the oversigned auditing firm, audited the financial statements, or balance sheet, statement of income, business report (to the extent it relates to accounting) and proposed appropriation of retained earnings and their accompanying detailed statements (to the extent they relate to accounting) for the 15th business year of MegaChips Corporation (the "Company") covering the period from April 1, 2004 to March 31, 2005. The portion of the business report and the accompanying detailed statements relating to accounting consisted of those of the matters contained therein which were stated on the basis of the entries in the Company's accounting books. Management of the Company is responsible for preparing such financial statements and their accompanying detailed statements and our responsibility is to express our opinions thereon from an independent standpoint.

We made such audit in compliance with generally accepted fair and reasonable auditing standards in Japan. The auditing standards require us to have a reasonable assurance whether any material misrepresentation exists in the financial statements and their accompanying detailed statements or not. Our audit was made on a test basis and included the examination of the presentations in their entirety in the financial statements and their accompanying detailed statements, including the evaluation of the accounting policies and methods of application thereof employed by management and estimates made by management. We consider that as a result of our audit, we have obtained a reasonable basis for expressing our opinions. The auditing procedures include those followed in respect of any subsidiary of the Company as we deemed necessary.

As a result of such audit, we are of the opinion:

- (1) That such balance sheet and statement of income present fairly the state of the property and profit and loss of the Company in accordance with the laws, ordinances and the Articles of Incorporation;
- (2) That the business report (to the extent it relates to accounting) presents fairly the state of the Company in accordance with the laws, ordinances and the Articles of Incorporation;
- (3) That the proposed appropriation of retained earnings is in conformity with the laws, ordinances and the Articles of Incorporation; and
- (4) That, with respect to the accompanying detailed statements (to the extent they relate to accounting), there is nothing to be pointed out in accordance with the provisions of the Commercial Code of Japan.

As stated in "3. Important facts relating to the state of the Group which occurred subsequent to the closing of accounts" of the business report, the subsequent events that the Company acquired its own shares pursuant to 211-3, paragraph 1, item 2 of the Commercial Code of Japan and that the Company would subscribe for new shares to be issued by Shun Yin Investment Ltd. will have a significant effect on the state of the property and profit and loss of the Company for the following business year or thereafter.

There is no such relation of interests between the Company and this audit corporation or any participating partner thereof as is required to be stated under the Certified Public Accountant Law of Japan.

- E N D -

Copy of Board of Statutory Auditors' Audit Report

AUDIT REPORT

We, the Board of Statutory Auditors of the Company, upon receipt from each Statutory Auditor of his method and results of auditing the performance by Directors of their duties during the 15th business year from April 1, 2004 to March 31, 2005, prepared this audit report upon deliberation and hereby report as follows:

1. Method of audit by Statutory Auditors in outline:

Each Statutory Auditor, in accordance with the audit policy, assignment of duties, etc., as determined by the Board of Statutory Auditors, attended meetings of the Board of Directors and other important meetings, received from Directors, internal auditing sections, etc., reports on the performance of their duties, inspected important decision documents, etc., made investigation into the state of activities and property at the head office and principal business offices of the Company and required the subsidiaries to render reports on their business operations whenever necessary. We also required the Company's account auditors to render reports and explanations and examined the accounting statements and their accompanying detailed statements.

With respect to competitive transactions by Directors, transactions involving conflicting interests between Directors and the Company, gratuitous offering of proprietary profits by the Company, transactions not customary in nature between the Company and its subsidiaries or shareholders, acquisition and disposition by the Company of its own shares, we, in addition to following the aforementioned method of audit, whenever necessary required Directors, etc. to render reports on and made a full investigation into the state of any transaction in question.

2. Results of audit:

We are of the opinion:

- (1) That the method and results of the audit made by the account auditors, KPMG AZSA & Co. are proper;
- (2) That the business report fairly presents the state of the Company in accordance with the laws, ordinances and the Articles of Incorporation;
- (3) That the proposition relating to the appropriation of retained earnings has nothing to be pointed out in the light of the state of property of the Company and other circumstances;
- (4) That the accompanying detailed statements fairly present the matters to be stated therein and contain nothing to be pointed out;

- (5) That in connection with the performance by Directors of their duties, no dishonest act or fact of violation of laws, ordinances or the Articles of Incorporation exists;

With respect to any competitive transactions by Directors, transactions involving conflicting interests between Directors and the Company, gratuitous offering of proprietary profit by the Company, transactions not customary in nature between the Company and its subsidiaries or shareholders, and acquisition and disposition by the Company of its own shares, we find no breach of duties on the part of the Directors.

- (6) That with respect to the performance by Directors of their duties related to the internal control system, there exists nothing to be pointed out; and
- (7) That as a result of investigation of the subsidiaries, with respect to the performance by Directors of their duties, there exists nothing to be pointed out.

3. Subsequent event:

The Company, at the meeting of its Board of Directors held on May 12, 2005, adopted a resolution to enter into, and entered into on the same day, a strategic business tie-up with Macronix International Co., Ltd. ("Macronix"). Simultaneously, the Company determined to acquire 2.6% (120,050 thousand shares) of the total issued shares of Macronix through its investment subsidiary in Taiwan and appoint a director of Macronix.

May 12, 2005

Board of Statutory Auditors  
MegaChips Corporation

Mitsuo Tsuji (seal)  
(Full-time) Statutory Auditor

Hisakazu Nakanishi (seal)  
Statutory Auditor

Nozomu Ohara (seal)  
Statutory Auditor

Keiichi Kitano (seal)  
Statutory Auditor

(Note) Statutory Auditors Hisakazu Nakanishi, Nozomu Ohara and Keiichi Kitano are outside statutory auditors as provided for in Article 18, paragraph 1 of the "Law Concerning Special Exceptions to the Commercial Code Relating to Audit, etc. of Stock Corporations" of Japan.

- END -

## EXPLANATORY INFORMATION FOR EXERCISE OF VOTING RIGHTS

1. Total number of voting rights of all the shareholders:

252,182 rights.

(Note) The number of shares representing one voting right (one unit of shares) of the Company is 100 shares.

2. Propositions and explanatory information:

Proposition No. 1: Approval of the proposed appropriation of retained earnings for the 15th business year

The Company gives a top priority to distributing profits to the shareholders as an important policy of management and follows a fundamental policy of maintaining the constant payment of dividends. With regard to the allocation of profits, the Company takes into consideration internal reserves necessary for future business development of the whole Group, investment in research and development of new products and services to strengthen competitiveness and the strengthening of its corporate base, as well as prospects for its operating results.

Under this policy, with regard to dividends to shareholders for the business year under review, to thank our shareholders for their continued support, management proposes to pay an ordinary dividend of ¥10 per share, as well as a commemorative dividend of ¥5 per share to celebrate the 15th anniversary of establishment, totaling ¥15 per share.

For the next business year and thereafter, the Company intends to focus its efforts on increasing the enterprise value of the Group and maintain a corporate base that can absorb any corporate risk and yield a stable profit, whereby performing corporate social responsibilities. The Company will continue its efforts to meet the expectations of the shareholders. As to the dividend policy, while taking into consideration the payment of dividends on a constant basis, the Company intends to maintain a policy of paying dividends linked with consolidated operating results and keeping a 30% dividend payout ratio as a target.

Management proposes to pay ¥23,000,000 as bonuses for officers.

Proposition No. 2: Amendment to the Articles of Incorporation

1. Reasons for the amendment:

- (1) Amendment to the objectives:

The Company sold all of the shares of Cameo Interactive, Ltd. to the group of e frontier, Inc.

on October 29, 2004. Consequently, it is hereby proposed that the objectives stipulated in Article 2 of the Articles of Incorporation be rearranged to reflect the current operations of the Company.

(2) Change of the method of public notices:

Pursuant to the enforcement on February 1, 2005 of the "Law to Amend Part of the Commercial Code, Etc. for Introduction of Electronic Public Notice System" (2004 Law No. 87) of Japan, the introduction of a system of electronic public notice is authorized subject to the provision thereof in the articles of incorporation. Hence, it is hereby proposed that the Company change its method of giving public notices from insertion thereof in the Nihon Keizai Shimbun to an electronic method and also provide for a provisional method of public notices in the contingency that any electronic public notice cannot be given.

(3) Change of the total number of shares authorized to be issued:

As part of the financial strategies to expand the scale of operations in the future, it is hereby proposed that the total number of shares authorized to be issued under Article 5 of the Articles of Incorporation be increased.

(4) Change of the number of Directors:

The Company has shifted to a system of pure holding company as from the business year under review. Taking into consideration that the system has performed properly and with the aim of securing swifter and more appropriate decision-making on management, it is hereby proposed that the number of Directors be changed from not more than nine to not more than six.

(5) Establishment of a provision for the indemnification of Directors:

To allow the Directors to fully play their expected roles in performing their duties, it is hereby proposed that a new provision to exempt any Director from liabilities be established as the first paragraph of Article 25 of the Articles of Incorporation under the system of indemnification of directors as provided for in Article 266 of the Commercial Code of Japan and that the existing provision for entering into an agreement to limit liabilities of outside Directors be carried down to the second paragraph of Article 25.

The Board of Statutory Auditors has unanimously consented to the submission of the proposed provision of the "indemnification of Directors".

2. Particulars of the amendment:

The particulars of the proposed amendment are set forth below:



Existing Articles of Incorporation	Proposed amendment
9. Plan, design, development, sale, engineering works, maintenance and lease of network systems by the use of computers, communication equipment, information processing equipment, image processing equipment, audio and their peripherals, and information communications systems, and the consulting thereon;	(Same as existing)
10. Business relating to the acceptance of calculations by computer:	(Same as existing)
11. Plan, development, production, sale, export and import of software and data related with multimedia, including music and images;	(Same as existing)
12. Information processing service related with multimedia, including music and images, information converting service, information providing service, service related with storage and management of information, data communications service and data connection service, and the brokerage thereof;	(Same as existing)
13. Businesses relating to the acquisition, sale, purchase, licensing and brokerage of intellectual property rights, including industrial property rights and copyrights;	(Same as existing)
14. Investment business;	(Same as existing)
15. Specified worker dispatch business under the Worker Dispatch Business Law;	(Same as existing)
<u>16. Sale of musical instruments;</u>	(To be deleted)
<u>17. Production, sale, export and import of educational publications, educational materials and education instruments;</u>	(To be deleted)
<u>18. Operation of classes in information equipment for production and processing of "music, audio and images" and music classes, by the use of computers and their peripherals; and</u>	(To be deleted)
<u>19. All businesses incidental or pertaining to any of the foregoing items.</u>	<u>16. All businesses incidental or pertaining to any of the foregoing items.</u>

Existing Articles of Incorporation	Proposed amendment
<p>(Method of giving public notice)</p> <p>Article 4. Public notices of the Company shall be given <u>by insertion in the Nihon Keizai Shimbun.</u></p> <p>(To be newly established)</p> <p>(Total number of shares to be issued)</p> <p>Article 5. The total number of shares authorized to be issued by the Company shall be <u>40,000,000</u> shares; provided, however, that in the event that any shares are cancelled, the number of shares so cancelled shall be subtracted from the total number of shares so authorized.</p> <p>(Number)</p> <p>Article 17. The Company shall have not more than <u>nine (9)</u> Directors.</p> <p>(Indemnification of <u>outside</u> Directors)</p> <p>Article 25. (To be newly established)</p> <p>The Company may enter into an agreement with any outside Director to assume the liability for any damage that may be caused to the Company by any act of the outside Director as provided for in Article 266, paragraph 1, item 5 of the Commercial Code of Japan, within the aggregate amount as provided for in law, pursuant to Article 266, paragraph 19 thereof as long as he/she performs his/her duties in good faith and without gross negligence.</p>	<p>(Method of giving public notice)</p> <p>Article 4. Public notices of the Company shall be given <u>by electronic public notice.</u></p> <p>2. <u>In case of any unavoidable cause that renders such electronic public notice unavailable, a public notice shall be given by insertion in the Nihon Keizai Shimbun.</u></p> <p>(Total number of shares to be issued)</p> <p>Article 5. The total number of shares authorized to be issued by the Company shall be <u>100,000,000</u> shares; provided, however, that in the event that any shares are cancelled, the number of shares so cancelled shall be subtracted from the total number of shares so authorized.</p> <p>(Number)</p> <p>Article 17. The Company shall have not more than <u>six (6)</u> Directors.</p> <p>(Indemnification of Directors)</p> <p>Article 25. <u>The Company may, by resolution of the Board of Directors, exempt any Director from the liability for any act of the Director as provided for in Article 266, paragraph 1, item 5 of the Commercial Code of Japan, to the extent as provided for in law, pursuant to Article 266, paragraph 12 thereof as long as he/she performs his/her duties in good faith and without gross negligence.</u></p> <p>2. (Same as the existing first paragraph)</p>

Proposition No. 3: Election of six Directors

The term of office of Directors Messrs. Shigeki Matsuoka, Yukihiro Ukai, Yoshimasa Hayashi, Tetsuo Hikawa, Hiroyuki Mizuno, Takahiro Sonoda and Masayuki Fujii will expire at the close of this Ordinary General Meeting of Shareholders. Hence, it is hereby proposed that six Directors be elected.

Candidate for Director Mr. Hiroyuki Mizuno satisfies the requirement for an outside director as provided for in Article 188, paragraph 2, item 7-2 of the Commercial Code of Japan.

The candidates for Directors are as follows:

No.	Name	Current title	Numbers of shares of the Company held by candidate
1.	Shigeki Matsuoka	President and Representative Director of the Company	1,806,000 shares
2.	Yukihiro Ukai	Managing Director of the Company President and Representative Director of MegaChips LSI Solutions Inc.	96,000 shares
3.	Yoshimasa Hayashi	Director of the Company	668,000 shares
4.	Tetsuo Hikawa	Director of the Company President and Representative Director of MegaChips System Solutions Inc.	122,000 shares
5.	Hiroyuki Mizuno	Director of the Company	1,000 shares
6.	Masayuki Fujii	Director of the Company	- share

- (Notes)
1. Candidate for Director Mr. Yukihiro Ukai concurrently holds the office of Representative Director of MegaChips LSI Solutions Inc. However, as the company is a wholly owned subsidiary of the Company, he has no relation of special interest with the Company.
  2. Candidate for Director Mr. Tetsuo Hikawa concurrently holds the office of Representative Director of MegaChips System Solutions Inc. However, as the company is a wholly owned subsidiary of the Company, he has no relation of special interest with the Company.
  3. There is no relation of special interest between the other candidates for Directors and the Company.

Proposition No. 4: Election of one Statutory Auditor

The term of office of Statutory Auditor Mr. Keiichi Kitano will expire at the close of this Ordinary General Meeting of Shareholders. Hence, it is hereby proposed that one Statutory Auditor be elected.

The Board of Statutory Auditors has consented to this proposition.

The candidate for Statutory Auditor is as follows:

Name	Current title	Numbers of shares of the Company held by candidate
Keiichi Kitano	Statutory Auditor of the Company	17,660 shares

- (Notes)
1. There is no relation of special interest between the candidate and the Company.
  2. Mr. Keiichi Kitano is a candidate for an outside statutory auditor as provided for in Article 18, paragraph 1 of the "Law Concerning Special Exceptions to the Commercial Code Relating to Audit, etc. of Stock Corporations" of Japan.

Proposition No. 5: Issuance of stock acquisition rights as stock options

It is hereby proposed to the shareholders for approval that the Company issue stock acquisition rights to parties other than the shareholders on specifically favorable conditions as provided for in Article 280-20 and Article 280-21 of the Commercial Code of Japan, as described below:

1. Reason for requiring the issuance of stock acquisition rights on specifically favorable conditions:

To afford incentives to and raise the morale of the directors, statutory auditors and employees of the Company and its subsidiaries, as well as their outside collaborators, to contribute to increasing the enterprise value of the Group, the Company intends to issue stock acquisition rights, free of charge, to the directors, statutory auditors and employees of the Company and its subsidiaries, as well as their outside collaborators.

2. Outline of the issuance of stock acquisition rights:

- (1) Qualified grantees of stock acquisition rights:

Directors, statutory auditors and employees of the Company and its subsidiaries, as well as their outside collaborators.

- (2) Class and number of shares to be issued or transferred upon exercise of stock acquisition rights:

Not exceeding the total number of 100,000 shares of common stock of the Company.

In the event that the Company divides or consolidates its shares, the said number of shares to be issued or transferred upon exercise of the stock acquisition rights shall be adjusted in accordance with the following formula.

Such adjustment shall be made only to the number of the shares in respect of which the said stock acquisition rights have not been exercised then, with any fraction of one share occurring upon such adjustment discarded.

$$\text{Number of shares as adjusted} = \text{Number of shares before adjustment} \times \text{Division/consolidation ratio}$$

In the event that the Company is merged or consolidated with another company and the stock acquisition rights are succeeded to or in the event that the Company incorporates a company or transfers business by a corporate separation (*shinsetsu-bunkatsu* or *kyushu-bunkatsu*), the Company shall make such adjustment to the number of shares to be issued or transferred upon exercise of the stock acquisition rights as it deems necessary.

- (3) Total number of stock acquisition rights to be issued:

1,000 rights (number of shares to be issued or transferred for each stock acquisition right: 100 shares).

- (4) Issue price of a stock acquisition right:

Free of charge.

- (5) Amount to be paid in upon exercise of a stock acquisition right:

The paid-in amount per stock acquisition right shall be a paid-in amount per share to be determined as follows (the "Paid-in Amount"), multiplied by the number of shares to be issued or transferred for each stock acquisition right as set forth in (3) above. The Paid-in Amount shall be an amount obtained by multiplying by 1.05 the average of the daily closing prices (regular way) of shares of the Company on the Tokyo Stock Exchange for the days (exclusive of any day on which transactions are not validly made) of the month immediately preceding the month under which the issue date of the stock acquisition rights falls, with any fraction of one yen rounded upward to the nearest one yen.

Provided, however, that if the amount so obtained falls below the closing price on the day immediately preceding the issue date of the stock acquisition rights (or if the closing price is not available on that day, the closing price on any day immediately preceding that day), the

Paid-in Amount shall be the closing price on the day immediately preceding the issue date of the stock acquisition rights (or if the closing price is not available on that day, the closing price on any day immediately preceding that day).

In the event that the Company divides or consolidates its shares after the issuance of the stock acquisition rights, the Paid-in Amount shall be adjusted in accordance with the following formula, with any fraction of one yen occurring upon such adjustment rounded upward to the nearest one yen:

$$\text{Paid-in Amount as adjusted} = \frac{\text{Paid-in Amount before adjustment}}{\text{Division/consolidation ratio}} \times 1$$

In the event that the Company issues new shares at a paid-in price lower than the current market price (other than upon exercise of stock acquisition rights) after the issue date of the stock acquisition rights, the Paid-in Amount shall be adjusted in accordance with the following formula, with any fraction of one yen occurring upon such adjustment rounded upward to the nearest one yen:

$$\text{Paid-in Amount as adjusted} = \frac{\text{Paid-in Amount before adjustment} \times \left( \frac{\text{Number of already issued shares}}{\text{Number of already issued shares} + \frac{\text{Number of newly issued shares} \times \text{Paid-in price per share}}{\text{Current market price per share}}} \right)}{\text{Number of already issued shares} + \text{Number of newly issued shares}}$$

In the above formula, the "number of already issued shares" represents the total number of issued shares of common stock of the Company after deducting the total number of its shares of common stock held by the Company. In case of the disposition by the Company of its own shares, the "number of newly issued shares" shall be read as the "number of its own shares to be disposed of".

(6) Exercise period of the stock acquisition rights:

September 1, 2007 to September 30, 2010.

(7) Terms and conditions of the exercise of stock acquisition rights:

- (i) Any grantee of stock acquisition rights shall remain in office as director, corporate auditor or employee of the Company or its subsidiaries, or their outside collaborator when he/she exercises the rights, unless he/she leaves office upon expiration of the term of office as director or corporate auditor of the Company or its subsidiaries, or due to his/her mandatory retirement age or any other good reason.

- (ii) Any stock acquisition right shall not be transferred, pledged or otherwise disposed of.
  - (iii) If any grantee of stock acquisition rights dies, his/her heir shall be entitled to succeed to his/her rights, subject to the terms and conditions stipulated in a "contract of granting stock acquisition rights" set forth in (iv) below.
  - (iv) Any other terms and conditions of the exercise of stock acquisition rights shall be governed by a "contract of granting stock acquisition rights" to be entered into between the Company and the relevant grantee of the stock acquisition rights in accordance with the resolutions to be adopted at the this Ordinary General Meeting of Shareholders of the Company and at a meeting of its Board of Directors for the issuance of the stock acquisition rights.
- (8) Events and conditions to cancel stock acquisition rights:
- (i) In the event that a proposition for the approval of a merger agreement under which the Company shall be merged, or a share exchange agreement or a share transfer under which the Company shall become a wholly-owned subsidiary is approved at a General Meeting of Shareholders, the Company may cancel the stock acquisition rights without consideration.
  - (ii) In the event that any grantee of stock acquisition rights ceases to meet the terms or conditions to exercise his/her stock acquisition rights as stipulated in item (7) above before he/she does so, the Company may cancel his/her stock acquisition rights without consideration.
- (9) Restriction on a transfer of stock acquisition rights:

Any transfer of stock acquisition rights shall be subject to the approval of the Board of Directors.

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