

(Translation)

February 26, 2007

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: Masayuki Fujii  
Director and Executive Officer  
(TEL 06-6399-2884)

Notice of Merger with Consolidated Subsidiaries

It is hereby notified that MegaChips Corporation (the "Company"), at the meeting of its Board of Directors held on February 26, 2007, adopted a resolution to merge its subsidiaries MegaChips LSI Solutions Inc. and MegaChips System Solutions Inc. as of April 1, 2007 and entered into a merger agreement on February 26, 2007, as described below:

1. Purpose of the merger:

On April 1, 2004, the MegaChips Group shifted to the current system of holding company through corporate separation, with the aim of creating a business environment under which each division of business can maximize its characteristics and increase its capabilities of growth and competition through the efficient allocation of management resources, independence of each division of business and speedy decision-making.

As a result, its system business, which had long been deficit-ridden, produced a surplus during the previous business year and its LSI business has been cultivating new markets by utilizing new, proprietary technologies of the Group.

However, to face competition in and outside of Japan in the future and seek further growth, the Group is required to enhance cost-consciousness, improve efficiency of and standardize its operations, and maintain and improve its quality levels. For that purpose, the Company has determined that it is necessary to integrate and strengthen the fundamental functions common to the LSI business and system business, including consignment of manufacture of products, quality assurance and physical distribution. Furthermore, to efficiently establish a system for securing the trustworthiness of its financial reporting under the Financial Instruments and Exchange Law of Japan, the Company has determined that it is the most appropriate method to consolidate the three group companies.

On the momentum of the merger, the Company will strengthen its basis for business development and further advance growth of each business in an effort to enhance its market value.

The Company cordially seeks the understanding and continued support of its shareholders, clients, employees and all other stakeholders.

2. Summary of the merger

(1) Schedule of the merger:

Meeting of the Board of Directors for approval of merger agreement:	February 26, 2007
Signing of merger agreement:	February 26, 2007
General meeting of shareholders for approval of merger agreement:	In accordance with Article 796, paragraph 3 (simplified merger) of the Corporation Law of Japan, the Company will not hold a general meeting of shareholders. MegaChips LSI Solutions Inc. and MegaChips System Solutions Inc. will not hold general meetings of shareholders in accordance with Article 784, paragraph 1 (informal merger) of the Corporation Law.
Date for merger (effective date):	April 1, 2007
Date of delivery of share certificates:	As the Company will merge its 100% subsidiaries, no share certificates will be delivered.

(2) Method of the merger:

The Company will, as a surviving company, merge MegaChips LSI Solutions Inc. and MegaChips System Solutions Inc., both of which will be dissolved.

(3) Ratio of merger:

MegaChips LSI Solutions Inc. and MegaChips System Solutions Inc. are 100% subsidiaries of the Company, respectively. Hence, upon the merger, no new shares will be issued or allocated.

(4) Basis for calculating the ratio of merger, etc.:

Not applicable as no new shares will be issued or allocated upon the merger.

(5) Handling of stock acquisition rights and bonds with stock acquisition right of the dissolving companies:

Not applicable.

3. Outline of the parties to the merger (as of September 30, 2006)

(1)	Trade name	<b>MegaChips Corporation</b> (Surviving company)	<b>MegaChips System Solutions Inc.</b> (Dissolving company)	<b>MegaChips LSI Solutions Inc.</b> (Dissolving company)
(2)	Contents of business	<ul style="list-style-type: none"> <li>• Holding company</li> <li>• Acceptance of administrative operations</li> </ul>	Development, manufacture (by consignment) and sale of system products	Development, manufacture (by consignment) and sale of LSI products
(3)	Establishment	April 4, 1990	December 8, 1998	April 1, 2004
(4)	Location of head office	1-6, Miyahara 4-chome, Yodogawa-ku, Osaka-shi, Osaka	1-6, Miyahara 4-chome, Yodogawa-ku, Osaka-shi, Osaka	1-6, Miyahara 4-chome, Yodogawa-ku, Osaka-shi, Osaka
(5)	Representative	Shigeki Matsuoka, President and Representative Director	Tetsuo Hikawa, President and Representative Director (Director of MegaChips Corporation)	Yukihiro Ukai, President and Representative Director (Managing Director of MegaChips Corporation)
(6)	Capital	¥4,840 million	¥500 million	¥500 million
(7)	Total number of issued shares	24,661,017 shares	7,543 shares	10,000 shares
(8)	Net assets	¥18,069 million (consolidated)	¥815 million (non-consolidated)	¥4,356 million (non-consolidated)
(9)	Total assets	¥32,875 million (consolidated)	¥2,384 million (non-consolidated)	¥23,328 million (non-consolidated)
(10)	Date of settlement of accounts	March 31 of each year	March 31 of each year	March 31 of each year
(11)	Number of employees	217 (consolidated)	73 (non-consolidated)	108 (non-consolidated)
(12)	Principal clients	-	SECOM Co., Ltd. and other commercial equipment makers, sales companies, etc.	Nintendo Co., Ltd. and other consumer electronics makers, trading firms, etc.
(13)	Principle shareholders and shareholding ratios (note)	Yugen Kaisha Shindo 9.56% Japan Trustee Services Bank, Ltd. 9.56% Shigeki Matsuoka 6.78% Masahiro Shindo 4.61% MegaChips Corporation 4.53%	MegaChips Corporation 100.00%	MegaChips Corporation 100.00%
(14)	Principal correspondent banks	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Resona Bank, Limited Mizuho Corporate Bank, Ltd. The Iyo Bank, Ltd. Sumitomo Mitsui Banking Corporation	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	The Bank of Tokyo-Mitsubishi UFJ, Ltd.

(15)	Relationships between the parties	Capital relationship:	MegaChips System Solutions Inc. and MegaChips LSI Solutions Inc. are 100% subsidiaries of MegaChips Corporation, respectively.
		Personnel relationship:	Three (3) Directors and two (2) Statutory Auditors of MegaChips Corporation concurrently serve as Directors and Statutory Auditors of MegaChips System Solutions Inc., respectively. Four (4) Directors and two (2) Statutory Auditors of MegaChips Corporation concurrently serve as Directors and Statutory Auditors of MegaChips LSI Solutions Inc., respectively.
		Transaction relationship:	MegaChips Corporation accepts operations of the indirect divisions of MegaChips System Solutions Inc. and MegaChips LSI Solutions Inc.
		Related party or not:	No.

(Note) As of September 30, 2006

## (16) Business results for the last three business years

Business year	<b>MegaChips Corporation</b> (Surviving company) (Consolidated)			<b>MegaChips System Solutions Inc.</b> (Dissolving company) (Non-consolidated)		
	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006	Year ended March 31, 2004 (Note)	Year ended March 31, 2005	Year ended March 31, 2006
Sales (million yen)	25,878	30,122	30,721	3,115	2,548	3,056
Operating profit (loss) (million yen)	1,508	2,173	2,119	(318)	(461)	108
Ordinary profit (loss) (million yen)	1,460	2,168	2,119	(322)	(466)	107
Profit for the year	280	1,174	1,321	(851)	(592)	103
Per-share profit (loss) for the year (yen)	10.09	44.73	50.95	(56,481.20)	(78,629.42)	11,594.58
Annual dividend per share (yen)	10.00	15.00	16.00	-	-	-
Net assets per share (yen)	607.49	642.13	677.61	20,539.51	57,184.40	140,140.43

Business year	<b>MegaChips LSI Solutions Inc.</b> (Dissolving company) (Non-consolidated)		
	Year ended March 31, 2004 (Note)	Year ended March 31, 2005	Year ended March 31, 2006
Sales (million yen)	-	27,074	27,524
Operating profit (loss) (million yen)	-	2,669	2,015
Ordinary profit (loss) (million yen)	-	2,626	1,971
Profit for the year	-	1,554	1,205
Per-share profit (loss) for the year (yen)	-	153,293.62	118,514.89
Annual dividend per share (yen)	-	124,300.00	120,000.00
Net assets per share (yen)	-	334,846.12	391,022.96

(Note) For the business year ended March 31, 2004 of MegaChips System Solutions Inc., the amounts are those of the former MegaChips System Solutions Inc. prior to the corporate separation.

MegaChips LSI Solutions Inc. was incorporated as of April 1, 2004.

4. Situation after the merger

- (1) Trade name: MegaChips Corporation
- (2) Content of business: Development, manufacture (by consignment) and sale of system LSI products and system products, and business appertaining thereto.
- (3) Location of head office: 1-6, Miyahara 4-chome, Yodogawa-ku, Osaka-shi, Osaka
- (4) Representative: Shigeki Matsuoka,  
President and Representative Director
- (5) Capital: ¥4,840 million (No capital will be increased upon the merger.)
- (6) Net assets: ¥18,419 million (consolidated)
- (7) Total assets: ¥33,532 million (consolidated)
- (8) Date of settlement of accounts: March 31 of each year
- (9) Outline of accounting: For the purpose of the accounting standards for business combinations, the merger falls under a transaction under common control.
- (10) Impact on business results: As MegaChips LSI Solutions Inc. and MegaChips System Solutions Inc. are consolidated subsidiaries (100%) of MegaChips Corporation, the merger will have no material impact on the consolidated business results.

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