Winning through **Innovation** & **Performance**

MediaTek Inc.

ANNUAL REPORT 2006

Stock Code: 2454 Date: April 30, 2007
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http://emops.tse.com.tw/emops_all.htm
Website for MediaTek Inc. Annual Report Disclosure:
http://www.mtk.com.tw/ir-annual.htm

I. Names, titles, telephones, e-mail addresses of spokesperson, deputy spokesperson:

Spokesperson:
Name: Ming-To Yu
Position title: CFO
TEL: (03) 567-0766
E-mail: ir@mtk.com.tw

Deputy Spokesperson:
Name: Hou-Yi Liang
Position Title: Senior Manager, Finance Division
TEL: (03) 567-0766
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II. MediaTek Inc. address & telephone number:

Headquarters Address: No.1, Dusing Rd. 1, HsinChu Science Park, HsinChu
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III. Company name, address, website and telephone number of the Equity Agent:

Company Name: Chinatrust Commercial Bank, Corporate Trust Client Service Department.
Address: 5F,No. 83, Chungching S. Road, Sec. 1, Chungcheng District, Taipei
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IV. Names of auditing CPAs for financial statements in recent years, their CPA office name, address, website and telephone number:

CPA Names: Hui-Hsin Yeh, Ting-Ming Chang
CPA Office: Ernst & Young
Address: 9F, No.333, Keelung Road, Sec. 1, Taipei
Website: http://www.ey.com/global/content.nsf/Taiwan_E/Home_E
TEL: (02) 2720-4000

V. Name of overseas securities dealers and methods to inquire into overseas securities:

Nil

VI. MediaTek Website: http://www.mtk.com.tw

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I. Shareholders Letter

Dear Fellow Shareholders,

MediaTek Inc.("the Company") achieved a historic high in revenue and earnings per share in 2006, when its revenue reached NT$52.942 billion, growing by 13.9% over last year. Net profits after tax at NT$22.58 billion were 23.6% higher than the year before; earnings per share were NT$23.50, while the previous year's were NT$19.02. Wireless communication handset chip sets did well, as revenue doubled that of the previous year and cumulative shipments exceeded 100 million sets, propelling the Company to become one of the top five global suppliers. The Company's success in high definition digital TV chip products in the US market, as evidenced by the warm market reception and sales figures, has put it among suppliers of the world's top three LCD flat-screen TV brands. Apart from having achieved success in new product development, the Company has also maintained good profitability in matured-market products such as those related to optical storage and DVD recorders and players, through the introduction of new functions and cost improvements.

MediaTek has been the winner of the Hsinchu Science-Based Industrial Park Innovative Product Award for nine consecutive years, as well as the 2006 Best Financial Management Award for IC design companies worldwide, an honor conferred by the Fabless Semiconductor Association (FSA). In addition, the Company was three times elected to present papers at the International Semiconductor Conference – IEEE International Solid-State Circuits Conference, a mark of MediaTek's persistent pursuit in academic excellence and it's leadership in Taiwan's IC design research and development.

As products are diversified and a global organization takes shape, MediaTek has matured both in its technological and management capacities, enabling it to enjoy a steady growth. However, the challenge lies with bounds of technology industry and fast migration of semiconductor technology. MediaTek needs to continuously adjust itself for adaptation to the market and major challenges of increasing competition, shortened product life cycle, and intensified price wars in chips. In spite of the formidable environment, MediaTek has continually strived for breakthroughs and innovation, effectively operated its global resources, increased its competitiveness by leading the market with new product launches, and expanded market share to stay on top of its industry.

Looking into the future, the end markets for technology products have great potential and opportunities. MediaTek will continue to explore other product dimensions and improve its technological capabilities, so as to build a business that encompasses macro view of diversity and services, measuring up to international competitive benchmarks. By thinking globally and adapting itself to changing environmental circumstances, MediaTek aims to achieve enduring success. MediaTek's vision is to be ever-innovative, providing the best IC products and services to satisfy people's underlying needs for entertainment and information; and in doing so, to maximize shareholders' interests. Last but not least, we would like to thank our shareholders for continued support.

Ming-Kai Tsai
Chairman

Ching-Jiang Hsieh
President

II. Company Profile

1. Introduction to Company

MediaTek Inc. was founded on May 28,1997 and listed on Taiwan Stock Exchange(“TSE”) since July, 2001. The Company is headquartered in Taiwan and has sales and research subsidiaries in China, India, Korea and Singapore. MediaTek is one of the world's top ten fabless semiconductor companies for wireless communication and digital media solutions. The Company is a market leader which pioneers in the technology of leading-edge SoC system solutions for wireless communication, high-definition digital TV, optical storage, and high-definition DVD products.

Since its establishment, the compounded annual sales growth rate of the Company reached 28%. In terms of revenue perspective, MediaTek is also one of the world’s top 10 fabless semiconductor companies. On its business scope, the Company outpaces its peers not only by technology but also by market share. With growing sales and expanding market share, the Company continually strives for innovation to enhance the product value and maintain its stable profitability at the same time.

2. Milestones

May 1997	Incorporation of MediaTek
Oct. 1998	1998 SIPA Innovative Product Award, CD-ROM Chipsets
Oct. 1999	1999 SIPA Innovative Product Award, DVD-ROM Chipsets
Sep. 2000	2000 SIPA Innovative Product Award, CD-R/RW Chipsets
Jul. 2001	Lised on the TSE under Stock Code 2454
Oct. 2001	2001 MOEA Award for Industrial Technology Advancement
Dec. 2001	2001 SIPA Innovative Product Award, Highly Integrated DVD-Player Chipsets
Sep. 2002	2002 SIPA Innovative Product Award, COMBI Chipsets
Sep. 2003	Corporate Governance Award by Asia Money
Oct. 2003	The 15th Executive Yuan National Quality Award
Dec. 2003	2003 SIPA Innovative Product Award, DVD-Dual Rewritable Chipsets
Jan. 2004	Launched GSM Mobile Phone Chipsets
May 2004	“Top 3 Corporate Governance Companies in Taiwan IT industry” Award by Euro Money
Aug. 2004	Launched GSM/GPRS Cell Phone Chipsets
Dec. 2004	2004 SIPA Innovative Product Award, DVD-Recorder Backend Single Chip
Jan. 2005	Launched HD LCD TV Controller Chips
Jul. 2005	Launched ATSC / DVB-T HD LCD TV Chipsets
Dec. 2005	2005 SIPA Innovative Product Award, GSM/GPRS Multimedia Camera Phone Chipsets
Nov. 2006	Launched GSM/GPRS/EDGE Multimedia Application Processor
Dec. 2006	“ Best Financially Managed Fabless Company” Award by FSA

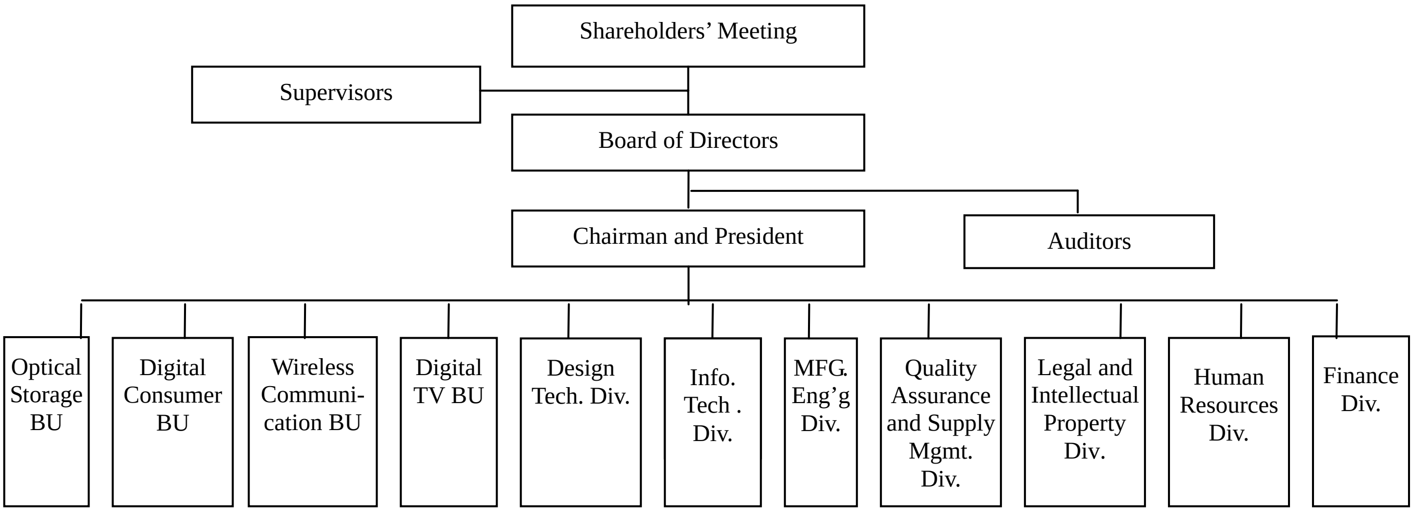
Dec. 2006	2006 SIPA Innovative Product Award, Blu-ray/HD DVD/DVD/CD Rewritable Chipsets

III. Corporate Governance Report

1. Corporate Organization

1.1 Organization

April 30, 2007



1.2 Business of key departments

Department	Business
Optical Storage Business Unit	R&D and promotion of optical storage chips.
Digital Consumer Business Unit	R&D and promotion of consumer-oriented chips.
Wireless Communication Business Unit	R&D and promotion of wireless communication oriented chips.
Digital TV Business Unit	R&D and promotion of digital TV chips.
Design Technology Division	Design services and technical platform development.
Information Tech Division	Information system installation, e-commerce strategy, information system development and operation.
MFG Eng'g Division	Pilot Run of newly developed products and technology development.
Quality Assurance and Supply Management Division	Product quality and reliablity management, customer satisfication management, prodution planning and procurement.
Legal and Intellectual Property Division	Corproate legal affairs, contracts, patents and the management of other intellectual property rights.
Human Resources Division	HR management and organization development, general affairs, plant administration and labor safety.
Finance Division	Finance and accounting management, tax management, capital/asset management, strategic investment and investor relations.
Auditors	Internal audit and operation procedure management

2.Directors and Supervisors

2.1 Profiles of Directors and Supervisors

April 13, 2007 / Unit: Share

Title	Name	Date elected	Term	Date first elected	Shareholding when elected		Current shareholding		Spouse and underage children shareholding		Shareholding under the title of a third party		Education and experience	Other positions in the Company and in other companies	Other executives, directors or supervisors who are spouse or relative within the second degree of kinship		
					Quantity	Proportion	Quantity	Proportion	Quantity	Proportion	Quantity	Proportion			Title	Name	Relation
Chairman	Ming-Kai Tsai	2006.06.21	3 yrs	1997.05.21	34,616,722	4.01%	38,118,394	3.94%	50,399,292	5.20%	-	-	-Master,Electrical Engineering, University of Cincinnati, USA -President of the 2nd Business Group, UMC	-CEO, MediaTek -Director / Chairman of MediaTek's Affiliates -Chariman of ALi Corp., Alpha Imaging Technology Corp.,Andes Technology Corp.,and JMicro Technology Corp. -Director of Mobitek Communication Corp.	None		
Vice Chairman	Jyh-Jer Cho	2006.06.21	3 yrs	1997.05.21	25,743,394	2.98%	28,357,733	2.93%	10,128,627	1.05%	-	-	-Master,Electronic Engineering, National Chiao Tung University -Manager, Multi-media R&D Team,UMC	Vice Chairman, MediaTek	None		
Director	Ching-Jiang Hsieh	2006.06.21	3 yrs	2005.06.13	3,838,580	0.44%	4,202,438	0.43%	1,956,274	0.20%	-	-	-Master, Electrical Engineering, National Taiwan University -Engineering, Multimedia R&D Team,UMC	-President, MediaTek -Director/Supervisor of MediaTek Affiliates	None		
Director	National Taiwan University Statutory representative: Ming-Je Tang	2006.06.21	3 yrs	2002.06.03	2,455	0.00%	2,700	0.00%	-	-	-	-	Ph.D., Business Management, MIT, USA	-Professor, National Taiwan University, Dept. of International Business Administration -Director of Trend Technology and Education Foundation -Independent Director of Analog Integrations Corp.	None		
Director	National Chiao Tung University Statutory representative: (Note)	2006.06.21	3 yrs	2002.06.03	2,455	0.00%	2,700	0.00%	-	-	-	-	(Note)	(Note)	None		

Supervisor	MediaTek Capital Co. Statutory representative: Paul Wang	2006.06.21	3 yrs	2006.06.21	6,654,670	0.77%	7,320,137	0.76%	-	-	-	-	-Ph.D., Physics, Carnegie-Mellon, USA -Senior Consultant of IBM, USA	-Chairman, Pacific Venture Group and SerComm Corp. -Director of Mustek Technology, Prosperity Dielectrics Co., and Mitac Inc. -Independent Director of Taiwan Prosperity Chemical Corp. -Supervisor of Les Enfants, TECO Electric and Machinery Co.	None
Supervisor	National Tsing Hua University Statutory representative: Chung -Lang, Liu	2006.06.21	3 yrs	2003.05.16	1,753	0.00%	1,928	0.00%	-	-	-	-	-Ph. D., Electrical Engineering, MIT, USA -President, National Tsing Hua University	-Chairman, Dramexchange Technology Inc. -Director of CMSC Inc., and Lightronik Technology Inc., -Independent Director of Macronix International Co., Ltd., Anpec Electronics Corp., and MotoTech Inc., -Supervisor of Andes Technology Corp.	None
Supervisor	National Cheng Kung University Statutory representative: Yan-Kuin, Su	2006.06.21	3 yrs	2006.06.21	176	0.00%	193	0.00%	-	-	-	-	-Ph.D., Electrical Engineering, National Cheng Kung University	-Director of Advanced Optoelectronic Technology Center Professor, Dept. of Electrical Engineering, National Cheng Kung University, -Director of Dayeh University	None

Note: The representative of National Chiao Tung University has already resigned from the Board on Feb. 1, 2007. Before this report is put in printing, no new representative has been designated by National Chiao Tung University.

2.2 Major Instiutional Shareholders

MediaTek Capital Co. is MediaTek's supervisor and institutional shareholder. MediaTek Capital Co. is 100% owned by MediaTek Investment Co. which is 100% owned by MediaTek.

2.3 Directors and Supervisors' professional qualifications and independent analysis

Qualifications / Name	An instructor or higher position in a department of commerce, law, finance, accounting or other academic department related to the business needs of the Company in a public or private college, junior college or university	A judge, public prosecutor, attorney, certified public accountant or other professional or technical specialists who have passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Working experience in commerce, law, finance, accounting or otherwise necessary for the business of the Company	Status of independence (Note 2)										Number of public companies concurrently serving as an independent director
				1	2	3	4	5	6	7	8	9	10	
Ming-Kai Tsai			✓				✓	✓	✓	✓	✓	✓	✓	0
Jyh-Jer Cho			✓				✓	✓	✓	✓	✓	✓	✓	0
Ching-Jiang Hsieh			✓			✓	✓	✓	✓	✓	✓	✓	✓	0
National Taiwan University Statutory representative: Ming-Je Tang	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓		1
National Chiao Tung University Statutory representative: (Note 1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MediaTek Capital Co. Statutory representative: Paul Wang			✓	✓		✓	✓	✓	✓	✓	✓	✓		1
National Tsing Hua University Statutory representative: Chung -Lang, Liu	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓		4
National Cheng Kung University Statutory representative: Yan-Kuin, Su	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓		0

Note : 1. The representative of National Chiao Tung University has already resigned from the Board on Feb.1, 2007. Before this report is put in printing, no new representative has been designated by National Chiao Tung University. Therefore, the analysis above is not applied.

Note : 2. Independence of the directors and supervisors with a "✓" sign as shown as follows:

(1) Not an employee of the Company or any of its affiliates;
(2) Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent Company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares;
(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, underage children, or held by the person under others' names, in an aggregate amount of 10 % or more of the total number of issued shares of the Company or ranking in the top 10 in holdings;
(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs;
(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the Company or that holds shares ranking in the top five in holdings;
(6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified Company or institution that has a financial or business relationship with the Company;
(7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, Company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof;
(8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company;
(9) Not been a person of any conditions defined in Article 30 of the Company Law; and
(10)Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

2.4 Remuneration paid to Directors and Supervisors

2.4.1 Remunerations paid to Directors

Unit: Share /NTD1,000

<table>
<tr><th rowspan="4">Title</th><th rowspan="4">Name</th><th colspan="6">Remunerations paid to directors</th><th colspan="2" rowspan="2">(A+B+C) as % of 2006 Net Income</th><th colspan="8">Compensation earned as employee of MediaTek or of MediaTek affiliates</th><th colspan="2" rowspan="2">(A+B+C+D+E) as % of 2006 Net Income</th><th rowspan="4">Other compensation from non-subsidiary affiliates</th></tr>
<tr><th colspan="2">Salary(A)</th><th colspan="2">Compensation from profit sharing (B) (Note 2)</th><th colspan="2">Allowance(C)</th><th colspan="2">Salary, bonus and etc. (D)</th><th colspan="4">Employee profit sharing (E) (Note 3)</th><th colspan="2">Employee Stock Option</th></tr>
<tr><th rowspan="2">MediaTek</th><th rowspan="2">Consolidated Entities of MediaTek</th><th rowspan="2">MediaTek</th><th rowspan="2">Consolidated Entities of MediaTek</th><th rowspan="2">MediaTek</th><th rowspan="2">Consolidated Entities of MediaTek</th><th rowspan="2">MediaTek</th><th rowspan="2">Consolidated Entities of MediaTek</th><th rowspan="2">MediaTek</th><th rowspan="2">Consolidated Entities of MediaTek</th><th colspan="2">MediaTek</th><th colspan="2">Consolidated Entities of MediaTek</th><th rowspan="2">MediaTek</th><th rowspan="2">Consolidated Entities of MediaTek</th><th rowspan="2">MediaTek</th><th rowspan="2">Consolidated Entities of MediaTek</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>Chairman</td><td>Ming-Kai Tsai</td><td rowspan="5">-</td><td rowspan="5">-</td><td rowspan="5">40,327</td><td rowspan="5">40,327</td><td rowspan="5">-</td><td rowspan="5">-</td><td rowspan="5">0.18</td><td rowspan="5">0.18</td><td rowspan="5">7,812</td><td rowspan="5">7,812</td><td rowspan="5">16,000</td><td rowspan="5">111,204</td><td rowspan="5">16,000</td><td rowspan="5">111,204</td><td rowspan="5">-</td><td rowspan="5">-</td><td rowspan="5">0.78</td><td rowspan="5">0.78</td><td rowspan="5">None</td></tr>
<tr><td>Vice Chairman</td><td>Jyh-Jer Cho</td></tr>
<tr><td>Director</td><td>Ching-Jiang Hsieh</td></tr>
<tr><td>Director</td><td>National Taiwan University Statutory representative: Ming-Je Tang</td></tr>
<tr><td>Director</td><td>National Chiao Tung University Statutory representative: (Note 1)</td></tr>
</table>

Note 1: The representative of National Chiao Tung University has already resigned from the Board on Feb.1, 2007. Before this report is put in printing, no new representative has been designated by National Chiao Tung University.

Note 2: The Board resolved on Mar. 21, 2007 to propose the amount of NT$40,327 thousand as remunerations for directors. The information on the actual figures shall be posted on the website of the Company pending on the decision of the Shareholders General Meeting.

Note 3: The Board resolved on Mar. 21, 2007 to propose the amount of NT$1,181,926 thousand as employee bonus. The information on the actual figures shall be posted on the website of the Company pending on the decision of the Shareholders General Meeting. Before this report is put in printing, distribution of profit sharing to employees was still unresolved. The above figures were only an estimation. Stock price is based on the closing price in the end of Dec. 2006 and taken into retrospect of the ex-dividend and ex-right cut-off day.

Scale of remunerations to directors of the Company	Number of Directors			
	Total compensation paid to directors (A+B+C)		Total compensation paid to directors (A+B+C+D+E)	
	MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek
Less than $2,000,000	-	-	-	-
$2,000,000~$5,000,000	-	-	-	-
$5,000,000 ~$10,000,000	5	5	2	2
$10,000,000~$15,000,000	-	-	-	-
$15,000,000~$30,000,000	-	-	-	-
$30,000,000 ~$50,000,000	-	-	2	2
$50,000,000 ~$100,000,000	-	-	1	1
$100,000,000 above	-	-	-	-
Total	5	5	5	5

2.4.2 Remunerations paid to Supervisors

Unit: NTD 1,000

Title	Name	Remunerations paid to supervisors						(A+B+C) as % 2006 Net Income		Other compensation from non-subsidiary affiliates
		Salary(A)		Compensation form profit sharing (B) (Note 3)		Allowance(C)				
		MediaTek	Consolidated Entitiesof MediaTek	MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek	
Supervisor	United Microelectronics Corporation Statutory representative: Grace Li (Note 1)									
Supervisor	Century Venture Capital Corp. Statutory representative: Paul Wang (Note 2)									
Supervisor	MediaTek Capital Co. Statutory representative: Paul Wang	-	-	22,782	22,782	-	-	0.10	0.10	None
Supervisor	National Tsing Hua University Statutory representative: Chung-Lang, Liu									
Supervisor	National Cheng Kung University Statutory representative: Yan-Kuin, Su									

Note 1: UMC has resigned as supervisor on April 18, 2006 and MediaTek elected new directors and supervisors on June 21, 2006. Therefore the remunerations were calculated in the period from Jan.1, 2006 to April 18, 2006

Note 2: MediaTek elected new directors and supervisors on June 21, 2006. Therefore the remunerations of Century Venture Capital were calculated in the period from Jan.1, 2006 to June 20, 2006.

Note 3: The Board resolved on Mar.21, 2007 to propose the amount of NT$22,782 thousand as remunerations for supervisors. The information on the actual figures shall be posted on the website of the Company pending on the decision of the Shareholders General Meeting.

Scale of remunerations to supervisors of the Company	Number of Supervisors	
	Total compensation paid to supervisors (A+B+C)	
	MediaTek	Consolidated Entities of MediaTek
Less than $2,000,000	-	-
$2,000,000~$5,000,000	4	4
$5,000,000 ~$10,000,000	1	1
$10,000,000~$15,000,000	-	-
$15,000,000~$30,000,000	-	-
$30,000,000 ~$50,000,000	-	-
$50,000,000 ~$100,000,000	-	-
$100,000,000 above	-	-
Total	5	5

3. Key Managers

3.1 Profiles of key managers

April 13, 2007 Unit: Share/NTD1,000

Title	Name	Day of office	Shareholding		Shareholding by spouse and underage children		Shareholding under the title of a third party		Education and experience	Positions with other companies	Manager of the Company who is spouse or relative within the second degree of kinship		
			Quantity	proportion	quantity	proportion	quantity	proportion			title	name	relations
Chairman & CEO	Ming-Kai Tsai	1997.05.21	38,118,394	3.94%	50,399,292	5.20%	-	-	-Master, Electrical Engineering, University of Cincinnati, USA -President of the 2nd Business Group, UMC	-Director/ Chairman of MediaTek's affiliates , -Chairmen of ALi Corp., Alpha Imaging Technology Corp., Andes Technology Corp., JMicron Technology Corp., and Mobitek Communication Corp.	None		
Vice Chairman	Jyh-Jer Cho	2005.09.15	28,357,733	2.93%	10,128,627	1.05%	-	-	-Master, Electronic Engineering, National Chiao Tung University -Manager, Multi-media R&D Team, UMC	None	None		
President	Ching-Jiang Hsieh	2005.09.15	4,202,438	0.43%	1,956,274	0.20%	-	-	-Master, Electrical Engineering, National Taiwan University -Engineer, Multimedia R&D Team,UMC	Director/ Chairman of MediaTek's affiliates	None		
Senior Vice President	Ji-Chang Hsu	2006.01.01	169,690	0.02%	-	-	-	-	-Master, Electronic Engineering, University of California, St. Barbara -Software Manager, Conexant System, Inc.	Director /President of MediaTek's affiliates	None		
Vice President	Hsi-Yuan Hsu	2005.03.25	178,208	0.02%	-	-	-	-	-Master, Electronics, National Chiao Tung University -Executive Vice President, ALi Corp., Ltd.	Chairman of MediaTek's affiliates	None		
Vice President	Ping-Hsing Lu	2006.01.01	415,983	0.04%	234,968	0.02%	-	-	-PhD, Electronics, National Chiao Tung University -President, ALi Corp., Ltd.	-Chairman/Director/ President of MediaTek's affiliates, -Director of ALi Corp.	None		
Vice President	Chwei-Hung Chang	2006.07.01	2,511,759	0.26%	674,856	0.07%	-	-	-Master, Electronic Engineering, Polytechnic University, USA -Engineer, Multimedia R&D Team,UMC	None			
Vice President	Kou-Hung Loh	2006.07.01	221,941	0.02%	-	-	-	-	-Ph. D., Electrical Engineering, Texas A&M University , -CEO and Founder of Silicon Bridge	Director of MediaTek's affiliates			
CFO and Spokesman	Ming-To Yu	2001.08.31	159,026	0.02%	372,900	0.04%	-	-	-MBA, University of Pennsylvania USA, Wharton Business School -Financial Manager, Taiwan Semiconductor Manufacturing Co., Ltd.	-Director /Supervisor of MediaTek’s affiliates, -Director of Alpha Imaging Technology Corp. and PixArt Imaging Inc.	None		

3.2 Remunerations and Employee bonus paid to key managers

Unit: Share/ NTD 1,000

Title	Name	Salary(A)		Bonus(B)		Employee Profit Sharing (C)				(A+B+C) as % of 2006 net income		ESOP		Other compensation from non-subsidiary affiliates
		MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek	MediaTek(Note)		Consolidated Entities of MediaTek		MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek k	
						Cash	Stock	Cash	Stock					
Chairman & CEO	Ming-Kai Tsai	12,787	12,787	4,918	4,918	37,200	279,512	37,200	279,512	1.48	1.48	-	-	None
Vice Chairman	Jyh-Jer Cho													
President	Ching-Jiang Hsieh													
Senior Vice President	Ji-Chang Hsu													
Vice President	Hsi-Yuan Hsu													
Vice President	Ping-Hsing Lu													
Vice President	Chwei-Hung Chang													
Vice President	Kou-Hung Loh													
CFO and Spokesman	Ming-To Yu													

Notes : The Board resolved on Mar. 21, 2007 to propose the amount of NT$1,181,926 thousand as employee bonus. The information on the actual figures shall be posted on the website of the Company pending on the decision of the Shareholders General Meeting. Before this report is put in printing, distribution of profit sharing to employees was still unresolved. The above figures were only an estimation. Stock price is based on the closing price in the end of Dec 2006 and taken into retrospect of the ex-dividend and ex-right cut-off day.

Scale of remunerations to managers of the Company	Number of Key Managers	
	MediaTek	Consolidated Entities of MediaTek
Less than $2,000,000	1	1
$2,000,000~$5,000,000	-	-
$5,000,000 ~$10,000,000	-	-
$10,000,000~$15,000,000	-	-
$15,000,000~$30,000,000	-	-
$30,000,000 ~$50,000,000	6	6
$50,000,000 ~$100,000,000	2	2
$100,000,000 above	-	-
Total	9	9

4. Corporate Governance Report

4.1 Board of Directors' meeting status

The Board of the Company has held 12 sessions in 2006, the attendance of the supervisors and directors are shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Notes
Chairman	Ming-Kai Tsai	12	0	100%	Renewal of office (Reelected on June 21, 2006)
Vice Chairman	Jyh-Jer Cho	12	0	100%	Renewal of office (Reelected on June 21, 2006)
Director	Ching-Jiang Hsieh	12	0	100%	Renewal of office (Reelected on June 21, 2006)
Director	National Taiwan University Statutory representative: Ming-Je Tang	7	0	58%	Renewal of office (Reelected on June 21, 2006)
Director	National Chiao Tung University Statutory representative : Chung-Yu Wu	8	0	67%	Renewal of office (Reelected on June 21, 2006). The representative of National Chiao Tung University has already resigned from the Board on Feb.1, 2007. Before this report is put in printing, no new representative has been designated by National Chiao Tung University.
Supervisor	United Microelectronics Corporation Statutory representative: Grace Li	2	0	100%	Resigned on April 18, 2006
Supervisor	Century Venture Capital Corp. Statutory representative: Paul Wang	3	0	60%	Resigned on June 21, 2006
Supervisor	MediaTek Capital Co. Statutory representative: Paul Wang	1	0	14%	New office assumed (Elected on June 21, 2006)
Supervisor	National Tsing Hua University Statutory representative: Chung-Lang, Liu	5	0	42%	Renewal of office (Reelected on June 21, 2006)
Supervisor	National Cheng Kung University Statutory representative: Yan-Kuin , Su	1	0	14%	New office assumed (Elected on June 21, 2006)
Other important notice：None.					

4.2 Corporate Governance status and the reasons and remedies of nonconformity to the Corporate Governance best-practice principles for TSE/GTSM listed companies

Subject	Status	The Reasons and Remedies of Nonconformity to the Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies
1. Equity structure and shareholders equity 1.1 Handling suggestions from shareholders and disputes. 1.2 Control of the list of dominant shareholders and the dominant parties behind such shareholders. 1.3 The establishment of risk control mechanism and firewall between the Company and subsidiaries.	The Company has appointed specific personnel to handle institutional investor relation, public relations and legal affairs as well as suggestions or disputes from shareholders. The Company keeps the updated information of directors, supervisors, managers, and dominant shareholders holding more than 10% of the outstanding shares under control at any time. In designing the organization of the subsidiaries and affiliates, the Company has already considered the mechanism of firewall. All subsidiaries have also instituted relevant internal control systems.	None None None
2. The organization of the Board and their duties: 2.1 The position of independent director. 2.2 Regular review and assessment on the impartiality and independence of the CPAs.	Currently, the Company has two seats of external directors (NTU/ NCTU). The employment or replacement of CPAs required the approval of the Board, who will conduct evaluation on the independence of the CPAs on a regular basis. For enhancing the independence of the CPAs, the Company will replace those who have served to audit the financial statements of the Company for five years.	Currently, the Company has external directors, and will add the seats for independent directors in the future if it is necessary. None
3. The organization of supervisors and their duties: 3.1 The position of independent supervisors. 3.2 Communication between the	The Company has two seat of external supervisors (NTHU/NCKU) Personnel in charge of relevant operations in the Company reported to the supervisor regularly. Information on the supervisors is transparent. All employees, shareholders and stakeholders may	Currently, the Company has external supervisors, and will add the seats for independent supervisors in the future if it is necessary.

supervisors and the employees and shareholders of the Company.	contact supervisors freely.	None
4. Communication channels with stakeholders.	The Company has appointed specific personnel to handle different situations depending on the counterparty.	None
5. Disclosures 5.1 The Company has installed a website for the disclosure of its financial position and status of corporate governance. 5.2 The Company also adopts other means for disclosure (installation of English website, appointment of specific personnel to gather and disclose relevant information, implementation of the spokesman system, and webcasting investor conferences).	1. The Company always discloses relevant information on the financial position of the Company and the status of corporate governance on the Company website (www.mtk.com.tw). 2. The Company has appointed specific personnel for the gathering and disclosure of information on the Company (contact: Sophia Liang; Telephone 03-5670766, ext. 26568 / e-mail: ir@mtk.com.tw) 3. The Company has established the spokesperson system (spokesperson: Ming-ToYu ;deputy spokesperson: Hou-Yi Liang). 4. Information for investor conferences is posted simultaneously on the Company website. 5. The Company discloses all information to shareholders and stakeholders on the Company website and the MOPS website.	None None None None None
6. The establishment of Audit Review Board and its function	None	Will establish such committee if it is necessary
7. If the Company has set internal rules for corporate governance in accordance with the “Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies”, specifying the status of enforcement and nonconformity: MediaTek does not set any internal corporate governance rules. For the related information, please refer to the section titled “Corporate Governance” of this Annual Report.		
8. Please describe the Company’s corporate social responsibility (such as human rights, employee rights, employee wellness, community participation, social contribution, community service, investor relations, supplier relations and rights of shareholders) policy and implementation. For the status of MediaTek’s corporate social responsibility, please refer to the section titled “Review in Operation – 4. Information on Spending on Environmental Protection, 5. Labor-Management Relation and 6. Social responsibility” of this Annual Report.		
9. Other essential information for the understanding of corporate governance (e.g., the continuing education of directors and supervisors, risk		

management policy and the enforcement of the standards for risk assessment, the protection of consumers and the implementation of customer policy, insurance coverage for the directors and the supervisors on liabilities): 9.1 The directors and supervisors to the Company are professionals in respective fields. In addition, the Company also provides relevant information on laws to the directors and supervisors as needed. The management team of the Company also reports to the directors and supervisors about their operations regularly. Information of continuing education for directors and supervisors is disclosed on MOPS website. 9.2 The Company has already instituted a viable internal control system as required by law and has properly enforced the system. The Company also conducts risk assessment on the banks, customers and suppliers for reducing credit risk. 9.3 All directors of the Company have avoided the conflict of interest. 9.4 The directors, supervisors and key personnel of the Company are insured for liability by the Company.
10. If the Company has a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation, the evaluation results, major deficiency or suggestion, and improvement are stated as follows: Not Applied

4.3 Other Essential Information : None.

4.4 Status of implementation of the Internal Control System

4.4.1 Declaration of Internal Control

MediaTek Inc.
Statement of Declaration of Internal Control

Date: Mar.21, 2007

MediaTek Inc. has conducted internal audit in accordance with its Internal Control Regulation covering the period from January 1 to December 31, 2006, and hereby declares as follows:

I. The Company acknowledges and understands that the establishment, enforcement and preservation of internal control system are the responsibility of the Board and that the managers and the Company have already established such system. The purpose is to reasonably ensure the effect and efficiency of operation (including profitability, performance and security of assets), the reliability of financial reporting and the compliance with relevant legal rules.

II. Internal control system has its limitation, no matter how perfect the design is. As such, effective internal control system may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls system. The internal control system of the Company features the self-monitoring mechanism. Once identified, any shortcoming will be corrected immediately.

III. The Company judges the effectiveness of the internal control system in design and enforcement in accordance with the “Criteria for the Establishment of Internal Control System of Public Offering Companies” (hereinafter referred to as “the Criteria”). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control system. There are five components of effective internal control as specified in the Criteria with which the procedure for effective internal control are composed by five elements, namely, 1.Control environment, 2. Risk Evaluation, 3. Control Operation, 4. Information and Communication, and 5. Monitoring. Each of the elements in turn contains certain audit items, and shall be referred to the Criteria for detail.

IV. The Company has adopted the aforementioned internal control system for internal audit on the effectiveness of the design and enforcement of the internal control system.

V. Based on the aforementioned audit findings, the Company holds that within the aforementioned period its internal control procedures (including the procedures to monitor the subsidiaries), including the effectiveness and efficiency in operation, reliability in financial reporting and compliance with relevant legal rules, and that the design and enforcement of internal control, are effective. The aforementioned goals can be achieved with reasonable assurance.

VI. This statement of declaration shall form an integral part of the annual report and prospectus on the Company and will be announced. If there is any fraud, concealment and unlawful practice discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, Article 32, Article 171 and Article 174 of the

Securities and Exchanges Act.

VII. This statement of declaration has been approved by the Board on Mar 21, 2007 with 4 directors in session under unanimous consent.

MediaTek Inc.

Ming-Kai Tsai
Chairman

Ching-Jiang Hsieh
General Manager

4.4.2 Disclose the review report of independent auditors if they are retained for reviewing the internal control system: None.

4.5 Punishment on the Company and employees in violation of law, punishment on employees in violation of internal control system and other internal regulations, major shortcomings and status of correction: None.

4.6 Major resolutions of the Shareholders General meeting and the Board:

4.6.1 Resolutions of the Shareholders General Meeting and the status of enforcement:

The Company held its fiscal year 2006 Shareholders General Meeting on June 21, 2006 in the auditorium of the Hsinchu Science Park Recreation Center. Resolutions were as follows:

(1) 2005 Business Report and Financial Statements.
(2) Distribution of 2005 profits.
(3) Capitalization of 2005 shareholders' dividend, employees' profit sharing and capital augment.
(4) Amendment of Articles of Incorporation.
(5) Amendment of Procedures for Acquisition or Disposition of Assets.
(6) Election of the 4th Board of Directors and Supervisors.
(7) Lifting competition ban on newly elected Directors.

The aforementioned proposals such as distribution of 2005 profits and capitalization of 2005 shareholders' dividend, employees' profit sharing were executed as stated.

4.6.2 Board Resolution:

The following is the summary of major resolutions made by the Board during 14 sessions in 2006 and this year before this report is put in printing: Called for Shareholders General Meeting for 2006; approved the operation report, financial statements, distribution of profits and capitalization of retained earnings for fiscal year 2005; approved the amendment to the Article of Incorporation on the principle for allocation of bonus to shareholders; approved the operation budget for fiscal year 2006; approved the interim report of 2006; called for Shareholders General Meeting for 2007; approved the operation report, financial statements, distribution of profits and capitalization of retained earnings for fiscal year 2006; approved the amendment to the Article of Incorporation; approved the amendment of Procedures for Acquisition and Disposition of Assets; approved the operation budget of the Company for fiscal year 2007; approved the share swap with NuCORE Technology

Inc..

4.7 Adverse Opinions from Directors or Supervisors on Major Resolutions of the Boards with Record and Written Declaration in the Most Recent Year to the Day this Report is in Printing: None.

4.8 Before this Report is Put in Printing, Summary of Resignation Status for Personnel Related on Financial Statement: None.

5. Information on Independent Auditors

5.1 Information on Retainer Fees:

The non-audit service charge paid to CPAs, CPAs' office and affiliates is accounted for less than one-quarter of the audit service charge. 2006 audit service charge is not 15% less than that of the previous year.

5.2 Information on Replacement of CPAs in the Last Two Years and Thereafter:

Due to Ernst & Young internal organizational structure change, CPAs were replaced from Hui-hsin Yeh and Ting-ming Chang to Hui-hsin Yeh and Hsin-ming Hsu since 1Q07.

5.3 The Chairman, President, CFO or CAO who has worked with the Audit Firm or Its Affiliates in 2006: None.

6. Status of transferring and pledging of shares among Directors, Supervisors, Managers, and dominant Shareholders holding more than 10% of the Company shares

Unit: Share

Title	Name	2006		2007 Jan 1 to April 13	
		Change in quantity of shareholding	Change in quantity of pledged shares	Change in quantity of shareholding	Change in quantity of pledged shares
Chairman & CEO	Ming-Kai Tsai	3,501,672	-	-	-
Vice Chairman	Jyh-Jer Cho	2,614,339	-	-	-
Director & President	Ching-Jiang Hsieh	363,858	-	-	-
Director	National Taiwan University	245	-	-	-
Director	National Chiao Tung University	245	-	-	-
Supervisor	UMC (Note 1)	(5,494,000)	-	-	-
Supervisor	Century Venture Capital Corp. (Note 2)	-	-	-	-
Supervisor	MediaTek Capital Co. (Note3)	665,467	-	-	-
Supervisor	National Tsing Hua University	175	-	-	-
Supervisor	National Cheng Kung University(Note4)	17	-	-	-
Senior Vice President	Ji-Chang Hsu	(35,010)	-	2,800	-
Vice President	Hsi-Yuan Hsu	25,928	-	3,000	-
Vice President	Ping-Hsing Lu	74,634	-	(5,000)	-
Vice President	Chwei-Hung Chang (Note5)	261,069	-	-	-
Vice President	Kou-Hung Loh (Note6)	20,176	-	-	-
CFO and Spokesperson	Ming-To Yu	(291,816)	-	-	-

Note 1: Resigned as supervisor of the Company on April 18, 2006. Therefore, the change in quantity of shareholding and pledged shares in 2006 is calculated in the period from January 1 to April 18, 2006.

Note 2: Resigned as supervisor of the Company on June 20, 2006. Therefore, the change in quantity of shareholding and pledged shares in 2006 is calculated in the period from January 1 to June 20, 2006.

Note 3: Assumed office as Supervisor on June 21, 2006. Therefore, the change in quantity of shareholding and pledged shares in 2006 is calculated in the period from June 21 to December 31, 2006.

Note 4: Assumed office as Supervisor on June 21, 2006. Therefore, the change in quantity of shareholding and pledged shares in 2006 is calculated in the period from June 21 to December 31, 2006.

Note 5: Assumed office as Vice president on July 1, 2007. Therefore, the change in quantity of shareholding and pledged shares in 2006 is calculated in the period from July 1 to December 31, 2006.

Note 6: Assumed office as Vice president on July 1, 2007. Therefore, the change in quantity of shareholding and pledged shares in 2006 is calculated in the period from July 1 to December 31, 2006.

Stock trade with related party: Unit: Shares

Position	Name	Reason for Transfer	Date of Transaction	Party to Transaction	Relationship of other party in Transaction to Company, Director, Supervisor and Shareholder holding 10% or more of the total number of shares issued by the Company	Shares	Price
CFO and Spokesperson	Ming-To Yu	Gift	2006.4.25	Wen-Ling, Pan	Spouse	120,000	N/A
		Gift	2006.6.15	Wen-Ling, Pan	Spouse	219,000	N/A

Stock pledge with related party: None.

7. Information on Top 10 Shareholders who are related parties to each other:

Name	Shareholding		Shareholding under spouse and underage children		Shareholding under the title of third party		Top 10 shareholders who are related parties to each other	
	Quantity	Proportion	Quantity	Proportion	Quantity	Proportion	Name	Relation-ship
Chui-Hsing Lee	47,055,890	4.86%	41,461,796	4.28%	-	-	Ming-Kai Tsai	Spouse
Ming-Kai Tsai	38,118,394	3.94%	50,399,292	5.20%	-	-	Chui-Hsing Lee	Spouse
Jyh-Jer Cho	28,357,733	2.93%	10,128,627	1.05%	-	-	-	-
EuroPacific Growth Fund	16,140,656	1.67%	-	-	-	-	-	-
Ding-Jen Liu	15,109,513	1.56%	1,319,141	0.14%	-	-	-	-
Trustee Account of MediaTek Employee Profit Sharing with CTCB	14,268,992	1.47%	-	-	-	-	-	-
Goldman Sachs International	14,090,442	1.46%	-	-	-	-	-	-
UMC	13,910,499	1.44%	-	-	-	-	-	-
GIC-GOS	13,378,770	1.38%	-	-	-	-	-	-
GMO Emerging Market Fund	11,900,300	1.23%	-	-	-	-	-	-

8. Long-Term Investment Ownership

December 31, 2006; Unit: Share/%

Long-term investments	Investments by MediaTek (1)		Investments directly or indirectly controlled by directors, supervisors, and managers of MediaTek (2)		Total investments (1) + (2)	
	Quantity	Proportion	Quantity	Proportion	Quantity	Proportion
MediaTek Investment Co.	640,000,000	100.00%	0	0.00%	640,000,000	100.00%
Hsu-Ta Investment Ltd.	N/A	100.00%	N/A	0.00%	N/A	100.00%
Hsu-Kang Investment Ltd.	N/A	100.00%	N/A	0.00%	N/A	100.00%
Hsu-Chia Investment Ltd.	N/A	100.00%	N/A	0.00%	N/A	100.00%
Wiseali Technology Inc.	200,000	100.00%	0	0.00%	200,000	100.00%
ALi Corp.	59,227,790	22.68%	0	0.00%	59,227,790	22.68%
Yuantonix Inc.	300,000	3.75%	0	0.00%	300,000	3.75%

IV. Capital Raise

1. Capital Stock and Shares

1.1 Source of Equity

April 13, 2007; Unit: 1,000 Shares/ NTD 1,000

Year & month	Issuing price	Authorized capital		Paid-in capital		Remarks		
		Quantity	Amount	Quantity	Amount	Source of equity	Non-cash assets pledged as equity	Others
May 1997	10	20,000	200,000	20,000	200,000	Initial capital	Valuation of technology and patent at 30,000	1997.05.28 Science Park Administration (86)-Yuan-Shang-Tze 10164
Sep. 1997	10	80,000	800,000	55,000	550,000	Raise capital by stock offering amounting to 350,000	-	1997.09.26 Science Park Administration (86)-Yuan-Shang-Tze 19782
Aug. 1998	10	80,000	800,000	62,916	629,162	Raise capital by caplitalization of retained earnings amounting to 79,162	-	1998.08.05 Science Park Administration (87)-Yuan-Shang-Tze 19355
Aug. 1999	10	220,000	2,200,000	116,774	1,167,743	Raise capital by caplitalization of retained earnings amounting to 538,581	-	1999.08.21 Science Park Administration (88)-Yuan-Shang-Tze 018036
Sep. 2000	10	220,000	2,200,000	216,866	2,168,666	Raise capital by caplitalization of retained earnings amounting to 1,000,923	-	2000.09.15 Science Park Administration (89)-Yuan-Shang-Tze 020099
Sep. 2001	10	570,000	5,700,000	316,006	3,160,056	Raise capital by caplitalization of retained earnings amounting to 991,390	-	2001.07.11 Securities and Futures Commission-(90)-Tai-Tsai-Cheng-I-144160
Sep. 2002	10	570,000	5,700,000	460,465	4,604,654	Raise capital by caplitalization of retained earnings amounting to 1,444,597	-	2002.08.01 Letter of Securities and Futures Commission Tai-Tsai-Cheng-I-Tze 0910142914
Aug. 2003	10	896,000	8,960,000	641,547	6,415,473	Raise capital by caplitalization of retained earnings amounting to 1,810,819	-	2003.06.20 Letter of Securities and Futures Commission Tai-Tsai-Cheng-I-Tze 0920127376
Aug. 2004	10	896,000	8,960,000	772,773	7,727,729	Raise capital by caplitalization of retained earnings amounting to 1,312,256	-	2004.07.08 Securities and Futures Bureau Letter Chi-I-Tze 0930130229
Sep. 2004	10	896,000	8,960,000	769,336	7,693,359	Reduce treasury stock through stock repurchase (34,370)	-	2004.10.15 Science Park Administration Yuan-Shang-Tze-0930029178
Aug. 2005	10	896,000	8,960,000	864,051	8,640,506	Raise capital by caplitalization of retained earnings amounting to 947,147	-	2005.07.15 Financial Supervisory Commission Jin-Guan Cheng Tze-0940128790

Aug. 2006	10	1,200,000	12,000,000	968,313	9,683,127	Raise capital by caplitalization of retained earnings amounting to 1,042,621	-	2006.07.13 Financial Supervisory Commission Jin-Guan Cheng Tze-0950130197

April 13, 2007: Unit:Share

Type of stock	Authorized Capital			Remarks
	Outstanding shares	Un-issued	Total	
Common shares	968,312,683	231,687,317	1,200,000,000	Listed on TSE

Other reporting system related information : None

1.2 Structure of Shareholders

April 13, 2007

Shareholder structure / Quantity	Government agencies	Financial institutions	Other institutional sharheolders	Individuals QFII	QFII	Total
Number of shareholders	1	48	411	27,104	966	28,530
Quantity of holding	11,468,100	36,105,337	95,060,661	321,815,757	503,862,828	968,312,683
Proportion of holding	1.18%	3.73%	9.82%	33.23%	52.04%	100.00%

1.3 Distribution of Shareholding

April 13, 2007

Levels of shareholding	Number of shareholders	Quantity of shareholding	Proportion of shareholding
1 to 999	10,936	2,634,140	0.27%
1,000 to 5,000	12,985	24,555,165	2.54%
5,001 to 10,000	1,768	12,714,543	1.31%
10,001 to 15,000	604	7,464,203	0.77%
15,001 to 20,000	364	6,466,776	0.67%
20,001 to 30,000	372	9,180,881	0.95%
30,001 to 40,000	191	6,693,734	0.69%
40,001 to 50,000	135	6,152,966	0.64%
50,001 to 100,000	334	24,205,781	2.50%
100,001 to 200,000	298	43,146,612	4.46%
200,001 to 400,000	202	57,191,679	5.91%
400,001 to 600,000	84	41,217,762	4.26%
600,001 to 800,000	62	42,973,416	4.44%
800,001 to 1,000,000	41	36,979,691	3.82%
More than 1,000,001	154	646,735,334	66.77%
Total	28,530	968,312,683	100.00%

Preferred Stock : None.

1.4 Major Shareholders

April 13, 2007

Name of dominant shareholder \ Shareholding	Quantity of shareholding	Proportion of shareholding
Chui-Hsing Lee	47,055,890	4.86%
Ming-Kai Tsai	38,118,394	3.94%
Jyh-Jer Cho	28,357,733	2.93%
EuroPacific Growth Fund	16,140,656	1.67%
Ding-Jen Liu	15,109,513	1.56%
Trustee Account of MediaTek Employee Profit Sharing with CTCB	14,268,992	1.47%
Goldman Sachs International	14,090,442	1.46%
UMC	13,910,499	1.44%
GIC-GOS	13,378,770	1.38%
GMO Emerging Market Fund	11,900,300	1.23%

1.5 Market Price, Net value, Earnings and Dividend Per Share and related information over the last two years

Unit: Share/ NTD1.00

<table>
<tr><th colspan="3">Subject \ Year</th><th>2005
(paid out in 2006)</th><th>2006
(paid out in 2007)</th><th>Jan.1 to Apr. 30, 2007(Note 4)</th></tr>
<tr><td rowspan="3">Market price per share</td><td colspan="2">High</td><td>403.5</td><td>418.0</td><td>418.0</td></tr>
<tr><td colspan="2">Low</td><td>171.0</td><td>259.0</td><td>325.5</td></tr>
<tr><td colspan="2">Average</td><td>277.9</td><td>332.3</td><td>369.8</td></tr>
<tr><td rowspan="2">Net value per share</td><td colspan="2">Cum-Dividend</td><td>61.52</td><td>70.27</td><td>78.01</td></tr>
<tr><td colspan="2">Ex-dividend</td><td>43.93</td><td>*</td><td>*</td></tr>
<tr><td rowspan="3">EPS</td><td colspan="2">Weighed average of oustanding shares</td><td>857,395,910</td><td>960,992,546</td><td>960,992,546</td></tr>
<tr><td rowspan="2">EPS</td><td>Before adjustment</td><td>21.31</td><td>23.50</td><td>8.15</td></tr>
<tr><td>After adjustment</td><td>19.02</td><td>*</td><td>**</td></tr>
<tr><td rowspan="4">Dividend per share</td><td colspan="2">Cash dividend</td><td>11.00</td><td>*</td><td>**</td></tr>
<tr><td rowspan="2">Stock dividend</td><td>Retained earnings</td><td>1.00</td><td>*</td><td>**</td></tr>
<tr><td>Capital surplus</td><td>-</td><td>*</td><td>**</td></tr>
<tr><td colspan="2">Accumulated unpaid dividends</td><td>-</td><td>-</td><td>**</td></tr>
<tr><td rowspan="3">Analysis of ROI</td><td colspan="2">P/E ratio (Note1)</td><td>13.04</td><td>14.14</td><td>**</td></tr>
<tr><td colspan="2">P/P ration (Note2)</td><td>25.26</td><td>*</td><td>**</td></tr>
<tr><td colspan="2">Cash dividend yield (Note 3)</td><td>4.0%</td><td>*</td><td>**</td></tr>
</table>

* :Pending on decision of Shareholders General Meeting
** :N/A
Note 1: P/E ratio=Average price per share of the year/Earnings per share
Note 2: P/P ratio=Average price per share of the year/Cash dividend per share
Note 3: Cash dividend yield=Cash dividend per share/ Average price per share of the year
Note 4 :Net value per share and EPS were audtied. Other information is provided on the day this report is put in in printing

1.6 Dividend policy and status of execution

1.6.1 Dividend Policy under the Article of Incorporation

The Company is in growing phase, the policy of profits distribution may be subject to current and future investment environments, capital needs, competition in Taiwan and abroad, anticipated capital plan, with concurrent consideration of shareholder's interests, balanced dividend and the Company long-term financial planning. Every year, the Board of Directors proposes profits distribution to Shareholders General Meeting. The Company may fully allocate earnings available for distribution of this year given financial standing, business status and operation. The shareholders' dividend may be allocated in cash or stock. The cash dividend to shareholders shall not be less than 10% of the total shareholder's dividend.

1.6.2 Dividend Payout Proposal in the Upcoming Shareholders General Meeting: (Resolved by the Board pending on the approval of the Shareholders General Meeting): 2006 dividend payout proposal resolved by the Board is stated as follows:

A. Stock dividends for common shares: Amounted to NT$484,156,340 and the holding of 1,000 shares shall be entitled to 50 shares of stock dividends. The Board shall determine the pay out date upon the approval of the Shareholders General Meeting and competent authority.

B. Cash dividends for common shares: Amounted to NT$14,524,690,247. The Board shall determine the pay out date upon the approval of the Shareholders General Meeting and competent authority.

1.7 Effects of 2007 Operation Performance and Earnings Per Share with Dividend Payout which is going to be resolved on the Shareholders General Meeting: None.

1.8 Employee bonus and remunerations to Directors and Supervisors

1.8.1 Information on Employee bonus and remunerations to Directors and Supervisors as stated in the Article of Incorporation:

The earnings of the Company as shown through the annual closing account shall be allocated based on the following order:

(1) The sum to pay tax.

(2) The sum to make up previous loss, if any.

(3) The sum 10% as legal reserve.

(4) The sum to appropriate special reserve according to law or as required by the competent authorities of the government.

(5) Remuneration to directors and supervisors at 0.5% maximum of the balance after deducting Paragraphs 1-4. The remuneration to directors and

supervisors shall be paid in cash.

(6) The final balance added with the previous unappropriated retained earnings shall be given as shareholders' dividend and employees' profit sharing. The retained earnings shall be reserved to be allocated as resolved in subsequent year(s). The employee's profit sharing shall not be less than 1% of the total shareholders' dividend and employees' profit sharing. Employee's profit sharing may be allocated in either cash or stocks and may be allocated to employees of the Company's affiliates who meet the specified qualification requirements which shall be duly resolved by the Board of Directors as authorized.

1.8.2 Board's Proposal on the amount of Employee Bonus and reumerations to Directors and Supervisors and the Estimated EPS:

The Board resloved to distribute earnings in the fiscal year 2006 in a session dated Mar.21, 2007 pending on the approval of the Shareholders General Meeting. The aforementioned proposal stated that employee cash bonus and stock bonus as well as remunerations to directors and supervisors amounted to NT$975,089,310, NT$206,837,120, and NT$63,108,817 respectively.The proposal stated that employee stock bonus totaled 20,683,712 shares or 29.93% of capitalization of retained earnings for this year. Estimated EPS after the distribution of employee bonus and remunerations to directors and supervisors is NT$22.20

1.8.3 Earnings retained in previous period allocated as Employee Bonus and remunerations to Directors and Supervisors:

According to a Board resolution dated May 8, 2006 for the distribution of retained earnings in fiscal year 2005, which was approved by Shareholders General Meeting in a session dated June 21, 2006 as proposed the allocations of employee cash bonus, employee stock bonus and remunerations to directors and supervisors amounted to NT$973,479,000, NT$178,570,450, and NT$49,338,811 respectively.

1.9 Repurchase of Company Shares in the period from January 1, 2006 to April 30, 2007: None.

2. Status of Corporate Bonds: None

3. Status of Preferred Stocks: None

4. Status of GDR/ADR: None

5. Status of Employee Stock Option: None.

6. Mergers and Acquisitions, or as Assignee of New Shares Issued by Other Companies:

On Mar. 21, 2007 and April 19, 2007, the Board of Directors of MediaTek approved a share swap with NuCORE Technology Inc. (NuCORE). To accomplish above transaction, MediaTek will issue approximately 3,441,733 common shares and the estimated MediaTek-NuCORE share swap ratio would be 1:21.36. Aforementioned transaction is estimated to be completed by July 2007. The purpose to acquire NuCORE's advanced digital-still and video camera-related technologies by way of share exchange is to expand MediaTek's product portfolio and enhance its global competitive edge.

NuCORE Information: Unit: USD1.00

Name		NuCORE Technology Inc.
Address		California , USA
Chairman		James N. Chapman
Paid-in Capital		5,000
Major Business		IC design
Major Products		Advanced digital-still and video camera-related ICs
Recent Financial Information	Asset	5,594,000
	Liability	8,651,000
	Stock Shareholders' Equity	(3,057,000)
	Revenue	18,113,000
	Gross Profit	7,567,000
	Operating Profit	(11,745,000)
	Net Income	(12,990,000)
	EPS	(2.6)

7. Status on the Implementation of Fund Utilization Plan

7.1. Content of Plan

Unaccomplished plans of stock offering or private placement, or plans accomplished in the last three years but not yielding desired results yet: None.

7.2 Status of Implementation

Analysis on the utilization of the above plan on their status of implementation, and the actual result with the desired result comparison to the day this report is in printing: None.

V. Review in Operation

1. Business Content

1.1 Business Scope

1.1.1 The main business operations of MediaTek include:

A. Research, development, manufacturing, and sales of the following products:

a. Multimedia Integrated Circuits (IC)
b. Integrated Circuits (IC) for computer peripherals
c. Integrated Circuits (IC) for high-end consumer electronics
d. Integrated Circuits (IC) for other special applications

B. Providing software/hardware application design, testing, maintenance and technical consultation services for the above products.

C. The import and export of products related to the above.

1.1.2 Revenue Mix (2006)

Product Category	Multimedia IC Chipsets	Others *
Revenue Mix	99.16%	0.84%

*: Others include revenue from technical services and licensing fees.

1.1.3 Products Currently Offered by MediaTek

A. Optical storage chipsets.
B. DVD-Player chips.
C. DVD-Recorder chipsets.
D. Mobile communication chipsets.
E. Bluetooth and cell phone peripherals chipsets.
F. WLAN chipsets.
G. Digital television controller chips.
H. US standard TV decoder and demodulator chipsets.

1.1.4 New products planned for development

A. Highly integrated Blu-ray/HD-DVD chips.
B. High performance and highly integrated DVD-Rewritable chips.
C. New generation of highly integrated 3G/2.75G mobile communication

chipsets.

D. New generation of highly integrated Digital TV chips.

1.2 Industry Outlook

1.2.1 The Relationship Between the Upstream, Midstream and Downstream parts of the Industry

The relationships between the upstream, midstream and downstream parts of the IC industry in Taiwan can generally be categorized as upstream IC design houses, midstream IC chip foundries and downstream IC packaging and testing service providers. The horizontal division of labor is the main difference that sets Taiwan's IC industry apart from its overseas peers. Major international companies usually operate in everything from designing, manufacturing, packaging, testing and even system integrating that is vertically integrated from upstream to downstream; however, in a rapid change industrial environment where the cost of capital investments is continuing to expand, Taiwan's horizontal division of labor model provides a better way of responding to trends in the industry. By adopting the approach of focusing its resources into specific industrial sectors, this has also resulted in sound outcome over the past few years.

A description of the characteristics of the upstream, midstream and downstream parts in the IC industry is provided below:

A. IC Design

IC design houses design integrated circuit based products. The main business is to design and market internally developed products or accept design commissions from customers. It is a knowledge-intensive industry with a high return on investment. Backed by Taiwan's comprehensive semiconductor industry support and the increasing availability of IC design expertise, this industry has attracted many developers and investors.

B. IC Manufacturing and Foundry

The role of IC foundries is to use extremely sophisticated equipment, complicated production processes and strict quality control to turn IC circuitry designs into actual chips. This is a capital and technology intensive industry with very high barriers to entry. It currently costs around NT$80 billion to construct a 12" wafer foundry. This also requires continued investments in maintenance and research to keep the IC foundry operating effectively.

C. IC Packaging and Testing

The primary function of this industry is to cut completed IC wafers into chips for packaging and testing and finally ready it for shipping as the final IC product. It is also a capital and technology intensive industry. However, the barrier to entry in this industry is far lower than for wafer foundries. Its profits mainly come from fixed processing costs, so the key factors that affect profitability are equipment utilization rate and labor costs.

Within the industry value chain, the IC design industry belongs to the upstream industry. Before the end product appears, it must go through key processes such as photo masking, manufacturing, packaging and testing. Generally speaking, photo masking, manufacturing and packaging processes are almost 100% outsourced to specialized companies. Some companies outsource the testing of most products to specialized testing service providers while some design houses retain a certain level of in-house manufacturing capacity to support internal testing.

1.2.2 Industry Outlook, Trends and Competition

A. Optical Storage Sector

The optical drive sector is closely linked to the PC market. Given PC market is still growing, the optical drive business will grow with it as well. The notebook market is particularly growing at a faster rate than the overall PC market, so the growth rate of slim-type optical drives fitted to notebook will be higher as well. Looking at existing optical drive types, CD-ROM, DVD-ROM, CD-R/RW, COMBI and DVD-Rewritable drives, all are mature products. Though there are other competitors in this sector, MediaTek still maintains a high market share with its continual enhancement of core competitiveness and customer services.

Next generation optical storage technologies - namely blue-laser optical storage (Blu-ray and HD-DVD) - are not yet commonly used. MediaTek will leverage its past experience as well as the spirit of innovation and services to not only meet the demand for technology from consumers around the world but also expand products’ market share.

B. Digital Consumer Electronics Sector

The demand for DVD-Player remains high in emerging markets. It’s price competitiveness has stimulated a wave of consumers to upgrade from VCD-Player to DVD-Player. Therefore, sales are expected to grow in emerging markets. In the US-European market, the market penetration of DVD players is already quite high. Additional sales can be stimulated by the introduction of new features (WMV and HDMI). DVD-Recorder prices have continued to slide. Products with built-in HDD are relatively easier to use and they have become the main driver behind the growth in shipment volumes. At the same time, the proportion of LCD TVs with built-in HDD and recording functions has gradually increased, and this will also stimulate increases in DVD-Recorder shipment volumes.

C. Wireless Communication Sector

The medium and high-end multimedia cell phone markets are continuing to develop strongly with the digital audio-visual standards being upgraded all the time. With aggressive promotions from major cell phone manufacturers, ultra low cost cell phones are also making great gains in the emerging markets. The maturing 2G market means that price pressures are beginning. 3G cell phones on the other hand have exhibited significant growth particularly in business applications. With the rollout of HSDPA infrastructure offering high-speed data access, the demand for business applications from corporate users has expanded but a "killer application" has not yet been created for personal users. The possibility of low price 3G cell phones may be launched at any time implying that 3G market is full of growth potential.

D. Digital TV Sector

The global market for flat-panel TVs in 2007 is projected to surpass 80 million units with North America, Europe and Japan continuing to be the key markets. With the U.S. FCC requiring the complete digitization of television services, a built-in ATSC tuner is now a standard feature for TVs. Though the Japanese and European governments have not issued a similar requirement so far, built-in digital tuners are now gradually achieving mainstream status in the market. As a result, the provision of an all-aspect digital TV solution that includes digital TV signal demodulation, MPEG2 video decoding, display control and software integration will become a basic requirement for semiconductor companies involved in the sector.

1.3 Technology and R&D Outlook

1.3.1 Research and development spending in last fiscal year and current fiscal year from Jan.1, 2007 to April 30, 2007 were NT$4,408,762 thousand and NT$1,736,062 thousand respectively.

1.3.2 Successfully developed technologies or products between the last fiscal year recent and current fiscal year from Jan. 1, 2007 to April 30, 2007 are shown as below:

R&D Results	Awards
1. Launched highly integrated 16x DVD-Rewritable chip 2. Launched highly integrated 16x DVD-ROM chip 3. Launched 6x Blu-Ray/HD-DVD Combi-Recorder chipsets 4. Launched DVD-Player chip with integrated HDMI 5. Launched highly integrated GSM/GPRS/EDGE chipsets 6. Launched highly integrated low-power consumption Bluetooth chip 7. Launched cell phone peripheral chips (e.g. FM tuner and touch-screen control)	2006 SIPA Innovative Product Award for Blu-ray/HD DVD/DVD/CD Rewritable chipsets

1.4 Long-Term and Short-Term Business Development Plans

1.4.1 Optical Storage Products

In addition to maintaining the high market share of existing product lines, other short-term goals include the development of core technologies to launch more highly integrated DVD-Rewritable chips with even higher performance in order to increase MediaTek's market share. In the long run, MediaTek will continue to develop highly integrated controller chips for next-generation high capacity optical drive products (Blu-ray and HD-DVD) to take a leading position in the market during the initial development stage. MediaTek will maintain its competitive advantage by continued development of System-on-Chip (SoC) design and system development expertise in the optical storage sector. Furthermore, in recent years the continued merger and acquisition of drive makers means that there's a trend towards consolidation. MediaTek must maintain even closer links to our customers and provide even better services.

1.4.2 Digital Consumer Electronics Products

MediaTek will continue to launch DVD-Player chipsets with even higher levels of integration, more new functions and more competitive prices. As for new products, developments will be accelerated on next generation Blu-ray products to maintain MediaTek's leading position in the industry.

1.4.3 Wireless Communication Products

MediaTek will continue to launch highly integrated software, hardware and peripheral application chips for different market segments. In order to increase the market share, MediaTek will work with customers and expand emerging and international markets. In addition, the Company will continue to develop 3G and communication technologies to offer highly integrated and price competitive products.

1.4.4 Digital TV Products

The television market will soon be dominated by flat-panels and digitization. As the market increases in scale, price competition will be unavoidable. MediaTek will provide integrated chips to satisfy customers' demand for lower costs in the short-term; while at the same time, further innovation and product differentiation will help MediaTek maintain its basic profit margins in the medium and long run.

2. Market, Production and Sales Outlook

2.1 Market Analysis

2.1.1 Major Product Markets

Unit: NTD1,000

Year / Region	2006	
	Sales	Percentage
Export Sales	48,353,628	91.23%
Domestic Sales	4,587,977	8.77%
Total	52,941,605	100.00%

2.1.2 Market Share

For fiscal year 2006, MediaTek's optical storage and digital consumer products had an approximately 25% market share. MediaTek's market share in the wireless communication and digital TV businesses were approximately 5% respectively.

2.1.3 Market Supply, Demand and Growth Potential in the Future

A.Optical Storage Products

MediaTek is currently the only company in the global optical storage industry to offer a complete range of product lines that include everything from CD-ROMs to the fast growing DVD-Rewritable products. Besides providing a comprehensive product range, MediaTek's comprehensive customer services also enable our customers to quickly enter the market and enjoy profits. This is the reason why MediaTek has continued to maintain its high market share despite strong competition. On the supply side, the main supplier of CD-ROM makers is MediaTek; for DVD-ROM the main suppliers are MediaTek and Matsushita Electric Industrial Co. ("MEI"); for CD-R/RW the main suppliers are MediaTek and Samsung Semiconductor; for COMBI chipsets the main suppliers are MediaTek and MEI; for DVD-Rewritable the main suppliers are MediaTek, MEI, Renesas Technology, the NEC Corporation and Royal Philips Electronics. There are other domestic vendors trying to enter the optical storage industry but the impact so far has been very limited. On the demand side, the global IT market is still in a gradual growth phase. In addition, due to the strong growth in notebook industry, the demand has been boosted for slim-type optical drives. Furthermore, with growing demand from game consoles such as Wii, PS3 and Xbox360, the demand of optical drive chipsets will continually grow in the future.

B. Digital Consumer Electronics Products

There are currently no serious challenges to MediaTek's leading position in the DVD-Player market. The highly integrated chips developed by the Company are expected to gain market share and therefore DVD-Player shipments are projected to maintain steady growth. As for DVD-Recorder, since MediaTek focuses on promoting chips with HDD functionality which matches mainstream market demands, the market share will also be increased.

C. Wireless Communication Products

The global cell phone industry is continuing to grow, particularly in emerging markets. Apart from low cost cell phones with basic functionality, the trend of changing a new phone with multimedia function will stimulate future demand. With the application of edge base stations, the demand for GSM/GPRS/EDGE cell phones will increase significantly. In 3G, along with the low-cost 3G cell phones for new users, the accelerated application of 3.5G HSPDA will stimulate consumer interest in 3G mobile communication and expand its market penetration.

D. Digital TV Products

With the gradual maturing of the market, a situation with numerous competing vendors over the last two years is now drawing to an end with the television industry chain going through a period of consolidation as well. Starting from this year, television manufacturers who are unable to compete on prices, differentiate their products or acquire established distribution channels, will gradually exit the market. It means surviving manufacturers will also enjoy higher market shares. For television semiconductor suppliers, display controller technology will no longer be the decisive factor. Instead, the ability to provide effective all-aspect digital TV total solutions will determine the future development of the TV semiconductor sector. The total solutions provided by MediaTek can not only shorten the time-to-market for customers' products but also effectively reduce customer production costs with MediaTek's single chip solutions. As the European DVB market matures, MediaTek will reproduce the success in the North American ATSC market to provide European standard DVB single chip solutions for the European market.

2.1.4 Competitive Advantages

An Exceptional Management Team

MediaTek's management team is composed of partners who have been working together in the multimedia industry for many years and has continued to grow with the addition of even more outstanding talents. Management team contains many senior IC design engineers and system engineers, over 90% of whom have Master's degree or higher. With the understanding built up from working together over the years, and the outstanding quality of the personnel, MediaTek not only continued to launch new products but also refined the corporate structure several times, to lay the foundation on future development.

B. Strength in System-on-Chip Development

System-on-Chip (SoC) has been the topic of the technology industry for many years. MediaTek has a large pool of talented IC or system designers. The synergy from our design and system divisions is what enables us to keep developing new and very competitive products every year.

2.1.5 Favorable and unfavorable factors in development and the counter-measures

<u>Favorable Factors</u>

A. Continued growth in demand and applications from the Optical Drive market

In recent years the PC market has not grown as strongly as it had in the past. Many major manufacturers have gradually shifted their focus from the PC to the living room, with optical drive applications expanding from PC peripheral to audio-visual entertainment. The trend has driven an expansion in optical drive applications with the Wii, PS3, Xbox360, Camcorders and other devices all requiring the use of optical drives as the medium for digital content. MediaTek is also looking at 3C integration as well.

B. Taiwanese manufacturers will replace Japanese manufacturers in the Slim-Type Optical Drive sector

Over the next few years, the notebook market will continue to grow at a faster rate than the overall PC market. This will continue to drive the demand for slim-type optical drives fitted mainly to notebook PCs. The barrier to entry is higher for slim type drive market, a sector which was previously dominated by Japanese manufacturers. In recent years, Taiwanese manufacturers have been quite successful and development of this market will bring Taiwanese manufacturers significant revenue and profit growth. Except Taiwanese manufacturers, MediaTek's chipsets are now beginning to be introduced in slim-type optical drives in Japanese and Korean drive makers, gradually expanding our market share. This provides a convincing demonstration of MediaTek's advantages in product quality and technical support to our customers.

C. Continued Growth in DVD- Player worldwide penetration

The rate of adoption for DVD-Player is continuing to rise in emerging markets. MediaTek will introduce new functions to slow the rate of decrease in unit prices and also launch more cost competitive products to maintain the leadership in the market. For DVD-Recorder products, MediaTek will continue using the in-house technology resources to promote HDD supported chips to be the market leader.

D. Multimedia cell phones rapidly dominate the market

Cell phones with integrated multimedia audio-visual and photo/camcorder functions are rapidly beginning to dominate the market and triggering a trend of changing new phones. With more and more new multimedia cell phones launch, MediaTek's solid foundations in multimedia technology could be leveraged to the wireless communication technology. Therefore MediaTek can provide customers with the highly integrated and cost-effect products that they've been seeking. This helped to shorten customers' development cycle for mobile phones with complicated functions.

E. Comprehensive IC foundry infrastructure in Taiwan is conducive to development of the IC design industry

Taiwan boasts an advanced IT industry and world-leading manufacturing capability. The large domestic demand is also a major advantage for MediaTek. As Taiwan's semiconductor OEM system is among the best in the world, it provides a fast and efficient supply system to ensure the Company's manufacturing capability.

F. Solid management team and high quality human resources

The MediaTek management team consists of talents who have worked together to establish our multimedia business operations. They build experiences and strong relationships. Over 90% of our employees have a Master's degree or higher and the exceptional personnel quality is one of the keys to our leading position where our competitors have not been able to reach.

Unfavorable factors and countermeasures

A. The technology industry is changing so fast and new technologies may appear at any time. Consequently, product life cycle is shortened. A price competition for end products happens all the time.

Countermeasures:

As part of the extremely competitive technology industry, MediaTek is always marshalling the resources for the next challenge, constantly developing new products, improving our competitiveness and using our high quality human resources to design chipsets that offer even better performance. In addition to continuing to market our existing products, we are also proactively working on the R&D roadmap for next generation products. Through our outstanding R&D capability and responsiveness, we aim to increase our competitiveness by bringing good quality products to the market ahead of our competitors.

B. MediaTek products are concentrated on IT multimedia chipsets and consumer digital home appliances. Profitability is significantly affected by economic trends and product life cycles.

Countermeasures:

Beyond researching multimedia chipsets, MediaTek has also expanded our operations to wireless communication and digital TV. Our aim is to increase Taiwan's self-sufficiency in key wireless communication components and accelerate the development of the wireless communication industry.

2.2 Key product applications and manufacturing processes

2.2.1 Key product applications

Currently MediaTek's major products include optical storage chipsets, high-end consumer electronics chipsets, wireless communication chipsets and digital TV chipsets. These are mainly used in personal computer systems, digital home appliances, cell phones and digital televisions in the following applications:

A. CD-ROM and DVD-ROM chipsets have two main applications. The first is in game console storage devices and the other in multimedia PC storage devices. The former is a closed market with only a few buyers such as Sony, Nintendo and Microsoft. The latter however is the PC market which Taiwan is most familiar for. CD-R/RW chipsets are mainly used in multimedia PC's storage devices and the digital home appliances' recordable players. COMBI chipsets are mainly used in slim-type optical drives and high-end PC storage devices. DVD-Rewritable chipsets are used in high-end PC storage devices and recordable DVD players.

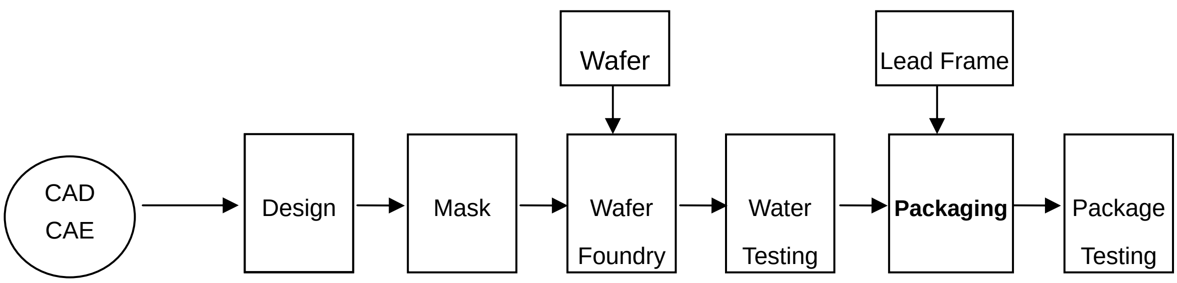
B. DVD-Player chipsets are mainly used in digital home appliances for DVD players. DVD-Recorder chipsets are used in the increasingly popular DVD recorders.

C. Wireless communication chipsets are mainly used in cell phones. Everything from the most basic voice only and mainstream GPRS chipsets to high-end multimedia audio-visual cell phones are areas which MediaTek's wireless communication chipset technology excels at.

D. Digital TV controller chipsets are mainly used in the new generation of digital TV displays such as LCD or plasma televisions. Digital TV decoder and demodulator chipsets are mainly used to receive digital TV signals. Currently, flat panels with built-in digital tuners need both a digital TV controller and a digital TV decoder/demodulator chipset.

2.2.2 Key Product Manufacturing Process

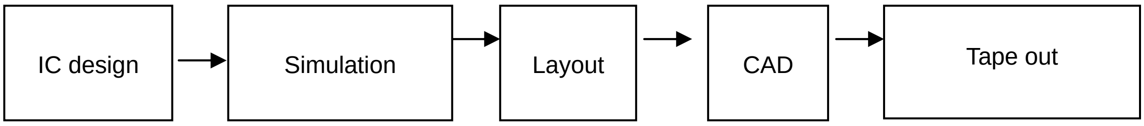
The flowchart of developing a chip from design to finished product is shown below.



Product Manufacturing Process Flow Chart

A.Design Process

Based on the specifications of product outline, design engineers, aided by tools such as CAD, transform circuits into a drawing that can be placed in production, which is then manufactured through the wafer work:



B. Mask Process

The finished IC circuit’s design is stored in a tape as a database for masking company to produce. There are four stages in the manufacturing of mask, namely, glass process, Cr film coating, resist coating and shipping. The finished mask is then delivered to wafer fab.

C. Wafer Foundry Process

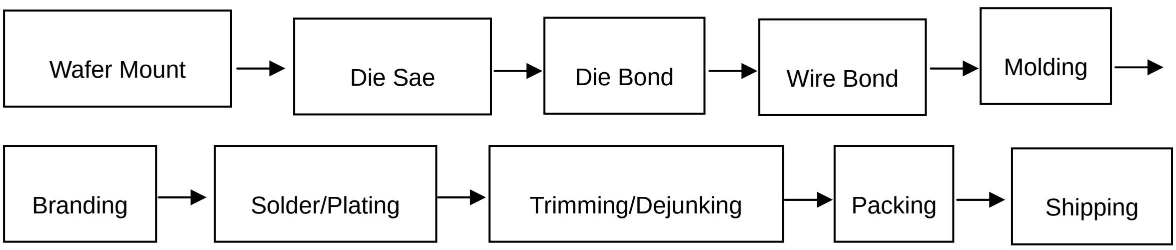
Wafer fabrication is outsourced to the foundry. The wafer begins from entering a module, through etching, photo, slim film and diffusion with mask during each process area. Finished wafer must be tested electrically before it can be shipped.

D.Wafer Testing Process

A finished wafer must be checked for conformity in electrical function. Items accepted and rejected will be marked and differentiated accordingly.

E. Packaging Process

Conforming items will be delivered to the packing plant for encapsulation in the process elaborated as follows:



2.3 Supply of primary raw materials

Wafers are our primary product materials and come mainly from United Microelectronics Corporation (UMC), Chartered (CSM) and UMC Japan (UMCJ). These suppliers maintain quite a high level in quality and process, well satisfactory to MediaTek in availability and punctuality. We negotiate prices with suppliers based on the market supply and demand status. Besides, on a periodic basis, we regularly review product quality and services of suppliers who provide technological services to us as well. In addition, other than strengthening cooperation with existing foundry partners, we also maintain dialogues with other foundry players globally to ensure better security and alternatives of resources, quality and prices.

2.4 Names of Suppliers/Customers each accounted for more than 10% of the total Purchase/Sales in any of the previous two years, the amount of Purchase/Sales and proportion to Total Purchase/Sales:

2.4.1 Names of suppliers each accounted for more than 10% of the total purchase in any of the previous two years:

Unit: NTD1,000

2005			2006		
Supplier Name	Amount Purchased	Proportion of Total Purchases for the Year (%)	Supplier Name	Amount Purchased	Proportion of Total Purchases for the Year (%)
UMC	7,694,377	64.16	UMC	8,140,385	63.39
Supplier A	1,808,832	15.08	Supplier A	2,622,704	20.42
Supplier B	1,597,619	13.32	Supplier B	1,209,471	9.42

Reasons for change: Due to changes in product lines, quality of external packaging not conforming to requirements and changes in outsourcing strategy.

2.4.2 Names of customers each accounted for more than 10% of the total sales in any of the previous two years:

Unit: NTD1,000

2005			2006		
Customer Name	Amount Sold	Proportion of Total Sales for the Year (%)	Customer Name	Amount Sold	Proportion of Total Sales for the Year (%)
Customer A	7,440,702	16.00	Customer A	5,661,441	10.69
Customer B	2,366,420	5.09	Customer B	6,262,884	11.83
Customer C	1,282,282	2.76	Customer C	7,037,408	13.29

Reasons for change: Mainly due to changes in product mix.

2.5 Production volume and value over the last two years

Unit: 1,000pcs/NTD1,000

Year / Production Volume & Value / Key Product	2005			2006		
	Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value
Multimedia IC Chipsets	N/A	359,774	20,827,036	N/A	480,487	23,126,405

Note: The Company outsourced manufacturing with wafer foundry and packing and testing with relevant professional firms. Therefore, no limitation on production capacity.

2.6 Sales volume and value over the last two years

Unit: 1,000 pcs/NTD1,000

Year / Sales Volume & Value / Key Product	2005				2006			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Multimedia IC Chipsets	40,024	6,088,391	308,740	40,028,366	28,870	4,323,789	430,637	48,173,328
Others	N/A	243,708	N/A	130,744	N/A	264,188	N/A	180,300
Total	40,024	6,332,099	308,740	40,159,110	28,870	4,587,977	430,637	48,353,628

3. Employees

Year		2005	2006	Up until March 31 2007
Number of Employees	Management	77	79	78
	R&D	1,009	1,259	1,305
	Marketing	46	44	53
	Manufacturing	39	47	48
	Total	1,171	1,429	1,484
Average Age		31.4	31.35	31.35
Average Years of Service		2.4	2.74	2.98
Education	Doctoral	5.03%	5.38%	5.35%
	Master	82.27%	84.41%	84.67%
	University & College	12.44%	10.07%	9.84%
	High School	0.26%	0.14%	0.14%
	Total	100.00%	100.00%	100.00%

4. Environmental Protection Expenditure

4.1 Total loss due to pollution (including compensation) and penalty in the last year and this fiscal year from Jan.1 to the day this report is in printing: None.

4.2 Future strategies (including improvements) and potential expenses:

As an IC design house, MediaTek mainly engages in IC R&D design with no manufacturing capability, and therefore it is a low-pollution and low-risk industry. The Company is committed on a long-term basis to environmental protection, safety and health by balancing the needs of corporate growth and ecological preservation through the safe and sustainable environment policy. All necessary resources are provided to preserve a comfortable environment. MediaTek also realizes that safeguarding the safety and health of employees is a key component in business operations.

On top of those, MediaTek is also committed to achieve the following goals:

A. Compliance

MediaTek seeks to comply with environmental protection and labor safety & health regulations and requirements issued by the Government. The Company also supports the international green environmental protection and zero-accident movement.

B. Development of green products

MediaTek aims to achieve the principles of green design in our products as well as energy conservation in manufacturing and the use of toxin-free materials. Enhancing green purchasing and green partner management is also practiced and our products, services and outsourcing partners can conform to international trends for green products.

C. Enhanced employee education and training

MediaTek seeks to enhance the environmental awareness of all employees and also strengthen its education and training in industrial safety. Through resource and energy conservation, as well as recycling, MediaTek encourages acceptance of environmental protection and the conservation of natural resources. It is also the responsibility of every employee to ensure occupational safety and health.

D. Commitment to environmental protection, safety and health

MediaTek is publicly committed to the promises listed above and actively participates in relevant activities to demonstrate the dedication to environmental protection and a safe working environment for employees.

The Environmental Protection Bureau of the Hsinchu County Government has also certified MediaTek Inc. as a business exempt from the requirement to submit a business waste disposal plan. The approval document number is FU-Shou-Huan-Yeh-Tze No. 0920071591 and there is no possibility of losses or penalties incurred due to environmental pollution.

5. Labor Relations

5.1 Employee Welfare and Benefits

A. Group Insurance

Though Labor Insurance offers employees a basic level of protection, to offer our employees with a more comprehensive insurance scheme, MediaTek has set up group insurance for our employees. The group insurance includes benefits that extend beyond the employee and includes their spouse, parents and children.

B. Social Activities

To encourage employees' participation in constructive recreational activities, the Company policy permits the setup of social clubs by employees. The Employee Benefits Committee provides subsidies to these clubs for the organization of social and leisure events.

C. Others

The Company also offers other benefits such as health check-ups for new recruits, annual health check-ups for existing employees, parental subsidies, emergency financial assistance and wedding/funeral gifts or grants to show that the Company cares about employees. Measures such as education grants for employees' children, meal subsidies, New Year/festival gift vouchers, birthday gift vouchers, discounts at designated stores, annual domestic/overseas travel and in-service education & training planning on the other hand are provided to boost employee loyalty.

For occupational safety and to ensure a safe workplace, MediaTek not only provides employees with safety training, but also carries out regular workplace safety inspections. MediaTek regularly inspects and tests firefighting equipment. The Company also performs safety management for contractors, security management and has no smoking zones. These all help to guarantee a safe working environment.

5.2 Continuing education and training schemes and their implementation

MediaTek offers a comprehensive education and training plan/system to implement the Company's business philosophy: "Put people first by providing a challenging and learning environment and employees can live up to their potential and the Company's capabilities can continue to grow as a whole." Depending on an employee's rank and responsibilities, education and training can be divided into the four following categories:

A. Training program for Executives

The Company provides executives of different levels with appropriate training programs for necessary management skills.

B. Training program for Engineering

Based on engineers' different degrees of maturity, the Company provides engineers with appropriate training programs for professional skills needed for their roles.

C. Training program for Professional Skills

A range of training courses is provided for professional skills other than engineering. Sub-categories include legal affairs, intellectual property, computer & IT, human resources, finance & accounting, marketing & sales and foreign languages.

D. New recruit orientation

The orientation program for new recruits includes training for new staff and engineers. Education and training spending in the last fiscal year and the current fiscal year from Jan.1 to the date this report is printing were NT$14,993 thousand and NT$2,451 thousand respectively.

5.3 Retirement plans and its implementation

MediaTek operates retirement system in accordance with the relevant regulations in the Labor Standard Act. and payments are made each month to the pension fund which are controlled by the Pension Fund Supervisory Committee. With the new Labor Retirement and Pension Act effective on July 1, 2005, employees may opt for the pension regulations (old system) set down in the Labor Standard Act or the new pension system (new system), with the years of service accumulated before the new Act went into effect (retaining the years of service accumulated under the old system). For employees that qualify for the new pension system, the contribution of MediaTek to each employee's pension fund must not be less than 6% of the employee's monthly salary. In accordance with the Statements of Financial Accounting Standards' No. 18 "Pension Accounting Principles", MediaTek states its contribution to the pension funds on its balance sheet as recognized pension reserve liabilities in accordance with actuarial reports prepared by qualified actuaries.

5.4 Labor-Management negotiations and the protection of employee rights

At MediaTek, the "Human-Oriented" philosophy guides our interactions with all employees and all efforts are made to encourage harmony between employees and management so all can work together for a mutually beneficial outcome.

Labor-Management agreements and protection of employee rights:

A. Working Rules: MediaTek has enacted sound working rules which well live up to the MediaTek philosophy and enhance consensus between the management and the labor sides.

B. Employee communication meetings: Here at MediaTek, the Company holds meetings on a periodic basis to enhance labor harmony. In the events, all employees are encouraged to speak up on MediaTek's strategies, development, future prospects, department goals and policies. On all issues, they are given chances to talk with their department heads face-to-face. Such efforts provide highly conducive to MediaTek operations and better consensus.

C. Human Resources Committee: On a monthly basis, the Human Resources

Committee convenes meetings. In the event, high-level department heads exchange their opinions, resolve decisions on key issues and reach consensuses.

D. Employee Suggestion Box: The Company has set up employee suggestion boxes with personnel designated to deal with the suggestions and provide active feedback.

E. E-mail: All employees are provided with an e-mail address so they can receive the latest Company information as soon as possible. Employees can also use e-mail to inform the relevant personnel of any problems encountered at work.

F. Public Announcement Bulletins: Whenever the Company has important information it wishes to announce these are also announced at the same time to all employees through the Company's intranet.

5.5 Losses incurred from labor-management disputes in the past year and in this year from Jan. 1 to the date this report is put in printing:

Thanks to the human-oriented policy and the exceptional efforts to ensure labor harmony, as well as our efforts to comply with the Labor Standards law (Quite a few MediaTek regulations even exceed the Labor Standards law in favor of employees), we have recorded admirable labor harmony and have not seen any major labor disputes at all.

5.6 Estimated existing or pending liabilities and the counter-measures: None.

6. Social Responsibility

MediaTek Inc. established the "MediaTek Education Foundation" in 2000. The Foundation is dedicated to sponsor the promotion of technology education in schools and the development of biotechnology education among students, to support academic exchanges, to develop technology growth and to care social trends. It is hoped that through an enterprise extending its core values into social participation, this will become a long-term corporate commitment to society and has a direct influence on people. As a result, the Foundation's social participation focus is on technology education and the nurturing of talents. After all, a greater part of the Company's rapid growth can be attributed to how it has benefited from the talented people nurtured by Taiwan's technology education. We hope that with the contribution of its expertise and resources back into Taiwan's education system, this will create a positive feedback cycle.

The Foundation's main activities include: sponsoring scholarships and seminars; cultivating expertise in high technology education, promoting high technology academic exchanges, participating in community building, and organizing education related arts & culture activities. In a continuation of the Foundation's spirit of technology education, during 2006, the MediaTek Education Foundation also continued to organize and support technology education related proposals.

6.1 Scholarship and sponsorship in technology education

Apart from continuing to organize domestic doctoral program scholarships and international exchange scholarships, the Foundation also sponsored the Wu Da-You's Cross-Strait Student Exchange Scholarship. Another project sponsored by the Foundation was the Sound of IC online technology program hosted by former Tsing-Hua University president Chung-Lang Liu. Hopefully through the power of media, public awareness of technology among the general public could be enhanced, and thus broadening their personal and cultural horizons.

6.2 Sponsorship of laboratories on campus and discussion panels

Sponsorship continued for the NTU-MediaTek Wireless Integration System Laboratory, National Chiao Tung University R&D Center, the NTU Wireless Communication System Design Research and Talent Cultivation Project, the Industrial Technology Research Institute's VLSI international, a very large integrated circuit technology project, the VLSI Design/CAD event, A-SSCC and the NTU 2006 International Doctoral Students' SOC Symposium. Hopefully the support of technology education activities and sponsoring of scholarships will help nurture and develop a new generation of technology experts in Taiwan.

6.3 Support in Community Building

6.3.1 Caring for the Disadvantaged – the 2006 Family and Children Support Center's "Adopt a Student" Campaign

Recognizing the importance of education and giving back to society by helping disadvantaged groups, since 2003, MediaTek has organized the "Adopt a Student" campaign at the Family & Children Support Center. This has become one of the most important traditions for MediaTek people at the start of each year.

6.3.2 2006 MediaTek Volunteer Day – A Beautiful New World To See

6.3.2.1 Volunteer Day – Guided tour in eco-park for 100 visually handicapped people:

Apart from the standard donations, it was felt that by taking direct action through volunteer services could make a more concrete contribution to society. MediaTek therefore organized its volunteer event at the end of 2003 and this became the beginning of MediaTek's volunteering tradition. Guided by the spirit of devotion and participation, over 210 employees and their families participated in the the 2006 MediaTek Volunteer Day Event: "A Beautiful New World to See". On that day, they guided around one hundred visually handicapped people on a tour of an eco-park in Beipu. Before the day of the event, volunteer training was also carried out to ensure that they could provide proper assistance. Through the MediaTek Volunteer Day, the Company encourages employees to become volunteers, care about the disadvantaged and give back to society.

6.3.2.2 "Let Me Read to You – Recording the MediaTek Audio Textbook for the Visually Handicapped" Volunteer Activity

In a continuation of the MediaTek Volunteer Day spirit, in 2006, the Company started more long-term and sustained volunteer services besides Volunteer Day event itself. Drawing upon the engineering expertise of MediaTek employees, we worked with the Tsing Hua University Blind Society to recruit volunteers to help record audio book versions of textbooks for visually handicapped students. Hopefully the event could help visually handicapped students for their education. In this year, 60 employees and their family members responded to the call. Their support resulted in the recording of mathematics, physics and chemical textbooks for the second half of the 2006 academic year as well as the national examination reference books.

6.3.2.3 "See the Sunlight ~ Handicapped Access to Learning" Fundraising Drive

MediaTek recognizes the difficulty of fundraising for organizations dedicated to serve the blind people. The resources to the development of audio book technology is essential for offering our blind friends better access to learning. Beyond our volunteer day activities, the Company also organized related internal fundraising drives in order to provide assistance to the two following items:

A. Support the Light & Salt Society for the Blind's "Production of Audio Books and Periodicals for the Blind Project" to expand the avenues for learning new knowledge for blind people.

B. Donation of the "Six Laws Pandect DAISY Talking Book" produced by the Taiwan Digital Talking Book Association" to visually impaired students in university's departments of law as well as visually handicapped people needing to sit the national examination for the physically or mentally handicapped.

7. Important Agreements

Agreement Type	Contracting Parties	Contracting Period	Summary	Restrictions
Licensing and settlement	ESS Technology International, Inc. and ESS Technology, Inc.	Effective permanently starting from 2003.6.11	Licensing of partial ESS know-how and intellectual property rights to MediaTek and the settlement of litigation.	None
Construction work	Fu Tsu Construction Co., Ltd.	2004.8.3-2006.6.30	Earthwork, steel structure and curtain wall construction for MediaTek headquarters.	None
Intellectual property licensing and settlement	VIA Technologies Inc. and Western Digital Taiwan Co., Ltd.	Starting from 2004.8.03	Reached out-of-court settlement with VIA Electronics Co., Ltd. and its subsidiary Western Digital Taiwan Co., Ltd.. MediaTek also licensed part of its relevant intellectual property rights to Western Digital Taiwan Co., Ltd.. (permanent licensing of copyright and business secrets, 5-year license on patents)	Only applicable to Western Digital optical storage products built before 2004.5.14 that used MediaTek intellectual property.
Construction work	Ingenious Engineering Co., Ltd.	2004.11.20-2006.6.30	The electrical and mechanical engineering contract for MediaTek headquarters.	None
Construction work	Dicare Planning & Development Corp. / Mandartech Interiors Inc.	2005.10.1-2006.4.30	Interior decoration for MediaTek headquarters	None
Licensing of intellectual property rights	Zoran Corporation and Oak Technology, Inc.	Starting from 2006.1.25	Licensing intellectual property rights to specific Zoran patent(s) and projects developed as a result	None
Disposal of assets	Novatek Microelectronics Corp., Ltd.	2006.9.1	Sale of old headquarters' building and equipment to Novatek	None
Purchasing of assets	Pollex Co., Ltd. (Beijing)	2006.10.27-2007.5.3	Acquired a total of 77 pieces of know-how from Pollex (Beijing) relating to interface software for mobile communication technology and software.	None
Investment and share transaction	NuCORE Technology Inc.	Starting from 2007.4.19	Purchased a 69% stake of NuORE	None

VI. Financial Position and Review in Operation, Status of Risk Management

1. Analysis of financial position

Currency: NTD 1,000

Account title \ Year	2005	2006	Change	Proportion of change (%)
Current assets	$40,636,546	$47,496,552	$6,860,006	16.88
Funds and investments	14,387,476	21,151,006	6,763,530	47.01
Fixed assets	3,841,696	4,814,984	973,288	25.33
Intangible assets	2,493,732	2,081,243	(412,489)	(16.54)
Other assets	1,359,805	1,122,400	(237,405)	(17.46)
Total assets	62,719,255	76,666,185	13,946,930	22.24
Current liabilities	9,917,489	9,079,678	(837,811)	(8.45)
Long-term debts	-	-	-	-
Other liabilities	57,516	60,977	3,461	6.02
Total liabilities	9,975,005	9,140,655	(834,350)	(8.36)
Capital stock	8,640,506	9,683,127	1,042,621	12.07
Capital reserve	263,536	404,409	140,873	53.45
Retained earnings (including statutory reserve and special reserve)	44,287,929	55,297,498	11,009,569	24.86
Accumulated conversion adjustments	(391,751)	(483,510)	(91,759)	23.42
Unrealized gain from financial instruments	-	2,679,976	2,679,976	-
Treasury Stocks	(55,970)	(55,970)	-	-
Total Shareholders' Equity	52,744,250	67,525,530	14,781,280	28.02

Reasons and explanations on changes of more than 20% between two periods and the amount involved exceeded NTD 10 million:

(1) Increase in funds and investments: Participating in capital raise of the invested Company and unrealized gain from financial instruments of the invested Company recognized by equity method.

(2) Increase in fixed assets: Unaccomplished works on the construction of the corporate headquarters.

(3) Increase in total assets: Increase in funds, investments and fixed assets.

(4) Increase in capital reserve: Stocks of the Company held by affiliates are taken as treasury stocks of the Company thereby cash dividends shall be attributed to such shares. As required by laws, this shall be stated as increase in capital reserve.

(5) Increase in retained earnings: Increase in earnings in current period.

(6) Accumulated conversion adjustments: NTD appreciated against USD in current period. As such, conversion adjustments in the statements of invests under long-term equity- investment were made, and resulted in the change in accumulated conversion adjustments of the Company.

2. Analysis of Operation Results

Currency: NTD 1,000

Account title \ Year	2005 Amount	2006 Amount	Change Amount	Change Proportion (%)
Revenue	$48,382,445	$55,212,125	$6,829,680	14.12
Less: sales returns & discounts	(1,891,236)	(2,270,520)	(379,284)	20.05
Net sales	46,491,209	52,941,605	6,450,396	13.87
Cost of goods sold	(21,107,425)	(22,287,387)	(1,179,962)	5.59
Gross profit	25,383,784	30,654,218	5,270,434	20.76
Operating expenses	(8,129,173)	(6,838,649)	1,290,524	(15.88)
Income from operation	17,254,611	23,815,569	6,560,958	38.02
Non-operating incomes	1,181,605	891,660	(289,945)	(24.54)
Non-operating expenses	(37,357)	(341,043)	(303,686)	812.93
EBT from continuing operations	18,398,859	24,366,186	5,967,327	32.43
Corporate Income tax	(125,226)	(1,794,242)	(1,669,016)	1,332.80
Earnings from continuing operations	18,273,633	22,571,944	4,298,311	23.52
Cumulative effect of changes in accounting principles	-	7,638	7,638	-
Net income	$18,273,633	$22,579,582	$4,305,949	23.56

Reasons and explanations on changes of more than 20% between two periods and the amount involved exceeded NTD 10 million:

(1) Increase in sales returns and discounts: Sales returns and discounts increased in proportion to the sales growth.

(2) Increase in gross profit: Keen competition in the multimedia chips market pressed down the unit price of products and resulted in unfavorable difference in sales price. The fact that proportional increase in sales of high margin mobile phone chipsets resulted in favorable difference in sales portfolio. The falling material price resulted in price difference favorable to production cost. Sales volume in current period was significantly larger than that of the same period of the previous year. Therefore, there was a favorable difference in sales volume. Incomes from royalty for technology transfer dropped from that of the same period of the previous year too. In conclusion, gross profit for current period is higher than that of the same period of the previous year.

(3) Increase in income from operation: Due to increase in gross profit and decrease in operating expenses.

(4) Decrease in non-operating incomes: Withdrawal of the lawsuit by Zoran against MediaTek on patent controversy that allowed MediaTek to reverse the allowance for royalty payment stated in the previous year for the year 2005

(5) Increase in non-operating expenses: To cope with growing demand, the inventory level is higher and hence the inventory loss provision is increased.

(6) Increase in corporate income tax: The estimate of MediaTek corporate income tax has been assessed the possibility of increase in income tax by tax authorities. However, MediaTek has already petitioned with the taxation authorities to reassess the previous decision on corporate income tax amount.

3. Evaluation on Assets and Liabilities

The Company has assessed its assets and liabilities on a monthly basis as required by the financial accounting standards and stated relevant allowances. The basis of assessment is elaborated as follows:

3.1 Allowance for bad debts

Specific amount will be stated as allowance for non-performing loans based on the amount of notes receivable and accounts receivable as well as payable from stakeholder as of the balance sheet date:

Days overdue	Proportion of allowance for bad debts (%)
0 day	5
1~30 days	8
31~60 days	10
61~90 days	20
More than 91 days	100

3.2 Allowance for loss from idle inventory

Inventory being held for more than 60 days shall be classified as idle inventory and corresponding amount of allowance will be stated on the loss incurred in the following proportions:

Days of inventory	Proportion for allowance for devaluation of inventory (%)
60 days and less	0
61~90 days	20
91~120 days	60
More than 121 days	100

4. Analysis of devaluation of Assets

Since January 1, 2005, the Company has started to assess any devaluation of its assets in accordance with Financial Accounting Standard No. 35 on "Accounting Principle on Devaluation of Assets". The net worth and earnings per share after taxation of the Company in the period of January 1 to December 31, 2006 and the total assets as of December 31, 2006 were unaffected under such change in asset assessment policy.

5. Cash Flow Analysis

Currency: NTD 1,000

Cash balance at beginning	Net cash flow from operation in the period	Total cash outflow in the period	Balance of cash	Remedy for cash gap	
				Investment	Financial planning
$31,405,861	$23,335,066	$(18,085,758)	$36,655,169	-	-

5.1 Analysis of the Change in Cash Flow in Current Period

- Operation: Net cash inflow amounted to NT$23,335,066 thousand from operating incomes.
- Investments: Net cash outflow amounted to NT$7,558,366 thousand primarily due to the increase in fixed assets and intangible assets.
- Financing: Net cash outflow amounted to NT$10,527,392 thousand mainly due to the

distribution of earnings.

5.2 Remedy for Cash Gap and Liquidity Analysis: No cash gap is projected.

5.3 Liquidity Analysis for the Coming Year.

Currency: NTD 1,000

Cash balance at beginning	Projected net cash flow from operation in the period	Projected total cash outflow in the period	Projected balance of cash	Remedy for cash gap	
				Investment	Financial planning
$36,655,169	$27,852,000	$(24,238,000)	$40,269,169	-	-

6. The effect of major capital expenditure on financial position and operation

6.1 The purpose of major capital spending and the sources of funds

April 30, 2007; Currency: NTD 1,000

Project	Actual or expected sources of funds	Estimated total capital requirements as of Dec. 31, 2006	Actual or expected use of funds			
			2004	2005	2006	2007 (Jan.1 to Apr.30)
Construction and buildings	Equity capital	$3,848,239	$941,243	$1,717,435	$1,189,561	(Note)
Hardware and software for R&D and Design	Equity Capital	$1,285,804	$372,276	$370,079	$543,449	
Intangible assets-special technologies and patents	Equity capital	$3,290,791	$1,224,194	$1,531,220	$535,377	

Note: 2007 capital expenditure budget is NTD 2 billion which includes buildings, hardware and software for R&D and design, intangible assets, special technologies, patents, and other assets.

6.2 Expected results from expending

6.2.1 Expected increases in volume and value of production and sales

Currency: NTD 1,000

Year	Item	Production volume (kpcs)	Sales volume (kpcs)	Sales value	Other benefits
2006	Multimedia IC	110,743	110,743	$6,380,359	6.2.2

6.2.2 Other benefits are explained as follows:

(1) Buildings:

To provide employees with comfortable workplaces which would help us recruit talents to develop new products to assure sustainable MediaTek business operation.

(2) Hardware and Software for R&D and Design:

They are essential aids and tools for our R&D and new product design. These tools help accelerate product development and enhance the efficiency of R&D.

(3) Intangible Assets – Special Technologies and Patents:

For fortifying the intellectual capital of the Company from unanticipated attack from a world of unpredictable controversies over intellectual properties, the Company persists to acquire high value patents for its patent portfolios. The Company further applied these patented technologies to a wide array of advanced products it developed.

7. Direct Investment Policy, reasons for Profit or Loss, correction plan and investment plan for the coming year:

Currency: NTD 1,000

Description / Items	Amount of investment (Note)	Policies	Major causes leading to profit or loss	Corrective action	Other investment plans ahead
Airoha Technology Corp.	NTD 811,445	Invest in related business domestically so as to enhance our technological level, expand our product lines and strengthen our vertical and horizontal integration.	Airoha started to change from red ink to surplus in its book due to 1. Original product sales meet the expectation. 2. Development of new products .	N/A	None

Note: Before this report is put in printing , the amount of investment is more than 5% of paid-in capital.

8. Risk Management

8.1 The effect of interest rate and exchange rate fluctuation, inflation on the earnings of the Company and measures to cope with :

Recently U.S. interest rates have remained high, but with U.S. economic growth beginning to slow, interest rates are expected to gradually decrease in the second half of the year. The Company is investing in appropriate financial products in order to enhance returns on our cash position for the minimum amount of risk. Inflation is not expected to be a concern in the short-term throughout the world during this time, so inflation will have very little effect on the Company’s performance.

The foreign currency held in the Company’s assets and liabilities is primarily U.S. Dollars , and any exchange rate volatility would casue negative effect on the Company’s financial position.We manage forward foreign exchange contracts in a prudent way so as to minimize the losses incurred by changes in exchange rates.

The investor relations function of the Finance Division is responsible for the enforcement and management of risk in this domain.

8.2 Reasons for undertaking high risk and high leverage investment, loan to a third party, endorsement in favor of a third party and policy in derivative trade, reasons for profit or loss and measures to cope with:

The Company did not deal with high risk and high leverage investment and derivative trade. Relevant loan to a third party, endorsement in favor of a third party and derivate trade policy are governed by the Company’s internal control procedures. MediaTek did not loan to a third party nor act as guarantor through endorsement in favor of a third party in recent year. MediaTek deals with derivative trade only for hedging. Exchange gain or loss from exchange rate fluctuation will be offset by the derivative contracts purchased for such purpose.

Financial management subgroup of Finance Division is responsible for the risk management in this domain.

8.3 R&D plan for the future and related spending in the most recent year to the day this report is in printing:

R&D Plans	Projected spending (NTD million)
High performance DVD-Rewritable chips	150
Highly integrated Blu-ray/HD-DVD chipset	520
High performance DVD-Player chips	100
2.75G and 3G mobile phone chipsets	828
Digital TV chipsets	810
Subtotal	2,408

8.4 Major change in government policy and legal environment at home and abroad and the effect on the financial position and operation of the company in the most recent year to the day this report is in printing, and measures to cope with:

The management team of the Company has paid close attention to any change in laws and government policy that may affect the financial position and operation of the Company. The minimum tax system effective on January 1, 2006 drove the tax rate on actual income of the Company upward. In addition, employee bonus as expense starting from Jan. 1, 2007 and this will increase the operation cost of the Company. The Company will keep track on the development and make a proper adjustment accordingly.

Legal and Intellectual Property Division and Finance Division are responsible for risk management in this domain.

8.5 The effect of the change in technologies and industrial structure on the financial position and operation of the company in the most recent year to the day this report is in printing, and measures to cope with:

A. In the PC industry, the constant and significant growth in notebook computers will surely stimulate growth of slim CD-ROMs. Our key CD-ROM buyers both at home and abroad have successfully landed in such market and are believed to boost our slim CD-ROM sales. Besides, DVD-Rewritable and Combi are virtually replacing CD-ROM drives.We shall, therefore, incessantly develop high performance and low cost DVD-Rewritable and Combi single chip to successfully transform and materialize such CD-RW markets and, in turn, broaden the market shares in DVD-Rewritable and Combi chips. For the Blu-ray technology of the next generation, the Company has already committed substantial resoruces with the expectation that this will be the driving force for another wave of growth.

B. A generational shift in consumer products will occur in the next few years with the market evolving from the DVD-Player to the next-generation Blu-ray Player/HD-DVD Player. Effectively staying on top of technical developments and developing advanced products in time will be the key to successful sales. The Company is paying close attention to the progress of new specifications and changes in the market to launch the new generation of blue-laser products at the most appropriate moment. To maintain our Company's leadership in consumer products, future product research and development will focus on high integration and low cost.

C. Mergers and acquisitions among competitors are continuing to proceed at a rapid pace. This will cause changes to the overall competition in the market and we are paying close attention to these shifts. The emergence of single chip baseband RF products will definitely make an impact on the low-end market. We must accelerate our development of SoC technology in order to launch countering products. We must also monitor the development of the 3G market closely. The low-cost 3G cell phone market trends, the market penetration of the 3.5G HSDPA market and advances in transmission speeds all need to be watched to identify the mainstream 3G cell phone market. We will then launch appropriate products at the appropriate time to enter the 3G mobile communication market.

D. Digital home technologies are continuing to evolve rapidly and digital TV will inevitably become a part of the development. In response to this development, the Company will join with the standards development organization to acquire access to first-hand industry information and the latest technical developments

Relevant business units of MediaTek are responsible for the risk management in this domain.

8.6 The effect of change in corporate image on the capacity of the Company in crisis management and measures to cope with:

As always, MediaTek boasts its respectable corporate image. Firmly sticking to the human-oriented philosophy, the Company spends all efforts on providing an environment where the employees are encouraged to learn and to develop their potentials. The Company solicits top talents and successfully safeguards our honorable position as one of the world's leading IC design companies. Following our consistent guiding mottos of integrity, faithfulness, courageousness, prudence and attentiveness, we have not run into any risks that might untowardly affect our corporate image in the most recent year to the day this report is in printing.

Relevant business units of MediaTek are responsible for the risk management in this domain.

8.7 Expected result and possible risk deriving from mergers and acquisitions and measures to cope with: None.

8.8 Expected result and possible risk deriving from plant expansion and measures to cope with:

MediaTek started to expand its factory buildings in August, 2004. The anticipated benefits include: providing optimal workplaces to all employees in Hsinchu area to work together, enhancing efficiency in work and communication, offering adequate room for meetings, improving efficiency in co-working and communication with customers, cutting short the design process for customers, buttressing customer satisfaction, furnishing sound living environments, and strengthening employee health and loyalty to MediaTek. The Company also reserves rooms and space for future growth. The construction is funded by equity capital. The new factory construction has been carried out by selected and creditable contractors. All the engineering works have been well insured. The Company, therefore, does not expect any potential risks in this domain.

Human Resources Division is responsible for risk management in this domain.

8.9 Risks deriving from concentration of purchase and sales and measures to cope with:

The Company has flexibly diversified its production and each production line can support one another in the event of emergency. Therefore, there is no concentration of purchase. The Company has also successfully diversified its sales with scores of customers covering regions and countries like Japan, Korea, Europe, Southeast Asia and Greater China. Therefore, there is no concentration of market and sales.

Relevant business units of the Company are responsible for risk management in this domain.

8.10 The effect of the transfer of shares in huge volume or exchange of shares by Directors, Supervisors or dominant Shareholders of the Company holding more than 10% of the outstanding shares on the Company and the risks derived, and the measures to cope with:

No transfer of stocks or exchange of shares in the most recent year as of the day this report is in printing.

8.11 The effect of the change in management on the company and the risk derived, and the measures to cope with:

No change in management team in the Company in the most recent year to the day this report is in printing.

8.12 Disclose if Company, any of the Directors, Supervisors, President, Deputy agents of the Company, or dominant Shareholders of the Company holding more than 10% of the outstanding shares are involved in major litigations, no matter non-contentious matters or administrative procedure, with decision or pending on decision. Also specify the facts of the contentions, the amount involved, date of proceeding, and concerned parties to the day this report is in printing if their possible outcomes would significantly influence Shareholders' Equity and stock price:

8.12.1 On April 7, 2005, Sanyo Electric Co. ("Sanyo") filed a complaint with the Central District of California, USA, alleging certain of the Company's chips infringed two of its US patents (Pat. No. 5499252 and 5818801), seeking damages and injunctive relief against any and all infringing products. The Company filed a motion to add a counterclaim with one US patent (Pat. No. 6003151), seeking damages and injunctive relief against any and all of Sanyo's infringing products. The Central District of California granted the Company's motion on December 5, 2006.

On August 31, 2005, the Company filed a complaint against Sanyo and Sanyo North America Corp. in the Eastern District of Texas, stating that Sanyo's products such as DVD players, DVD recorders, and digital televisions separately infringed certain of the Company's US patents (Pat. No. 5867819 and 6118486), seeking damages and future injunctive relief against any and all of Sanyo's infringing products. In addition, the Company amended its complaint on October 3, 2006, adding that Sanyo's DVD recorders, digital cameras and cellular phones also infringed another one of the Company's US patents (Pat. No. 5751356). On November 28, 2005, Sanyo filed motion to transfer this action to Central District of California where a second and unrelated action is pending. Furthermore, Sanyo attempted to add two counterclaims for patent infringement that included two unrelated patents (Sanyo's U.S. Patent No. 6594213 and 6487616). On February 1, 2006, the Texas Court denied Sanyo's motion to transfer. The judge in the Eastern District of Texas severed Sanyo's counterclaims from the Texas case and transferred U.S. Patent No. 6594213 and 6487616 to the Central District of California where they were re-filed as the current action. On April 25, 2006, Sanyo and the Company filed a joint stipulation that the action in the Central District, including Sanyo's allegations that the Company's Chips infringed U.S. Patents No. 6594213 and 6487616, be dismissed with prejudice. On April 28, 2006, the Court signed an order dismissing the Central District Case, and all claims pending therein, with prejudice. The Company will use its best efforts to handle this litigation.

8.12.2 On August 3, 2005, Matsushita Electric Industrial Co., Ltd. (“MEI”) filed a complaint for patent infringement against the Company in the U.S. District Court for the Northern District of California. In the complaint, MEI alleges that the Company infringes U.S. Pat. No. 5548249, 5970238 and 6728475. The Complaint seeks both damages and an injunction prohibiting the sale of the Company’s products that infringe upon the aforementioned MEI patents. The Company has asserted a counterclaim against MEI and Panasonic Corporation of North America (“Panasonic”) for patent infringement of U.S. Pat. No. 5970031, also seeking both damages and an injunction prohibiting the sale of all MEI products that infringe upon the aforementioned Company patent. Further, on October 17, 2005, the Company filed a complaint for patent infringement against MEI and Panasonic in the Eastern District of Texas, asserting that the DVD recorders and digital TVs of MEI and Panasonic infringe upon the Company’s U.S. Pat. No. 5802068 and 6118486, respectively. The Company is seeking monetary damages and an injunction. On February 2, 2006, Matsushita and Panasonic filed their answer to the complaint. Included in the answer are counterclaims for patent infringement of Matsushita’s U.S. Patent No. 5347232 and 6828865.The Company is cautiously handling these litigations.

8.13 Other Major Risks: None.

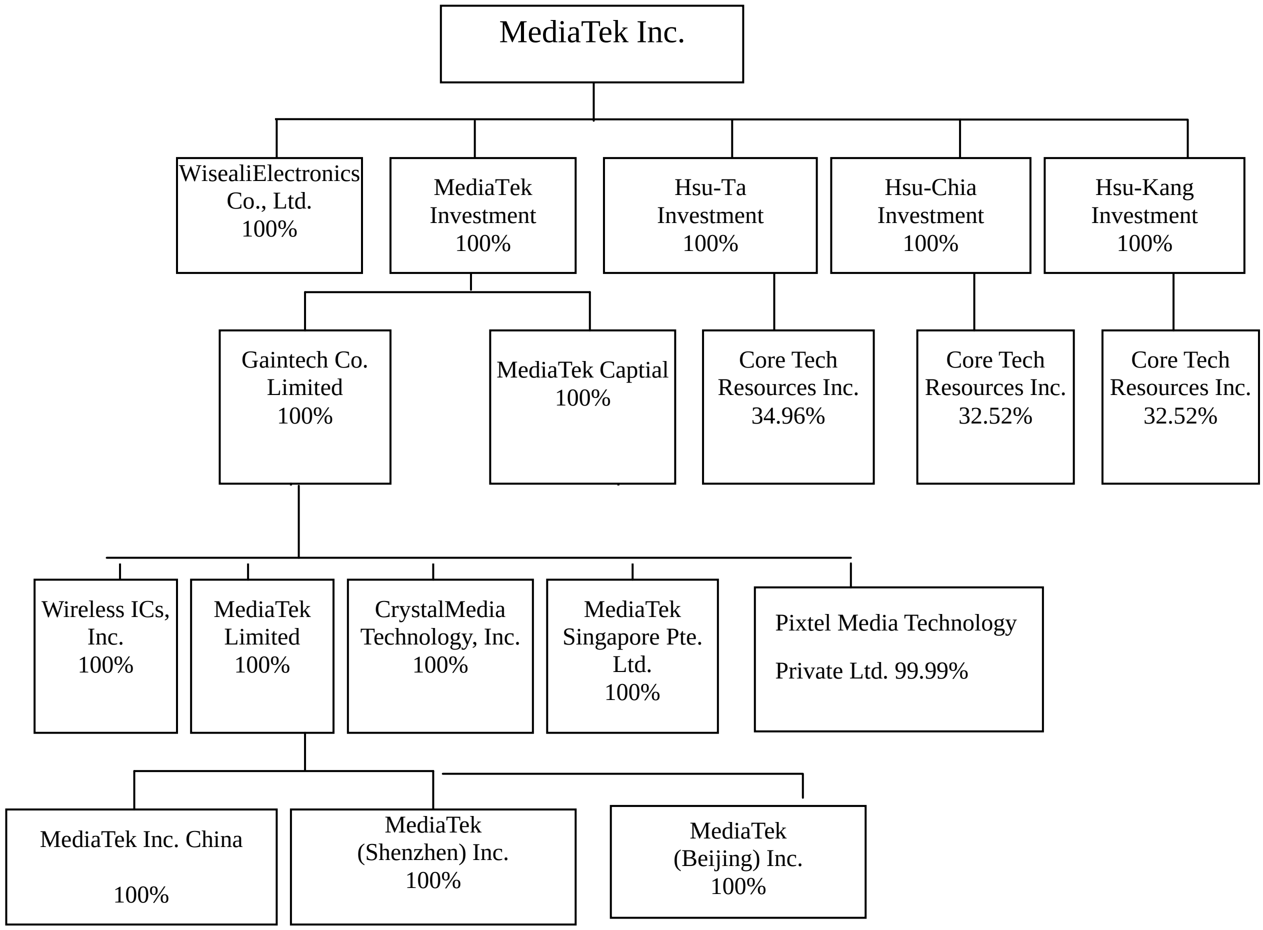
9. Other Important Notice: None

VII. Important Notice

1. Profiles of Affiliates and Subsidiaries

1.1 Organizational Chart of Affiliates (Note)

December 31, 2006



Notes : Definition of Affiliates : All directly and indirectly majority owned subsidiaries of the Company, and the accounts of investees in which the Company's ownership percentage is less than 50% but the Company has a controlling interest.

1.2 Information on Subsidiaries

Currency: NTD 1,000/ foreign currency 1,000

Company name	Date of incorporation	Address	Paid-in capital	Major business lines
MediaTek Investment Co.	2000/07	Taiwan	NTD 6,400,000	Investment
MediaTek Capital Co.	2000/09	Taiwan	NTD 1,769,429	Investment
Hsu-Ta Investment Ltd.	2002/09	Taiwan	NTD 3,594,759	Investment
Hsu-Kang Investment Ltd.	2002/09	Taiwan	NTD 3,338,022	Investment
Hsu-Chia Investment Ltd.	2002/09	Taiwan	NTD 3,338,117	Investment
Gaintech Co. Limited	2000/08	Cayman Islands	USD 100,407	Investment
MediaTek Limited	2000/10	Western Samoa	USD 26,500	Investment, sales
Core Tech Resources Inc.	2002/11	B.V.I.	USD 2,860	Investment
Wireless ICs, Inc. (Note)	2003/06	U.S.A.	USD 100	IC design services
CrystalMedia Technology, Inc.	2003/06	U.S.A.	USD 100	IC design services
MediaTek Singapore Pte. Ltd.	2004/06	Singapore	SGD 1,360	R&D
Pixtel Media Technology Private Ltd.	2004/05	India	INR 55,000	R&D
MediaTek Inc. China Co., Ltd. .	2003/08	China	USD 2,500	Technological services for customers
MediaTek (ShenZhen) Inc.	2003/10	China	USD 2,000	Technological services for customers
MediaTek (Beijing) Inc.	2006/11	China	USD 1,000	Technological services for customers
Wiseali Electronics Co., Ltd.	2004/03	Taiwan	NTD 2,000	IC design services

Note : Wireless ICs started the liquidation process in Jan. 2006, and the process has not been finished by Dec. 31, 2006.

1.3 Profiles on Shareholders if there is presumed Parent-Subsidiary relation with identical groups of Shareholders: None.

1.4 Industries covered by all affiliates:

Business run by the entire MediaTek and affiliates includes optical storage products, high-end consumer oriented digital products and wireless communication product chipsets for R&D, marketing, after-sales service as well as general investment. Through sound division of labor, affiliates obtain advanced know-how to safeguard MediaTek's leading position in the world markets.

1.5 Profiles of all Directors, Supervisors and General Managers of the Group:

December 31, 2006; Unit: Share/%

Company Name	Title	Name or Representative	Status of shareholding: Quantity	Status of shareholding: Proportion
MediaTek Investment Co.	Director/Chairman	MediaTek Inc. (Statutory representative: Ming-Kai Tsai)	640,000,000	100.00
	Director/General manager	MediaTek Inc.(Statutory representative: Ching-Jiang Hsieh)	640,000,000	100.00
	Director	MediaTek Inc. (Statutory representative: Ming-ToYu)	640,000,000	100.00
	Supervisor	MediaTek Inc. (Statutory representative: Hui-Ling Lin)	640,000,000	100.00
MediaTek Capital Co.	Director/Chairman	MediaTek Investment Co. (Statutory representative: Ming-Kai Tsai)	176,942,905	100.00
	Director/General manager	MediaTek Investment Co. (Statutory representative: Ching-Jiang Hsieh)	176,942,905	100.00

Company Name	Title	Name or Representative	Status of shareholding	
			Quantity	Proportion
	Director	MediaTek Investment Co. (Statutory representative: Ming-ToYu)	176,942,905	100.00
	Supervisor	MediaTek Investment Co. (Statutory representative: Hui-Ling Lin)	176,942,905	100.00
Hsu-Ta Investment Ltd.	Director	MediaTek Inc. (Statutory representative: Ming-Kai Tsai)	N/A	100.00
Hsu-Kang Investment Ltd.	Director	MediaTek Inc. (Statutory representative: Ming-Kai Tsai)	N/A	100.00
Hsu-Chia Investment Ltd.	Director	MediaTek Inc. (Statutory representative: Ming-Kai Tsai)	N/A	100.00
Gaintech Co. Limited	Director	MediaTek Investment Co. (Statutory representative: Ming-Kai Tsai)	100,407,000	100.00
MediaTek Limited	Director	Gaintech Co. Limited (Statutory representative: Ming-Kai Tsai)	26,500,000	100.00
Core Tech Resources Inc.	Director	Hsu-Ta Investment Ltd. Hsu-Kang Investment Ltd. Hsu-Chia Investment Ltd. (Statutory representative: Ming-Kai Tsai)	2,860,000	100.00
Wireless ICs, Inc. (in liquidation)	Director	Gaintech Co. Limited (Statutory representative: Ming-Kai Tsai)	100,000	100.00
	Director	Gaintech Co. Limited (Statutory representative: Jyh-Jer Cho)	100,000	100.00
CrystalMedia Technology, Inc.	Director	Gaintech Co. Limited (Statutory representative: Ming-Kai Tsai)	100,000	100.00
	Director	Gaintech Co. Limited (Statutory representative: Ching-Jiang Hsieh)	100,000	100.00
	Director	Gaintech Co. Limited (Statutory representative: Ming-ToYu)	100,000	100.00
	General Manager	Jacob Yu	0	0.00
MediaTek Singapore Pte.Ltd.	Director	Gaintech Co. Limited (Statutory representative: Ming-Kai Tsai)	1,360,000	100.00
	Director	Gaintech Co. Limited (Statutory representative: Ming-ToYu)	1,360,000	100.00
Pixtel Media Technology Private Ltd.	Director	MediaTek Capital Co. (Statutory representative: Ming-Kai Tsai)	5,499,999	99.99
	Director	MediaTek Capital Co. (Statutory Representative: Ji-Chang Hsu)	5,499,999	99.99
	Director	MediaTek Capital Co. (Statutory representative: Ming-ToYu)	5,499,999	99.99
MediaTek Inc. China	Director/Chairman	MediaTek Limited (Statutory representative: Hsi-Yuan Hsu)	N/A	100.00
	Director	MediaTek Limited (Statutory representative: Ching-Jiang Hsieh)	N/A	100.00
	Director	MediaTek Limited (Statutory representative: Wen-Hsin Wang)	N/A	100.00

Company Name	Title	Name or Representative	Status of shareholding	
			Quantity	Proportion
MediaTek (ShenZhen) Inc.	Director/Chairman	MediaTek Limited (Statutory representative: Hsi-Yuan Hsu)	N/A	100.00
	Director	MediaTek Limited (Statutory representative: Ching-Jiang Hsieh)	N/A	100.00
	Director	MediaTek Limited (Statutory representative: Wen-Hsin Wang)	N/A	100.00
MediaTek (Beijing) Inc.	Director/Chairman	MediaTek Limited (Statutory representative: Hsi-Yuan Hsu)	N/A	100.00
	Director	MediaTek Limited (Statutory representative: Ching-Jiang Hsieh)	N/A	100.00
	Director	MediaTek Limited (Statutory representative: Wen-Hsin Wang)	N/A	100.00
Wiseali Electronics Co., Ltd.	Director/Chairman	MediaTek Inc. (Statutory representative: Ching-Jiang Hsieh)	200,000	100.00
	Director	MediaTek Inc. (Statutory representative: Ping-Hsing Lu)	200,000	100.00
	Director	MediaTek Inc. (Statutory representative: Hsiu Huang)	200,000	100.00
	Supervisor	MediaTek Inc. (Statutory representative: Ming-ToYu)	200,000	100.00

1.6 Operation of the Subsidiaries

December 31, 2006; Currency: NTD 1,000/ NTD 1,000

Company name	Paid-in capital	Total assets	Total liabilities	Net value	Revenue	Income/loss from operation	Net Income/Loss	EPS ($) after taxation
MediaTek Investment Co.	6,400,000	10,393,623	227	10,393,396	1,129	(678,631)	(678,687)	(2.12)
MediaTek Capital Co.	1,769,429	7,154,783	2,645	7,152,138	349,127	348,884	349,905	4.45
Hsu-Ta Investment Ltd.	3,594,759	3,680,522	98	3,680,424	176,648	176,505	178,355	N/A
Hsu-Kang Investment Ltd.	3,338,022	3,421,671	98	3,421,573	164,210	164,070	165,827	N/A
Hsu-Chia Investment Ltd.	3,338,117	3,421,395	98	3,421,298	164,357	164,214	165,409	N/A
Gaintech Co. Limited	3,272,867	1,883,429	122,496	1,760,934	171,514	(1,029,377)	(1,028,791)	(13.70)
MediaTek Limited	863,794	487,930	17,178	470,751	150,856	(276,498)	(252,163)	(16.46)
Core Tech Resources Inc.	93,225	10,378,892	65	10,378,827	507,677	504,945	504,945	176.55
Wireless ICs, Inc.(Note)	3,260	10,137	522	9,616	0	0	0	0.00
CrystalMedia Technology, Inc.	3,260	133,513	22,230	111,283	233,229	40,861	(448,402)	(4,484.02)
MediaTek Inc. China	28,927	86,207	53,111	33,096	153,525	2,723	1,658	1.22
MediaTek (ShenZhen) Inc.	40,441	110,079	11,107	98,972	119,100	49,018	50,579	9.20
MediaTek (Beijing) Inc.	81,490	87,879	3,194	84,684	76,875	7,190	7,287	N/A
Pixtel Media Technology Private Limited	65,192	97,495	28,391	69,071	201,314	18,902	14,965	N/A
MediaTek Singapore Pte. Ltd.	32,596	50,361	20,177	30,184	22,318	(2,440)	(2,570)	N/A
WisealiElectronics Co., Ltd.	2,000	4,062	934	3,128	0	0	(149)	(0.75)

Note : Wireless ICs started the liquidation process in Jan 2006 , and the process has not been finished by Dec. 31, 2006.

2. Status of Private Placement of Securities: None.

3. Holding or Disposition of Company Stocks by Subsidiaries:

Currency: NTD 1,000; share; %

Name of Subsidiary	Paid-in capital	Source of funds	Proportion of shareholding by the Company	Date of acquisition or disposition	Quantity and amount of shares acquired	Quantity and amount of shares disposed	Capital gain/loss	Quantity of shareholding and amount as of the date this report is in printing	Shares being pledged under lien	Amount of guarantee undertaken by the Company in favor of subsidiaries	Amount of loans to subsidiaries
MediaTek Capital Co.	520,000	None	100.00%	95.09.15	665,467 shares; NTD 0 (note)	-	-	7,320,137 shares; NTD 55,970,000	-	-	-

Note: the acquisition of stock dividend.

4. Events as stated in article 36-2-2 of the Securities and Exchanges Act in the most recent year to the day this report is in printing, and the effect on Shareholders' Equity and price of Securities: None.

5. Other supplementary disclosures: None.

VIII. Financial Position

1. Condensed Balance Sheet

Currency: NTD 1,000

Account Title		Financial Information in the last five years					2007 to March 31 (Note 2)
		2002	2003	2004	2005	2006	
Current assets		22,798,210	29,198,230	31,452,294	40,636,546	47,496,552	55,397,442
Funds and investments		6,496,617	11,459,763	12,051,928	14,387,476	21,151,006	22,633,547
Fixed assets		894,976	1,048,591	2,026,699	3,841,696	4,814,984	4,891,945
Intangible assets		213,207	275,229	1,397,248	2,493,732	2,081,243	1,952,575
Other assets		2,905	5,490	621,343	1,359,805	1,122,400	1,046,973
Total assets		30,405,915	41,987,303	47,549,512	62,719,255	76,666,185	85,922,482
Current liabilities	Cum-dividend	6,490,956	5,887,267	4,837,168	9,917,489	9,079,678	10,896,696
	Ex-dividend	10,685,021	12,044,121	13,435,341	20,444,881	(Note 1)	(Note 1)
Long-term liabilities		30,896	10,643	-	-	-	-
Other liabilities		36,242	54,319	74,064	57,516	60,977	63,217
Total liabilities	Cum-dividend	6,558,094	5,952,229	4,911,232	9,975,005	9,140,655	10,959,913
	Ex-dividend	10,752,159	12,109,083	13,509,405	20,502,397	(Note 1)	(Note 1)
Capital stock		4,604,654	6,415,473	7,693,359	8,640,506	9,683,127	9,683,127
Capital reserve		82,102	115,906	155,924	263,536	404,409	421,010
Retained earnings (including statutory reserve and special reserve)	Cum-dividend	19,091,531	29,608,736	35,559,616	44,287,929	55,297,498	63,130,349
	Ex-dividend	13,086,647	22,139,626	26,014,296	32,717,916	(Note 1)	(Note 1)
Unrealized gain from financial instruments		-	-	-	-	2,679,976	2,075,837
Accumulated conversion adjustment		125,504	(49,071)	(714,649)	(391,751)	(483,510)	(291,784)
Treasury stock		(55,970)	(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
Total shareholders' equity	Cum-Dividend	23,847,821	36,035,074	42,638,280	52,744,250	67,525,530	74,962,569
	Ex-Dividend	19,653,756	29,878,220	34,040,107	42,216,858	(Note 1)	(Note 1)

Note 1: Pending on decision of Shareholders General Meeting.
Note 2: Unaudited, only reviewed by independent auditors.

2. Condensed Income Statement

Currency: NTD 1,000

Subject		Financial information over the last five years					2007 to March 31 (Note 2)
		2002	2003	2004	2005	2006	
Revenue		29,513,149	38,064,419	40,054,302	46,491,209	52,941,605	14,896,969
Gross profit		14,672,230	19,654,973	19,615,448	25,383,784	30,654,218	8,528,620
Incomes from operation		12,723,337	15,080,780	14,751,591	17,254,611	23,815,569	6,444,629
Non-operating incomes		307,879	1,903,858	244,631	1,181,605	891,660	1,377,490
Non-operating expenses		(203,176)	(375,594)	(654,945)	(37,357)	(341,043)	(30,367)
EBT from continuing operations		12,828,040	16,609,044	14,341,277	18,398,859	24,366,186	7,791,752
Earnings from continuing operations		12,233,439	16,522,089	14,322,985	18,273,633	22,571,944	7,832,851
Accumulated adjustment by change in accounting principle		-	-	-	-	7,638	-
Net income		12,233,439	16,522,089	14,322,985	18,273,633	22,579,582	7,832,851
EPS ($)	Before adjustment	26.79	25.96	18.73	21.31	23.50	8.15
	After adjustment	12.68	17.13	14.88	19.02	(Note 1)	(Note 1)

Note 1: Pending on the decision of Shareholders General Meeting.
Note 2: Unaudited financial information, only reviewed by independent auditors.

3. Information on CPAs and Audit Opinions

Year	CPA firm	Names of auditors (CPA)	Audit opinion
2002	Diwan, Ernst & Young	Jin-Lai Wang, Chien-Kuo Yang	Revised unqualified opinions
2003	Diwan, Ernst & Young	Chien-Kuo Yang, Hwei-Hsin Yeh	Unqualified opinions
2004	Diwan, Ernst & Young	Hwei-Hsin Yeh, Ting-Ming Chang	Unqualified opinions
2005	Diwan, Ernst & Young	Hwei-Hsin Yeh, Ting-Ming Chang	Unqualified opinions
2006	Diwan, Ernst & Young	Hwei-Hsin Yeh, Ting-Ming Chang	Revised unqualified opinions

4. Financial Analysis Covering the Period from 2002 to 2006

Subject of analysis			Financial information from 2001 to 2006					2007 to March 31 (Note)
			2002	2003	2004	2005	2006	
Financial structure (%)	Liabilities to assets ratio		21.57	14.18	10.33	15.90	11.92	12.76
	Long-term capital to fixed assets ratio		2,668.08	3,437.54	2,103.83	1,372.94	1,402.40	1,532.37
Ability to repay debts (%)	Current ratio		351.23	495.96	650.22	409.75	523.11	508.39
	Quick ratio		325.25	458.56	572.93	376.61	483.82	457.36
	Debt services coverage ratio		N/A	377,480.27	N/A	N/A	N/A	N/A
Utility	A/C turnover (times)		8.33	9.59	10.52	11.67	12.72	14.72
	A/C turnover in days (days)		44	38	35	31	29	25
	Inventory turnover (times)		12.57	9.53	6.94	5.92	6.11	5.22
	A/P turnover (times)		5.66	4.87	6.01	5.57	4.83	5.10
	Days' sales in inventory		29	38	53	62	60	70
	Fixed assets turnover (times)		41.28	39.17	26.05	15.84	12.23	12.28
	Total assets turnover (times)		1.22	1.05	0.89	0.84	0.76	0.73
Profitability	Return on assets (%)		50.64	45.65	31.99	33.14	32.40	38.54
	Return to shareholders' equity (%)		66.10	55.18	36.41	38.32	37.55	43.98
	Proportion to paid-in capital (%)	Income from operation	276.31	235.07	191.74	199.69	245.95	266.22
		EBT	278.59	258.89	186.41	212.94	251.71	321.87
	Net profit margin (%)		41.45	43.41	35.76	39.30	42.65	52.58
	EPS ($)	Before adjustment	26.79	25.96	18.73	21.31	23.50	8.15
		After adjustment	12.68	17.13	14.88	19.02	N/A	N/A
Cash flow	Cash flow ratio (%)		183.61	270.8	244.99	232.53	257.00	63.90
	Cash suitability ratio (%)		362.39	347.59	256.89	254.70	215.68	206.50
	Cash reinvestment ratio (%)		44.49	33.47	13.76	28.53	19.75	9.56
Leverage	Operation leverage		1.07	1.08	1.11	1.16	1.16	1.65
	Financial leverage		1.00	1.00	1.00	1.00	1.00	1.00

Note: Unaudited financial information, only reviewed by independent auditors.

Explanations for changes in financial ratios exceeding 20% over the last two years:

(1) Liabilities to assets ratio decreased by 25%, current ratio increased by 28% and quick ratio increased by 28%: cash increased due to growth in revenue, and current liabilities decreased.

(2) Fixed assets turnover decreased by 23%: the construction of corporate headquarters, to the extent that fixed assets increased.

(3) Income from operation in proportion to paid-in capital increased by 23%: increase in revenue and decrease in operating expenses, to the extent that income from operation increased.

(4) Cash reinvestment ratio decreased by 31%: the increase of fixed assets and long-term investment.

The equations for financial ratios are stated as follows:

1. Financial Structure
   (1) Ratio between liabilities and assets= Total liabilities/ total assets
   (2) Ratio between long-term capital and fixed assets= (Shareholders' equity + long-term liabilities)/ net fixed assets
2. Ability to repay debts
   (1) Current ratio = current assets/current liabilities
   (2) Quick ratio= (current assets – inventory-prepayments)/ current liabilities
   (3) Debt service coverage ratio = EBIT/interest expense current period
3. Utility
   (1) A/C (including account receivable and business notes receivable) = net sales / average balance of receivable in all periods (including account receivable and business notes receivable)
   (2) Average A/C turnover in days = 365 / A/C turnover
   (3) Inventory turnover = cost of goods sold/ average inventory
   (4) A/P turnover (including account payable and business notes payable) = cost of goods sold/average balance of payable (including account payable and business notes payable)
   (5) Days' sales in inventory = 365/ inventory turnover
   (6) Fixed assets turnover = net sales/ net fixed assets
   (7) Total assets turnover = net sales/ total assets
4. Profitability
   (1) Return on assets = [Earnings + interest expenses x (1 – tax rate)]/average total assets
   (2) Return on shareholders' equity = Earnings/ net average shareholders' equity
   (3) Net profit margin= Earnings /net sales
   (4) Earning per share = (earning –preferred stock dividend)/weighed average outstanding shares
5. Cash Flow
   (1) Cash Ratio = net cash flow from operation/ current liabilities
   (2) Cash Suitability Ratio = net cash flow from operation over the last five years/ (capital spending + increase in inventory + cash dividend) in the last five years
   (3) Cash reinvestment ratio = (net cash flow from operation – cash dividend)/ (gross fixed assets + long-term investment + other assets + working capital)
6. Leverage:
   (1) Operation leverage = (net income from operation – variable operating cost and expenses)/ income from operation
   (2) Financial Leverage = income from operation/ (income from operation – interest expenses)

5. Supervisors' Review Report

MediaTek Inc.
Supervisors' Review Report

The Financial Statements of MediaTek Inc. in fiscal year 2006 have been duly audited by Diwan Ernst & Young and are believed to fairly represent the financial standing, operation results and cash flows of MediaTek Inc.. We, the Supervisors, have duly reviewed the Financial Statements along with the Business Report and proposal for profits distribution and hereby verify that they comply with the requirements of Company Law and relevant regulations. This Report is duly submitted in accordance with Article 219 of the Company Law, and we hereby submit this report.

To MediaTek Inc. 2007 Shareholders General Meeting

MediaTek Inc.

Supervisor: Paul Wang (MediaTek Capital Corp., representative)

Supervisor: Chung-lang Liu (National Tsing Hua University, representative)

Supervisor: Yan-Kuin Su (National Cheng Kung University, representative)

April 23, 2007

6. Financial Statements and Auditor's Report

MEDIATEK INC.

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

AS OF DECEMBER 31, 2006 AND 2005
AND FOR THE YEARS THEN ENDED

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
of MediaTek Inc.

We have audited the accompanying balance sheets of MediaTek Inc. as of December 31, 2006 and 2005, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China (R.O.C.). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MediaTek Inc. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with Business Accounting Law, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and generally accepted accounting principles in the R.O.C.

As discussed in Note 3 to the financial statements, effective January 1, 2006, the Company adopted the R.O.C. Statement of Financial Accounting Standards No. 34 "Accounting for Financial Instruments" and the R.O.C. Statement of Financial Accounting Standards No. 36 "Disclosure and Presentation of Financial Instruments" to account for the related assets.

The Company has prepared consolidated financial statements as of December 31, 2006 and 2005 and for the years then ended. We have expressed a modified unqualified and an unqualified audit opinion on those consolidated financial statements, respectively.

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
January 29, 2007
Taipei, Taiwan
Republic of China

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the R.O.C. and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the R.O.C.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

BALANCE SHEETS

As of December 31, 2006 and 2005

(Amounts in thousand New Taiwan Dollars)

ASSETS	Notes	2006	2005
Current assets			
Cash and cash equivalents	2, 4(1)	$ 36,655,169	$ 31,405,861
Financial assets at fair value through profit or loss-current	2, 4(2)	2,704,102	1,241,794
Accounts receivable, net	2, 4(3)	3,856,794	3,987,387
Receivables from related parties, net	5	207	47,345
Other receivables	4(4)	238,142	259,246
Inventories, net	2, 4(5)	3,494,063	3,235,893
Prepayments and other current assets		205,490	275,329
Deferred income tax assets-current	2, 4(16)	342,585	159,691
Restricted deposits-current	6	-	24,000
Total current assets		47,496,552	40,636,546
Funds and investments	2, 4(6), 5		
Available-for-sale financial assets-noncurrent		628,110	-
Financial assets carried at cost-noncurrent		3,000	15,000
Bond portfolios with no active market-noncurrent		1,000,000	1,000,000
Investments accounted for using equity method		19,519,896	13,372,476
Total funds and investments		21,151,006	14,387,476
Property, plant and equipment	2, 4(7), 5		
Buildings and facilities		4,113,175	742,135
Machinery and equipment		116,374	116,374
Research and development equipment		1,095,679	716,238
Miscellaneous equipment		107,391	52,960
Total cost		5,432,619	1,627,707
Less : Accumulated depreciation		(689,706)	(514,296)
Add : Construction in progress		-	2,711,279
Prepayments for equipment		72,071	17,006
Property, plant and equipment, net		4,814,984	3,841,696
Intangible assets			
Software	2	278,270	287,753
Patents, IPs and others	2, 5	1,802,973	2,205,979
Total intangible assets		2,081,243	2,493,732
Other assets			
Refundable deposits		13,888	72,707
Deferred income tax assets-noncurrent	2, 4(16)	1,108,512	1,287,098
Total other assets		1,122,400	1,359,805
Total assets		$ 76,666,185	$ 62,719,255

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2006	2005
Current liabilities			
Financial liability at fair value through profit or loss-current	2, 4(2)	$ 14,586	$ -
Accounts payable		4,079,674	2,819,030
Payables to related parties	5	201,052	2,138,331
Income tax payable	2, 4(16)	2,341,449	909,647
Accrued expenses		1,971,445	3,452,174
Payables to contractors and equipment suppliers		160,161	316,185
Other current liabilities		311,311	282,122
Total current liabilities		9,079,678	9,917,489
Other liabilities			
Accrued pension liabilities	2, 4(8)	60,977	57,516
Total liabilities		9,140,655	9,975,005
Shareholders' equity			
Capital			
Common stock	4(9)	9,683,127	8,640,506
Capital reserve			
Additional paid-in capital	4(11)	69,689	69,689
Treasury stock transaction	4(11)	218,673	145,472
Donated assets	4(11)	1,260	1,260
Long-term investment transaction	4(6), 4(11)	114,787	47,115
Total capital reserve		404,409	263,536
Retained earnings			
Legal reserve	4(10)	7,407,185	5,579,822
Special reserve	4(12)	714,649	714,649
Undistributed earnings	4(12)	47,175,664	37,993,458
Other adjustments			
Cumulative translation adjustments	2, 4(6)	(483,510)	(391,751)
Unrealized gain on financial instruments	2, 4(6)	2,679,976	-
Treasury stock	2, 4(13)	(55,970)	(55,970)
Total shareholders' equity		67,525,530	52,744,250
Total liabilities and shareholders' equity		$ 76,666,185	$ 62,719,255

The accompanying notes are an integral part to these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

STATEMENTS OF INCOME

For the years ended December 31, 2006 and 2005

(Amounts in thousand New Taiwan Dollars, except earnings per share)

Description	Notes	2006		2005	
Gross sales		$ 55,212,125		$ 48,382,445	
Less : Sales returns and discounts		(2,270,520)		(1,891,236)	
Net sales	2, 4(14), 5	52,941,605		46,491,209	
Cost of goods sold	4(15), 5	(22,287,387)		(21,107,425)	
Gross profits		30,654,218		25,383,784	
Operating expenses	2, 4(15), 5				
Selling expenses		(967,116)		(734,129)	
Administrative expenses		(1,462,771)		(1,157,206)	
Research and development expenses		(4,408,762)		(6,237,838)	
Total operating expenses		(6,838,649)		(8,129,173)	
Operating income		23,815,569		17,254,611	
Non-operating income and gains					
Interest income		637,726		411,532	
Gain on equity investments, net	2, 4(6)	-		78,114	
Gain on disposal of property, plant and equipment	2	35,476		-	
Foreign exchange gain, net	2, 4(2)	56,851		-	
Reversal of bad debts	2, 4(3)	56,139		-	
Reversal of inventory loss provision	2, 4(5)	-		239,671	
Reversal of accrued license fee		-		419,056	
Valuation gain on financial instruments	2, 4(2)	71,553		23,515	
Others		33,915		9,717	
Total non-operating income and gains		891,660		1,181,605	
Non-operating expenses and losses					
Loss on equity investments, net	2, 4(6)	(28,589)		-	
Loss on disposal of property, plant and equipment	2, 5	(18,691)		-	
Loss on disposal of investments	2, 4(6)	(2,202)		-	
Foreign exchange loss, net	2, 4(2)	-		(37,321)	
Inventory loss provision	2, 4(5)	(276,213)		-	
Impairment loss	2, 4(6)	(12,000)		-	
Others		(3,348)		(36)	
Total non-operating expenses and losses		(341,043)		(37,357)	
Income from continuing operations before income taxes		24,366,186		18,398,859	
Income tax expense	2, 4(16)	(1,794,242)		(125,226)	
Income from continuing operations		22,571,944		18,273,633	
Cumulative effect of changes in accounting principles	3				
(net of tax benefit of NT$12 thousand)		7,638		-	
Net income		$ 22,579,582		$ 18,273,633	
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(17)	Before tax	After tax	Before tax	After tax
Income from continuing operations		$ 25.35	$ 23.49	$ 19.15	$ 19.02
Cumulative effect of changes in accounting principles		0.01	0.01	-	-
Net income		$ 25.36	$ 23.50	$ 19.15	$ 19.02
Pro-forma data: (Assuming that the Company’s shares owned by its subsidiary were not treated as treasury stock)	2, 4(17)				
Basic Earnings Per Share (in New Taiwan Dollars)		Before tax	After tax	Before tax	After tax
Income from continuing operations		$ 25.24	$ 23.38	$ 19.06	$ 18.93
Cumulative effect of changes in accounting principles		0.01	0.01	-	-
Net income		$ 25.25	$ 23.39	$ 19.06	$ 18.93

The accompanying notes are an integral part to these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2006 and 2005

(Amounts in thousand New Taiwan Dollars)

Description	Common stock	Capital reserve	Legal reserve	Special reserve	Undistributed earnings	Cumulative translation adjustments	Unrealized gain on financial instruments	Treasury stock	Total
Balance as of January 1, 2005	$ 7,693,359	$ 155,924	$ 4,147,524	$ 49,071	$ 31,363,021	$ (714,649)	$ -	$ (55,970)	$ 42,638,280
Appropriation and distribution of 2004 earnings:									
Legal reserve	-	-	1,432,298	-	(1,432,298)	-	-	-	-
Special reserve	-	-	-	665,578	(665,578)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(36,675)	-	-	-	(36,675)
Employees' bonuses	177,811	-	-	-	(1,045,951)	-	-	-	(868,140)
Shareholders' dividends	769,336	-	-	-	(8,462,694)	-	-	-	(7,693,358)
Net income for the year ended December 31, 2005	-	-	-	-	18,273,633	-	-	-	18,273,633
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	60,497	-	-	-	-	-	-	60,497
Adjustment arising from changes in percentage of ownership in investees	-	47,115	-	-	-	-	-	-	47,115
Cumulative translation adjustments	-	-	-	-	-	322,898	-	-	322,898
Balance as of December 31, 2005	8,640,506	263,536	5,579,822	714,649	37,993,458	(391,751)	-	(55,970)	52,744,250
Appropriation and distribution of 2005 earnings:									
Legal reserve	-	-	1,827,363	-	(1,827,363)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(49,339)	-	-	-	(49,339)
Employees' bonuses	178,570	-	-	-	(1,152,067)	-	-	-	(973,497)
Shareholders' dividends	864,051	-	-	-	(10,368,607)	-	-	-	(9,504,556)
Net income for the year ended December 31, 2006	-	-	-	-	22,579,582	-	-	-	22,579,582
Unrealized gain on financial instruments	-	-	-	-	-	-	2,679,976	-	2,679,976
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	73,201	-	-	-	-	-	-	73,201
Adjustment arising from changes in percentage of ownership in investees	-	67,672	-	-	-	-	-	-	67,672
Cumulative translation adjustments	-	-	-	-	-	(91,759)	-	-	(91,759)
Balance as of December 31, 2006	$ 9,683,127	$ 404,409	$ 7,407,185	$ 714,649	$ 47,175,664	$ (483,510)	$ 2,679,976	$ (55,970)	$ 67,525,530

The accompanying notes are an integral part to these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2006 and 2005

(Amounts in thousand New Taiwan Dollars)

Description	2006	2005
Cash flows from operating activities :		
Net income	$ 22,579,582	$ 18,273,633
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of changes in accounting principles	(7,638)	-
Depreciation	353,930	181,199
Amortization	1,118,686	765,259
Bad debt loss provision (reversal)	(56,139)	45,146
Cash dividends from the equity investees	22,769	10,400
Inventory loss provision (reversal)	276,213	(239,671)
Net loss (gain) on equity investments	28,589	(78,114)
Loss on disposal of investments	2,202	-
Interest income from bond portfolios with no active market	-	(5,763)
Gain on disposal of property, plant and equipment	(16,785)	-
Impairment loss	12,000	-
Valuation gain on financial instruments	(71,553)	(23,515)
Decrease (increase) in accounts receivable	183,655	(550,309)
Decrease (increase) in receivables from related parties	50,215	(40,990)
Decrease (increase) in other receivables	21,104	(75,348)
Increase (decrease) in inventories	(534,383)	255,446
Decrease in prepayments and other current assets	69,839	288,613
Increase in deferred income tax assets	(4,308)	(677,878)
Increase in accounts payable	1,260,644	1,200,367
(Decrease) increase in payables to related parties	(1,937,279)	1,135,219
Increase in income taxes payable	1,431,802	350,237
(Decrease) increase in accrued expenses	(1,480,729)	2,059,104
Increase in other current liabilities	29,189	170,512
Increase (decrease) in accrued pension liabilities	3,461	(16,548)
Net cash provided by operating activities	23,335,066	23,026,999
Cash flows from investing activities :		
Decrease in restricted deposits	24,000	57,770
Purchase of property, plant and equipment	(1,986,867)	(1,822,652)
Proceeds from disposal of property, plant and equipment	520,410	-
Increase in financial assets at fair value through profit or loss-current	(1,368,531)	(261,942)
Increase in available-for-sale financial asset-noncurrent	(550,000)	-
Increase in bond portfolios with no active market-noncurrent	-	(1,000,000)
Proceeds from disposal of bond portfolios with no active market-noncurrent	-	73,339
Increase in investments accounted for using equity method	(3,550,000)	(1,002,900)
Disinvestment of investment accounted for using equity method	-	98,000
Increase in intangible assets	(706,197)	(1,859,762)
Decrease (increase) in refundable deposits	58,819	(64,322)
Net cash used in investing activities	(7,558,366)	(5,782,469)
Cash flows from financing activities :		
Decrease in long-term debts	-	(10,643)
Cash dividends	(9,504,556)	(7,693,358)
Directors' and supervisors' remuneration	(49,339)	(36,675)
Employees' bonuses	(973,497)	(868,140)
Net cash used in financing activities	(10,527,392)	(8,608,816)
Net increase in cash and cash equivalents	5,249,308	8,635,714
Cash and cash equivalents at the beginning of the year	31,405,861	22,770,147
Cash and cash equivalents at the end of the year	$ 36,655,169	$ 31,405,861
Supplemental disclosures of cash flow information :		
Income tax paid during the year	$ 366,736	$ 452,792
Activities partially effected cash flows :		
Purchase of property, plant and equipment	$ 1,830,843	$ 1,998,177
Add: decrease (increase) in payables to contractors and equipment suppliers	156,024	(175,525)
Cash paid for the purchase of property, plant and equipment	$ 1,986,867	$ 1,822,652
Non-cash activities :		
Stock dividends and employees' bonuses capitalized	$ 1,042,621	$ 947,147
Adjustment arising from changes in percentage of ownership in investees	$ 67,672	$ 47,115
Cumulative translation adjustments	$ (91,759)	$ 322,898
Change in unrealized gain on financial instruments	$ 2,679,976	$ -
Adjustment of cash dividends distributed to subsidiaries holding the Company's stock	$ 73,201	$ 60,497

The accompanying notes are an integral part to these financial statements.

1. Organization and Operation

As officially approved, MediaTek Inc. (the "Company") was incorporated at Hsinchu Science-based Industrial Park on May 28, 1997. Since then, it has been specialized in the R&D, production, manufacture and marketing of Multimedia integrated circuits (ICs), computer peripherals oriented ICs, high-end consumer-oriented ICs and other ICs of extraordinary application. Meanwhile, it has rendered design, test runs, maintenance and repair and technological consultation services for software & hardware of the aforementioned products as well as import and export trade for the aforementioned products.

As of December 31, 2006 and 2005, the Company’s employees totaled 1,429 and 1,171, respectively.

2. Summary of Significant Accounting Policies

The Company’s financial statements are prepared in accordance with the R.O.C.’s “Business Accounting Law”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuer” and generally accepted accounting standards. Significant accounting policies are summarized as follows:

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in interest rates. Commercial papers, negotiable certificates of deposit, and bank acceptances with original maturities of three months or less are considered cash equivalents.

Foreign Currency Transactions

A. The Company maintains its accounting records in New Taiwan dollars ("NT Dollars" or "NT$"), the national currency of the R.O.C. Transactions denominated in foreign currencies are recorded in NT Dollars using the exchange rates in effect at the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlements of the monetary assets and liabilities, and on the retranslation of monetary assets and liabilities are included in earnings for the period. Exchange differences arising on the retranslation of non-monetary assets and liabilities carried at fair value are included in earnings for the period except for differences arising on the retranslation of non-monetary assets and liabilities in respect of which gains and losses are recognized directly in equity. For such non-monetary assets and liabilities, any exchange component of that gain or loss is also recognized directly in equity. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in the statements of operations.

B. The assets and liabilities of the foreign subsidiaries are translated into NT Dollars, with the local currency of each foreign subsidiary as its functional currency, at current exchange rates in effect at the balance sheet date. Shareholders' equity accounts should be translated at the historical rate except for the beginning balance of the retained earnings, which is carried by the translated amount of the last period. Dividends are translated at the spot rate of the declared date. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. Translation gains and losses are included as a component of shareholders' equity. The accumulated exchange gains or losses resulting from the translation are recorded as cumulative translation adjustments under shareholders' equity.

Financial Assets and Financial Liabilities

A. Financial asset or liability is recognized when the Company becomes a party to the instrument contact. A regular way purchase or sale of financial assets are be recognized using either trade date accounting on equity instrument or settlement date accounting on debt security, beneficiary certificate and derivative instrument. Financial assets and financial liabilities are derecognized in accordance with R.O.C. SAFS No. 33, "Accounting for Derecognizing of Financial Assets and Financial Liabilities".

B. When financial assets or financial liabilities are recognized initially, they are measured at fair value, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

C. Financial assets or financial liabilities are classified as follows:

a. Financial assets or financial liabilities at fair value through profit or loss

There are two classes of the financial assets or financial liabilities at fair value through profit or loss, one is held for trading and the other is upon initial recognition it is designated as at fair value through profit or loss. Such assets or liabilities are subsequently measured at fair value and changes in fair value are recognized in profit or loss.

b. Bond portfolios with no active market

It is a bond portfolio with fixed or determinable payments which is not quoted in an active market; or a preference shares which is not quoted in an active market that issuer has an obligation to redeem a preference share in specific price on a specific date, which shall be measured at amortized cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decreases is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

c. Financial assets carried at cost
It is not measured at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument, the amount of the impairment loss is recognized. Such impairment losses shall not be reversed.

d. Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as in any of the preceding categories, or are not classified as held-to-maturity investments or receivables.

When subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of shareholders' equity. The accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

The fair value, as mentioned above, for publicly traded securities or close-ended funds are based on closing prices of the balance sheet date, while those of open-ended funds are determined based on net assets value of the balance sheet date. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active market exists for its component parts, fair value is determined on the basis of the relevant market price for the component part.

Allowance for Doubtful Accounts
The allowance for doubtful accounts are provided based on the collectibility and aging analysis of notes receivable, accounts receivable, receivables from related parties and by examining current trends in the credit quality of its customers as well as its internal credit policies.

Inventories
Inventories are carried at lower of cost or market value using the weighted average cost method. Replacement cost is used to determine the market value of raw materials. Net realizable value is used to determine the market value of work in process and finished goods. The lower of cost or market value is applied on aggregate basis to total inventory. Inventories that are not sold or

moved for further manufactory within 60 days are deemed to be slow-moving items and certain allowance is set aside to reflect any possible loss from obsolescence.

Investment Accounted for Using Equity Method

A. Long-term investments in which the Company holds an interest of 20% or more or has the ability to exercise significant influence are accounted for under the equity method of accounting. The difference between the cost of the investment and the fair value of the identifiable assets at the date of acquisition is amortized over 5 years. Effective January 1, 2006, pursuant to the newly revised R.O.C. SFAS No. 25 "Business Combinations - Accounting Treatment under Purchased Method", investment premiums, representing goodwill, are no longer amortized but are assessed for impairment at least on an annual basis while investment discounts continue to be amortized over the remaining period. In some cases, the fair value will exceed the investment cost. That excess generated after December 31, 2005 shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired noncurrent assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain. Adjustment to capital reserve is required when the holding percentage changes due to unproportional subscription to investee's new shares issued. If the capital reserve is insufficient, retained earnings are adjusted. An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an investee and shall account for the investment in accordance with the R.O.C. SFAS No. 34 "Accounting for Financial Instruments" from that date. The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset.

B. Unrealized gains and losses arising from intercompany transactions are deferred and recognized when realized.

C. For equity investees in whom the Company does not possess control, the Company recognizes its investee's losses only to the extent the Company's long-term investment on that investee reaches zero. However, if the Company intends to provide further financial support for the investee company, or the investee company's losses are temporary and there exists sufficient evidence showing imminent return to profitable operations, then the Company shall continue to recognize investment losses in proportion to the stock ownership percentage. Such credit long-term investment balance shall first offset the advance (if any) the Company made to the investee company, the remaining shall be recorded under other liabilities. For equity investees in which the Company possesses control, the Company recognizes its investee's total losses unless other investors are obligated to and have the ability to assume a portion of the loss.

D. The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of the Company, and the accounts of investees in which the Company's ownership percentage is less than 50% but the Company has a controlling interest.

Property, Plant and Equipment

A. Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. Depreciation is computed on a straight-line basis over the following useful lives:

Buildings and facilities	3 to 50	years
Machinery and equipment	3 to 5	years
Research and development equipment	3 to 5	years
Miscellaneous equipment	2 to 5	years

B. Improvements and replacements are capitalized and depreciated over their estimated useful lives while ordinary repairs and maintenance are expensed as incurred.

C. When property, plant and equipment are disposed of, their original cost, accumulated depreciation and accumulated impairment are written off and related gains or losses are included in non-operating income or expenses.

D. If property, plant and equipment are highly probable be sold within one year. Thereafter a non-current asset (or disposal group) classified as held for sale should be measured at the lower of its carrying amount and fair value less costs to sell. Such assets measured at fair value and changes in fair value are recognized in profit and loss.

Intangible Assets

Software (Design software), patents, IPs and others are stated at cost and amortized on a straight-line basis over the following useful lives:

Software (Design software)	3	Years
Patents, IPs and Others	3 to 5	Years

Asset Impairment

On January 1, 2005, the Company adopted the R.O.C. SFAS No. 35 "Accounting for Assets Impairment". The Company is required to perform (1) goodwill impairment tests annually on a reporting unit level; and (2) evaluate whether indicators of impairment exist for assets subject to guidelines set forth under the Statement. The Statement requires that such assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Unrecoverable losses shall be recognized. Recognized losses on goodwill impairment shall not be reversed subsequently. For non-goodwill assets impaired in prior periods, a gain shall be recognized to the extent that such assets' carrying value do not exceed original value less associated depreciation or amortization.

Capital Expenditures vs. Revenue Expenditures

If the expenditure increases the future service potential of the plant assets and the lump sum purchase price per transaction exceeds criteria, the expenditure is capitalized, while the others are expensed as incurred.

Revenue Recognition

Revenue is recognized in accordance with the R.O.C. SFAS No. 32 “Accounting for Revenue Recognition”.

Employee Retirement Benefits

A. In accordance with the Labor Standards Law (the "Law") of the R.O.C., the Company makes a monthly contribution equal to 2% of the wages and salaries paid during the period to a pension fund maintained with the Central Trust of China. The fund is administered by the Employees’ Retirement Fund Committee and is deposited in the committee’s name. Therefore, the pension fund is not included in the financial statements of the Company.

B. The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Law can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of an employer monthly contribution to the pension fund should be at least 6% of the employee’s monthly wages.

C. The Company has a defined benefit pension plan covering substantially all of its employees and adopts the R.O.C. SFAS No. 18 “Accounting for Pensions”. The minimum pension liability was recorded for the excess of accumulated pension obligations over the fair value of plan assets. Net transition obligations from the plan assets are amortized using the straight-line method over the employees’ expected average remaining service period of 20 years. For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees’ individual pension accounts.

Income Tax

A. In accordance with the R.O.C. SFAS No. 22 “Accounting for Income Taxes”, income tax is accounted for under the inter-period and intra-period income tax allocation method. Provision for income tax includes deferred tax resulting from temporary differences and investment tax credits. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

B. Income tax credit is accounted for in accordance with the R.O.C. SFAS No. 12 “Accounting for Income Tax Credit”. Income tax credits resulting from the acquisition of equipment, research and development expenditures and employee training shall be recognized using the flow-through method.

C. Income taxes (10%) on undistributed earnings are recorded as expenses in the year when the stockholders have resolved that the earnings shall be retained.

D. Income Basic Tax Act took effect on January 1, 2006. The alternative minimum tax ("AMT") imposed under the Income Basic Tax Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the Income Basic Tax Act. The tax effect of such amounts was taken into consideration in determining the realization of deferred income tax assets.

Earnings Per Share

A. The Company’s EPS is computed and presented in accordance with the R.O.C. SFAS No. 24 “Earnings Per Share” Basic earnings per share are computed by dividing net income by the weighted-average number of common share outstanding during the year. Earnings per common share are adjusted retroactively by stock dividends resulting from retained earnings or capital surplus. Furthermore, if the base date of the capital increase for a stock dividend is before the issuance date of the financial statements, the earnings per common share shall be adjusted retroactively.

B. In accordance with the R.O.C. SFAS No. 30 “Accounting for Treasury Stock”, the Pro-Forma earnings per share were computed as follows assuming that the Company’s shares owned by its subsidiary were not treated as treasury stock.

Treasury Stock

A. The Company’s shares owned by its subsidiaries were accounting-treated as treasury stock according to the R.O.C. SFAS No. 30 “Accounting for Treasury Stock”. Cash dividends distributed to the Company’s subsidiaries are deducted from investment income account and credited to capital reserves-treasury stock transaction.

B. Treasury stock transactions are accounted for under cost method. The acquisition cost of shares is recorded under the caption of treasury stock, a contra shareholders’ equity account.

C. When treasury stock is sold for more than its acquisition cost, the difference is credited to capital reserve-treasury stock transaction. If treasury stock is sold for less than its acquisition cost, the difference is charged to the same capital reserve account to the extent the capital reserve account to reduce to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.

D. When treasury stock is retired, the treasury stock account is credited and all capital account balances related to the treasury shares, including capital reserve-treasury stock transaction, are reduced on a proportionate basis. Any difference, if on credit side, is recorded in capital reserve -treasury stock transaction; if on debit side, retained earnings is charged.

Derivative Financial Instruments-Trading Purpose

Derivative financial instruments that have been designated for hedging but not qualified for hedging effectiveness as SFAS No. 34 indicates are classified as financial assets/liabilities for trading; for example, forward contract is recognized and remeasured at fair value. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability. The changes in fair value are recognized in profit and loss.

3. Reasons and Effects for Change in Accounting Principles

A. On January 1, 2006, the Company adopted the newly released the newly released R.O.C. SFAS No. 34 “Accounting for Financial Instruments” and No. 36, “Disclosure and Presentation for Financial Instruments”. The effects of changes in adoption of the new principles are remarked as follows:

The Company had categorized its financial assets and liabilities in accordance with the new standards. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles under the statement of income. While, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recorded in the account of financial instruments’ unrealized profit and loss under the shareholders’ equity account’s adjusted items.

The effects of adopting the newly released SFAS No. 34 and SFAS No. 36 were as follows:

	Amount (net of income tax)	
	Cumulative effect of changes in accounting principles	Cumulative effect of changes in accounting principles/Other adjustments in shareholders' equity which recognized by subsidiaries
Financial assets at fair value through profit or loss-current	$7,638	$-
Long-term investments/Gain on equity investments	-	418
Long-term investments/Unrealized gain on financial instrument	-	2,377
Total	$7,638	$2,795

Above changes in accounting policies resulted in an increase in income from continuing operations of NT$418 thousand for the year ended December 31, 2006. The adoption of the newly released SFASs resulted in an increase in cumulative effect of changes in accounting principles of NT$7,638 thousand that was included in net income for the year ended December 31, 2006, and an increase in basic earnings per share (after income tax) of NT$0.01.

B. As to the different accounting policy regarding the financial instrument between the year of 2005 and 2006, are described as below:

a. Short-term investments

Short-term investments are recorded at cost when acquired and are stated at the lower of aggregate cost or market value at the balance sheet date. The market value of listed equity securities or closed-end funds is determined by the average closing price during the last month of the fiscal year. The market value for open-end funds is determined by their equity per unit at the balance sheet date. No revenue is recognized when stock dividends are received. Instead, the number of shares increases and the cost per share is recalculated.

b. Long-term investments

(a) Long-term investments in which the Company holds less than 20% of the outstanding voting shares of the investee companies and is not able to exercise significant influence over the investee companies are stated at cost except for investments in listed companies which are stated at lower of cost or market value. The unrealized loss on long-term investments is recorded as a contra equity account.

(b) Investment in foreign entity which are stated at cost and required to translated its cost into presentation currency at the balance sheet date. At lower of the rate at transaction date or the rate at balance sheet date, the exchange losses resulting from the translation are recorded as the account of cumulative translation adjustments under shareholders' equity.

c. Financial instruments-hedging purpose

A forward foreign exchange contract obligates the Company to exchange predetermined amounts of specified foreign currencies at specified exchange rates for another currency on a specified date. For contracts that are designated as hedges, discounts or premiums, being the difference between the spot exchange rate and the forward exchange rate at the inception of the contract, are accreted or amortized to the income statement over the contract lives using the straight-line method. Realized gains and losses from settlement or unrealized gains and losses resulting from changes in the spot exchange rate at the balance sheet date is recorded in the income statement as foreign exchange gains or losses in the period in which they relate. In addition, the receivables and payables related to the contracts of the same counter party were netted with the resulting amount presented as either an asset or a liability. Any gain or loss from hedging an identifiable foreign currency commitment should be deferred to the actual transaction date and recorded as an adjustment to the transaction price. However, if the deferred exchange loss results in a loss in the sub subsequent accounting period, the exchange loss should not be deferred. If the forward contract is not for a greater number of foreign currency units than the foreign currency commitment, the gain or loss on that portion of the contract which exceeds the foreign currency commitment should not be deferred and should be accounted for as the current period gain or loss.

C. Effective on January 1, 2006, the Company adopted the R.O.C. SFAS No. 5 "Long-term Investment Accounted for Using the Equity Method" and No. 25 "Business Combinations -Accounting Treatment under Purchase Method". The difference between the cost of the investment and the fair value of the identifiable assets at the date of acquisition, representing goodwill, is no longer amortized. Such adoption increased net income by NT$56,328 thousand for the year ended December 31, 2006, and basic earnings per share increased by NT$0.06. As of December 31, 2006, the Company's total assets was increased by NT$56,328 thousand accordingly.

D. Effective on January 1, 2005, the Company adopted accounting treatment for assets defined under the R.O.C. SFAS No. 35 "Accounting for Assets Impairment". Restatements to prior period's financial statements caused by the Statement are not allowed. There are no significant impacts on the Company's total assets as of December 31, 2005, and net income and basic earnings per share for the year then ended.

4. Contents of Significant Accounts

(1) Cash and Cash Equivalents

In thousand NTD	As of December 31, 2006	As of December 31, 2005
Savings and checking accounts	$629,696	$463,542
Time deposits	30,959,187	15,763,045
Cash equivalents- bonds-Repo	5,066,286	15,179,274
Total	$36,655,169	$31,405,861

As of December 31, 2006, the Company has committed to sell the bonds-Repo back to the brokers during the one month period ended January 31, 2007.

Cash and cash equivalents were not pledged as of December 31, 2006.

(2) Financial asset and liabilities at fair value through profit or loss

a.

In thousand NTD	As of December 31, 2006	As of December 31, 2005
Held for trading financial assets		
Mutual fund	$2,068,460	$990,000
Government bonds	-	199,778
Corporate bonds	150,000	-
Forward exchange contracts	-	52,016
Subtotal	2,218,460	1,241,794
Adjustment for change in value of held for trading financial assets	84,698	-
Financial assets designated as at fair value through profit or loss		
Credit-linked deposit	400,000	-
Adjustment for change in value of financial assets designated as at fair value through profit or loss	944	-
Total	$2,704,102	$1,241,794

Credit-linked deposit is a compound financial instrument. Since it is impractical to measure the fair value of the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire hybrid contract shall be designated as a financial instrument at fair value with change in value through profit or loss. For the year ended December 31, 2006, adjustment for change in value of the above-mentioned financial assets was NT$944 thousand. Please refer to Note 10 to the financial statements for the disclosures of relative risks information for credit-linked deposit.

The Credit-linked deposits of the Company were detailed as follows:

In thousand NTD	As of December 31,	
Underlying investments	2006	2005
AmTRAN Credit-linked deposit	$100,000	$-
Powerchip Credit-linked deposit	100,000	-
Chi Mei Credit-linked deposit	200,000	-

b.

	As of December 31,	
In thousand NTD	2006	2005
Held for trading financial liabilities-current		
Adjustment for change in value of trading financial liabilities -Forward exchange contracts	$14,586	$-

The Company entered into forward exchange contracts with banks in 2006 and 2005. The purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk resulting from assets and liabilities denominated in foreign currency. As of December 31, 2006 and 2005, outstanding forward exchange contracts were as follows:

(a) As of December 31, 2006: (Note 1)

Held for trading financial assets:

Financial Instruments	Type	Maturity	Contract amount (US$'000)
Forward exchange	Sell USD	January 2007	USD25,000

Held for trading financial liabilities:

Financial Instruments	Type	Maturity	Contract amount (US$'000)
Forward exchange	Sell USD	January 2007~February 2007	USD75,000

(b) As of December 31, 2005: (Note 2)

Financial Instruments	Type	Maturity	Contract amount (US$'000)
Forward exchange	Sell USD	January 2006~February 2006	USD100,000

In thousand NTD	December 31, 2005
Forward contract receivable	$3,330,140
Forward contract payable	(3,285,000)
Discount	6,876
Forward exchange contracts receivable-net	$52,016

As of December 31, 2005, the amount of forward exchange contracts receivable-net from forward contracts above was classified under the caption of other receivables. After adopting the R.O.C SFAS No. 34, it has been reclassified to the account of financial asset at fair value through profit or loss-current.

Foreign exchange loss incurred from the derivatives for the years ended December 31, 2006 and 2005 amounted to NT$59,075 thousand and NT$205,482 thousand, respectively.

Note 1: The Company entered into forward exchange contracts for the year ended December 31, 2006 to manage exposures due to the fluctuations of foreign exchange rate. The forward exchange contracts entered into by the Company did not meet the criteria for hedge accounting prescribed by the R.O.C. SFAS No. 34 “Accounting for Financial Instruments”. Therefore, the Company hadn’t adopted hedge accounting. The forward exchange contracts have been classified to the account of financial asset/liabilities at fair value through profit or loss-current. Please refer to Note 10 for the disclosure of relative risks information to the financial report.

Note 2: The forward exchange contracts were in accordance with the R.O.C. SFAS No. 14 “Accounting for Foreign Currency Translation” during the 2005 financial year.

(3) Accounts Receivable-Net

	As of December 31,	
In thousand NTD	2006	2005
Accounts receivable	$4,044,231	$4,227,885
Less: Allowance for doubtful accounts	(187,437)	(240,498)
Net	$3,856,794	$3,987,387

(4) Other Receivables

	As of December 31,	
In thousand NTD	2006	2005
Interest receivable	$86,000	$77,385
VAT refundable	140,127	172,784
Others	12,015	9,077
Total	$238,142	$259,246

(5) Inventories-Net

In thousand NTD	As of December 31, 2006	2005
Work in process	$2,189,033	$2,175,224
Finished goods	1,707,095	1,189,629
Inventories in transit	-	31,095
Subtotal	3,896,128	3,395,948
Less: Allowance for inventory obsolescence	(402,065)	(160,055)
Net	$3,494,063	$3,235,893

Inventories were not pledged.

(6) Funds and Investments

a.

Investee Companies	Types	Shares/units	Amounts (NT$'000)	Ownership
	As of December 31, 2006			
Available-for-sale financial assets-noncurrent				
IIT Private Equity Real Estate Fund	Mutual fund	4,938,331	$50,000	-
Cathay No. 2 Real Estate Investment Trust	Mutual fund	50,000,000	500,000	-
Subtotal			550,000	
Adjustment for change in value of available-for-sale financial asset			78,110	
Subtotal			628,110	
Financial assets carried at cost-noncurrent				
Yuantonix, Inc.	Common share	300,000	3,000	3.75%
Bond portfolios with no active market-noncurrent				
Chinatrust Financial Holding Co. Ltd	Series B Preferred Stock	25,000,000	1,000,000	-
Accounted for using equity method				
MediaTek Investment Corp.	Common share	640,000,000	7,926,510	100.00%
Hsu-Ta Investment Limited	Capital	-	3,680,424	100.00%
Hsu-Chia Investment Limited	Capital	-	3,421,298	100.00%
Hsu-Kang Investment Limited	Capital	-	3,421,574	100.00%
ALi Corporation	Common share	59,227,790	1,056,954	22.68%
Wiseali Technology Inc.	Common share	200,000	5,614	100.00%
Subtotal			19,512,374	
Add：Unrealized loss on disposal of long-term equity investments			7,522	
Subtotal			19,519,896	
Total			$21,151,006	

Investee Companies	As of December 31, 2005 Types	Shares/units	Amounts (NT$'000)	Ownership
Financial assets carried at cost-noncurrent				
Yuantonix, Inc.	Common share	1,500,000	$15,000	5.18%
Bond portfolios with no active market-noncurrent				
Chinatrust Financial Holding Co. Ltd	Series B Preferred Sock	25,000,000	1,000,000	-
Accounted for using equity method				
MediaTek Investment Corp.	Common share	285,000,000	2,505,474	100.00%
Hsu-Ta Investment Limited	Capital	-	3,519,633	100.00%
Hsu-Chia Investment Limited	Capital	-	3,272,227	100.00%
Hsu-Kang Investment Limited	Capital	-	3,272,085	100.00%
ALi Corporation	Common share	56,956,200	787,517	25.17%
Wiseali Technology Inc.	Common share	200,000	5,816	100.00%
Subtotal			13,362,752	
Add：Unrealized loss on disposal of long-term equity investments			9,724	
Subtotal			13,372,476	
Total			$14,387,476	

b. For the years ended December 31, 2006 and 2005, the Company recognized investment loss and gain accounted for under the equity method amounting to (NT$28,589) thousand and NT$78,114 thousand, respectively, based on the audited financial statements of the investee companies.

c. Since ALi Corporation, an investee accounted for under equity method, issued new shares for purposes of conversion of convertible bonds, exercise of employees' stock options and capitalization of employees' bonus, the Company's holding interest on ALi Corporation has been changed. As a result, the Company has recognized a capital reserve of NT$75,020 thousand for the year ended December 31, 2006.

d. On March 5, 2005, ALi Corporation offered 40,000 thousand common stocks in a private issuance. The Company did not present at the register of common shares, and because of the issuance for employees' stock options and the issuance of new shares from convertible bonds, the Company has declined in further investing in said offering which leads to a change in interest hold. As of December 31, 2005, the Company has recognized a capital reserve of NT$55,204 thousand accordingly.

e. The Company had increased its investment in MediaTek Investment Corp. in amount of NT$3,550,000 thousand and NT$1,000,000 thousand, for the years ended December 31, 2006 and 2005, respectively.

f. A subsidiary of MediaTek Investment Corp. resolved a right offering in February 2006. MediaTek Investment Corp. forgave its preemptive right and subscribed none to the new issuance. MediaTek Investment Corp.'s interest in that subsidiary changed accordingly. As a result, the Company has recognized a reduction in capital reserve of NT$7,348 thousand for the year ended December 31, 2006.

g. The Company's holding interest on MediaTek Investment Corp. was decreased due to the subsidiary's employee stock options being exercised as of December 31, 2005. Capital reserve was decreased by $8,089 thousand accordingly.

h. In light that Yuantonix, Inc. cancelled its common shares to compensate accumulated deficits during May 2006, the Company assessed its investment in Yuantonix, Inc. has been impaired, therefore, recognized impairment loss in amount of NT$12,000 thousand.

i. The Company recognized an unrealized gain of NT$2,601,866 thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for under the equity method for the year ended December 31, 2006.

j. The Company has recognized a realized loss on disposal of long-term equity investments for the year ended December 31, 2006 in amount of NT$2,202 thousand.

k. A capital reduction by Wiseali Technology Inc. in October 2005 has caused an NT$144,881 thousand loss to the Company while a refund of NT$98,000 thousand is received.

l. In December 2005, our investment in series B preferred stocks ("Preferred B") of Chinatrust Financial Holding Company is increased by NT$1,000,000 thousand. Terms and conditions of the stock are as follows:

(a) Duration： 7 years.

(b) Par value：$10 per share.

(c) Issuing price：$40 per share.

(d) Dividends:

Dividend is fixed at 3.5% per year based on actual issuing price, and is paid in cash on an annual basis. In any given year a dividend is not distributed, either due to a loss status or constraints under regulation requirements, such dividend is postponed to following years.

(e) Redemption at maturity:

Redemption price at maturity is set at 100% of actual issuing price, $40 dollar per share.

Preferred stock issued under provision 1 of section 6 under the Articles of Incorporations is guaranteed the highest priority to the Company’s property in the event of liquidation. Preferred B stockholders are next in line followed by common stockholders; Stockholders of Preferred B is not granted voting rights in Shareholder’s Meeting unless such meeting is held among Preferred B stockholders only; Conversion of Preferred B to common shares of the company is disallowed; Cash or stock dividends distributed to common stockholders does not apply to Preferred B stockholders; In a capital raising event Preferred B stockholders enjoy a privileged right to participate, as is the case for stockholders of other classes of stocks issued.

The above-mentioned preferred stock held by the Company is a financial instrument with nature of bonds in substance and shall be classified as bond portfolios with no active market.

m. Due to the fact that the Company no longer had controlling interest in ALi Corporation starting the fourth quarter of 2006, ALi Corporation is excluded in the Company’s consolidated financial statements as of December 31, 2006 and for the year then ended. All subsidiaries, including ALi Corporation, were included in the consolidated financial statements as of December 31, 2005 and for the year then ended.

n. Funds and investments were not pledged as of December 31, 2006.

(7) Property, Plant and Equipment

a. No interest was capitalized for the years ended December 31, 2006 and 2005, respectively.

b. Property, plant and equipment were not pledged as of December 31, 2006.

(8) Accrued Pension Liabilities

a. The Company’s pension fund contributed to a fiduciary account in China Trust Bank amounted to NT$40,978 thousand and NT$39,958 thousand as of December 31, 2006 and 2005, respectively. The total pension expenses, including net pension cost under the old Standard Labor Law and the pension expenses under the new Labor Pension Act, amounted to NT$62,848 thousand and NT$14,678 thousand for the years ended December 31, 2006 and 2005, respectively. The pension expenses under the Labor Pension Act amounted to NT$59,119 thousand and NT$24,057 thousand, respectively.

b. The components of net pension cost under the Labor Standards Law

	For the year ended December 31,	
In thousand NTD	2006	2005
Service cost	$1,235	$14,415
Interest cost	3,714	3,023
Expected return on plan assets	(1,399)	(1,227)
Amortization	88	(247)
Over (reversal) accrual	91	(25,343)
Net pension cost	$3,729	$(9,379)

c. The funded status of the Company's pension plans under the Labor Standards Law

	As of December 31,	
In thousand NTD	2006	2005
Benefit obligations		
Vested benefit obligation	$-	$-
Non-vested benefit obligation	(54,118)	(40,907)
Accumulated benefit obligation	(54,118)	(40,907)
Effect of projected future salary increase	(84,503)	(65,200)
Projected benefit obligation	(138,621)	(106,107)
Fair value of plan assets	40,978	39,958
Funded status of pension plan	(97,643)	(66,149)
Unrecognized net transitional obligation	971	1,059
Unrecognized loss	35,934	7,805
Over-accrual	(239)	(231)
Accrued pension liabilities	$(60,977)	$(57,516)

d. The vested benefit was nil as of December 31, 2006 and 2005.

e. The underlying actuarial assumptions:

	For the year ended December 31,	
	2006	2005
Discount rate	2.75%	3.5%
Rate of increase in future compensation levels	4.0%	4.0%
Expected long-term rate of return on plan assets	2.75%	3.5%

(9) Common Stock

As of January 1, 2005, the authorized and issued common shares of the Company amounted to NT$8,960,000 thousand and NT$7,693,359 thousand, divided into 896,000,000 shares and 769,335,831 shares, respectively, each share at par value of NT$10.

Based on the resolution of shareholders' general meeting on June 13, 2005, the Company's Articles of Incorporation as revised provided that the authorized capital, NT$400,000 thousand reserved for the grant of options to qualified employees was amended to NT$200,000 thousand. The shareholders further resolved to issue 94,714,749 new shares at par value of NT$10 for the capitalization of shareholders' dividends of NT$769,336 thousand and employees' bonus of NT$177,811 thousand. The capitalization date was set on August 16, 2005 and the governmental approval has been successfully obtained.

Based on the resolution of shareholders' general meeting on June 21, 2006, the Company increased its authorized capital to NT$12,000,000 thousand, divided into 1,200,000,000 shares, each shares at par value of NT$10. Among the authorized capital, NT$200,000 thousand was reserved for the grant of options to qualified employees. The shareholders further resolved to issue 104,262,103 new shares at per value of NT$10 for the capitalization of shareholders' dividends of NT$864,051 thousand and employees' bonus of NT$178,570 thousand. The capitalization date was set on August 8, 2006 and the government approval has been successfully obtained.

As of December 31, 2006, the authorized and issued common shares of the Company amounted to NT$12,000,000 thousand and NT$9,683,127 thousand, divided into 1,200,000,000 (including 20,000,000 shares reserved for exercise of employee stock options) shares and 968,312,683 shares, respectively, each share at par value of NT$10.

(10) Legal Reserve

According to the R.O.C. Company Law, 10% of the Company's net income, after deducting previous years' losses, if any, is appropriated as legal reserve prior to any distribution until such reserve is equal to the Company's paid-in capital. When the legal reserve is equal to or more than 50% of paid-in capital, 50% of such reserve may be distributed to the Company's shareholders through the issuance of additional common share.

(11) Capital Reserve

	As of December 31,	
In thousand NTD	2006	2005
Additional paid-in capital	$69,689	$69,689
Treasury stock transaction	218,673	145,472
Donated assets	1,260	1,260
Long-term investment transaction	114,787	47,115
Total	$404,409	$263,536

According to the R.O.C. Company Law, capital reserve can only be used for making up deficiencies or distributions of stock dividends. The Company shall not use capital reserve to make up its loss unless legal reserve is insufficient for making good such losses.

The Company had paid cash dividend in amount of NT$73,201 thousand and NT$60,497 thousand to certain subsidiaries who owned the Company's common shares for the years ended December 31, 2006 and 2005, respectively. Since the Company's shares held by its subsidiaries are treated as treasury stocks, the cash dividend paid to the Company's subsidiaries are recorded as an adjustment to capital reserve - treasury stock transactions accordingly.

(12) Earnings Distribution

Net income for the year ended December 31, 2005 may be appropriated or distributed in the following sequences:

(a) Income tax obligation;
(b) Offsetting accumulated deficits, if any;
(c) Legal reserve at 10% of net income;
(d) Reserve or reverse for special reserve in compliance with the Company Law or the Securities and Exchange Law;
(e) Remuneration for directors and supervisors to a maximum of 0.5% of the remaining of (a) through (d), while remuneration for directors and supervisors' services is limited to cash payments.
(f) The remaining balance after all the above appropriations and distributions, combining with inappropriate earnings from prior years, shall be fully for shareholders' dividends and employees' bonuses and may be retained or distributed proportionally. The portion of employees' bonuses may be within 10% to 15% of total earnings resolved to distribute for shareholders' dividends and employees' bonuses. Employees' bonuses may be distributed in form of shares or cash, or both. The qualification of employees entitled to the bonuses is at the discretion of board meeting. Employees serving the Company's subsidiaries are inclusive.

Shareholders' dividends and employees' bonuses may be distributed in the form of shares or cash, or both, and cash dividends to be distributed might not be less than 10% of total dividends to be distributed.

The Company's Articles of Incorporation, revised on June 21, 2006, provided that the appropriation earning for 2006 are consistent with the above appropriation of earning for 2005. According to the amended articles, the portion of employee bonus may not be less than 1% of total earnings resolved to distribute for shareholders' dividends and employees' bonuses.

According to the regulations of Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C., the Company is required to appropriate a special reserve in the amount equal to the sum of debit elements under shareholders' equity, such as unrealized loss on long-term equity investment, negative cumulative translation adjustment, at each year-end. Such special reserve is prohibited from being distributed. However, if any of the debit elements is reversed, the special reserve in the amount equal to the reversal may be released for earnings distribution.

(13) Treasury Stock

The Company's shares owned by its subsidiaries are accounted for as treasury stock. Movement of the Company's treasury stock was as follows:

	January 1, 2006		Additions		December 31, 2006		
Owner	Shares	Amount (NT$'000)	Shares	Amount (NT$'000)	Shares	Amount (NT$'000)	Market Value (NT$'000)
MediaTek Capital Corp.	6,654,670	$55,970	665,467 (Note)	$-	7,320,137	$55,970	$2,466,886

	January 1, 2005		Additions		December 31, 2005		
Owner	Shares	Amount (NT$'000)	Shares	Amount (NT$'000)	Shares	Amount (NT$'000)	Market Value (NT$'000)
MediaTek Capital Corp.	6,049,700	$55,970	604,970 (Note)	$-	6,654,670	$55,970	$2,395,082

(Note) Stock dividends received.

Cash dividends distributed to the Company's subsidiaries are deducted from investment income account and credited to capital reserves-treasury stock transaction. Please refer to note 4(11).

(14) Sales Revenues-Net

In thousand NTD	For the year ended December 31, 2006	2005
Revenues from sales of chipsets	$54,729,722	$48,006,117
Others	482,403	376,328
Subtotal	55,212,125	48,382,445
Less: Sales returns and sales discounts	(2,270,520)	(1,891,236)
Net sales	$52,941,605	$46,491,209

(15) Personnel, Deprecation and Amortization Expenses

	For the year ended December 31,					
	2006			2005		
In thousand NTD	Recorded under cost of goods sold	Recorded under operating expense	Total	Recorded under cost of goods sold	Recorded under operating expense	Total
Personnel Expense						
Salary expense	$64,742	$2,040,257	$2,104,999	$54,127	$1,565,899	$1,620,026
Insurance expense	2,616	70,750	73,366	2,229	59,108	61,337
Pension expense	2,037	60,811	62,848	1,883	12,795	14,678
Other	484	25,631	26,115	297	20,652	20,949
Total	$69,879	$2,197,449	$2,267,328	$58,536	$1,658,454	$1,716,990
Depreciation	$5,654	$348,276	$353,930	$4,994	$176,205	$181,199
Amortization	$833	$1,117,853	$1,118,686	$300	$764,959	$765,259

(16) Income Tax

a. Pursuant to the "Statute for Upgrading Industries", the Company is entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. The Company has elected the tax exemption period to be from January 1, 2002 through December 31, 2006, January 1, 2003 through December 31, 2007, January 1, 2004 through December 31, 2008, and January 1, 2005 through December 31, 2009.

b. The Company's income tax returns for the years from 1998 to 2001 have been assessed and approved by the tax authorities and NT$418,697 thousand of additional income tax payable was imposed. Though the Company has vigorously filed several administrative appeals to tax authority and the Courts, the Company has fully accrued the additional tax liability. For 1999's appeal, the final ruling in favor for the Company has been determined by court during July 2006 and the tax authority has to re-assess the tax return accordingly. Besides, the tax authority has assessed the Company's income tax returns for the Year 2002 and imposed an additional income tax of NT$899,276 thousand. The discrepancy between the Company's tax return filing and the result of tax authority's assessment was mainly because of the different viewpoints on the calculating exempted income from tax holiday. The Company has vigorously filed a revision on the tax assessment and sufficiently accrued the probable tax payable.

c. The Company's available investment tax credits as of December 31, 2006 were as follows:

Year incurred	Nature of Expenditures	Total credit amount (NT$'000)	Unused amount (NT$'000)	Year expired
2004	R&D	$1,224,202	905,204	2008
2005	R&D	1,095,201	1,095,201	2009
	Human development	1,168	1,168	2009
2006	R&D	1,321,874	1,321,874	2010
(Estimate)	Human development	1,327	1,327	2010
		$3,643,772	$3,324,774	

d.

(a) Deferred income tax assets (liabilities) *(In thousand NTD)*

	As of December 31, 2006
Total deferred income tax liabilities	$(1,047)
Total deferred income tax assets	$3,340,644
Valuation allowance for deferred income tax assets	$1,888,500

(b) Temporary differences generated from deferred income tax assets (liabilities) *(In thousand NTD)*

	As of December 31, 2006	
	Amount	Tax effect
Deductible temporary difference-Recognition of unrealized allowance for inventory obsolescence	$402,065	$3,875
Deductible temporary difference-Unrealized allowance for doubtful accounts recognition	$146,975	$1,416
Deductible temporary difference-Unrealized technology license fee	$1,084,050	$10,447
Taxable temporary difference-Unrealized foreign exchange gain	$(108,616)	$(1,047)
Deductible temporary difference-Unrealized loss on valuation of financial assets	$13,689	$132
Investment tax credits		$3,324,774

(c) *In thousand NTD*

	As of December 31, 2006
Deferred income tax assets-current	$343,632
Valuation allowance for deferred income tax assets-current	-
Net deferred income tax assets-current	343,632
Deferred income tax liabilities-current	(1,047)
Net deferred income tax assets and liabilities-current	$342,585

(d)

In thousand NTD	As of December 31, 2006
Deferred income tax assets-noncurrent	$2,997,012
Valuation allowance for deferred income tax assets-noncurrent	(1,888,500)
Net deferred income tax assets-noncurrent	1,108,512
Deferred income tax liabilities-noncurrent	-
Net deferred income tax assets and liabilities-noncurrent	$1,108,512

(e) Income tax payable and income tax expense (benefit) are reconciled as follows:

In thousand NTD	For the year ended December 31, 2006
Income tax payable	$228,949
10% tax on undistributed earnings	487,626
Investment tax credits	(358,287)
Deferred income tax effects	
Investment tax credits	(598,539)
Valuation allowance	601,350
Unrealized technology license fee	(3,993)
Others	(3,126)
Accruals for additional prior year income tax	1,331,000
Prior year income tax adjustment	112,331
Others	(3,081)
Income tax expense	$1,794,230
Tax benefit from cumulative effect of changes in accounting principles	12
Income tax expense from continuing operations	$1,794,242

(f) Integrated income tax information

(In thousand NTD)	As of December 31, 2006
Balance of the imputation credit account (ICA)	$712,562
Expected creditable ratio	2.19%(Note)

Note: The ratio was computed based on the amount of actual available shareholders' tax credits plus estimated income tax payable as of December 31, 2006.

(g) Information related to undistributed retained earnings

(In thousand NTD)	As of December 31, 2006
Prior to 1998	$-
After 1998 (inclusive)	47,175,664
Total	$47,175,664

e.

(a) Deferred income tax assets (liabilities)

(In thousand NTD)	As of December 31, 2005
Total deferred income tax liabilities	$(91)
Total deferred income tax assets	$2,734,030
Valuation allowance for deferred income tax assets	$1,287,150

(b) Temporary differences generated from deferred income tax assets (liabilities) *(In thousand NTD)*

	As of December 31, 2005	
	Amount	Tax effect
Deductible temporary difference-Recognition of unrealized accrued expenses	$14,674	$52
Deductible temporary difference-Recognition of unrealized allowance for inventory obsolescence	$160,055	$572
Deductible temporary difference-Unrealized allowance for doubtful accounts recognition	$200,792	$717
Deductible temporary difference-Unrealized technology license fee	$1,806,750	$6,454
Taxable temporary difference-Unrealized foreign exchange gain	$(25,372)	$(91)
Investment tax credits		$2,726,235

(c)

In thousand NTD	As of December 31, 2005
Deferred income tax assets-current	$159,834
Valuation allowance for deferred income tax assets-current	(52)
Net deferred income tax assets-current	159,782
Deferred income tax liabilities-current	(91)
Net deferred income tax assets and liabilities-current	$159,691

(d)

In thousand NTD	As of December 31, 2005
Deferred income tax assets-noncurrent	$2,574,196
Valuation allowance for deferred income tax assets-noncurrent	(1,287,098)
Net deferred income tax assets-noncurrent	1,287,098
Deferred income tax liabilities-noncurrent	-
Net deferred income tax assets and liabilities-noncurrent	$1,287,098

(e) Income tax payable and income tax expense (benefit) are reconciled as follows:

In thousand NTD	For the year ended December 31, 2005
Income tax payable	$69,181
10% tax on undistributed earnings	138,321
Investment tax credits	(103,751)
Deferred income tax effects	
Investment tax credits	(1,202,471)
Valuation allowance	518,605
Unrealized technology license fee	(5,144)
Others	11,132
Accruals for additional prior year income tax	657,236
Prior year income tax adjustment	40,143
Others	1,974
Income tax expense from continuing operations	$125,226

(f) Integrated income tax information

(In thousand NTD)	As of December 31, 2005
Balance of the imputation credit account (ICA)	$696,965
Actual creditable ratio	2.16%

(g) Information related to undistributed retained earnings

(In thousand NTD)	As of December 31, 2005
Prior to 1998	$-
After 1998 (inclusive)	37,993,458
Total	$37,993,458

(17) Basic Earnings Per Share

The weighted average numbers of common shares outstanding were computed as follows: (in shares)

Contents	For the year ended December 31, 2006	2005
Common shares outstanding, beginning	864,050,580	769,335,831
Stock issuance for stockholder' bonus, August 16, 2005	-	76,933,583
Stock issuance for employees' bonus, August 16, 2005	-	17,781,166
Stock issuance for stockholder' bonus, August 8, 2006	86,405,058	86,405,058
Stock issuance for employees' bonus, August 8, 2006	17,857,045	17,857,045
Subtotal	968,312,683	968,312,683
Less: the Company's shares owned by its subsidiary	(7,320,137)	(7,320,137)
Weighted average shares outstanding, ending	960,992,546	960,992,546

	Amount(numerator)			Earning per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
For the year ended December 31, 2006:					
Basic EPS					
Income before cumulative effect of changes in accounting principles	$24,366,186	$22,571,944	960,992,546	$25.35	$23.49
Cumulative effect of changes in accounting principles	7,626	7,638		0.01	0.01
Net income	$24,373,812	$22,579,582		$25.36	$23.50
For the year ended December 31, 2005:					
Basic EPS					
Income before cumulative effect of changes in accounting principles	$18,398,859	$18,273,633	960,992,546	$19.15	$19.02
Cumulative effect of changes in accounting principles	-	-		-	-
Net income	$18,398,859	$18,273,633		$19.15	$19.02

The Pro-Forma earnings per share were computed as follows, assuming that the Company's shares owned by its subsidiary were not treated as treasury stock:

	Amount(numerator)			Earning per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
For the year ended December 31, 2006:					
Pro-Forma EPS					
Income before cumulative effect of changes in accounting principles	$24,366,186	$22,571,944	960,992,546		
The effect of the Company's shares owned by its subsidiary were not treated as treasury stock	73,201	73,201	7,320,137		
Subtotal	24,439,387	22,645,145	968,312,683	$25.24	$23.38
Cumulative effect of changes in accounting principles	7,626	7,638		0.01	0.01
Net income	$24,447,013	$22,652,783		$25.25	$23.39

	Amount(numerator)			Earning per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
For the year ended December 31, 2005:					
Pro-Forma EPS					
Income before cumulative effect of changes in accounting principles	$18,398,859	$18,273,633	960,992,546		
The effect of the Company's shares owned by its subsidiary were not treated as treasury stock	60,497	60,497	7,320,137		
Subtotal	18,459,356	18,334,130	968,312,683	$19.06	$18.93
Cumulative effect of changes in accounting principles	-	-		-	-
Net income	$18,459,356	$18,334,130		$19.06	$18.93

5. Related Party Transactions

(1) Related Parties and Relations

Related parties	Relations
United Microelectronics Corp. ("UMC")	The supervisor of the Company(Note)
King Yuan Electronics Co., Ltd. ("KING YUAN")	The chairman of the Company and KING YUAN are close relatives
PixArt Imaging Inc.("PII")	A subsidiary served as the Board
ALi Corporation ("ALi")	Equity investee
Alpha Imaging Technology Corp. ("Alpha")	Indirect equity investee
UMC Japan ("UMCJ")	Affiliated company of UMC(Note)
MediaTek Limited ("MTL")	Affiliated company

Note: Due to UMC quitted as board supervisor of the Company on April 18, 2006, and UMC and its affiliated company were not be related parties of the Company as of December 31, 2006, the following relative information be disclosed for three months ended March 31, 2006.

(2) Major Transactions with related parties

a. Purchases

In thousand NTD	For the year ended December 31, 2006		2005	
	Amount (Note)	% of total purchase	Amount	% of total purchase
UMC	$2,546,083	19.87	$7,694,377	64.16
UMCJ	-	-	277,704	2.32
Total	$2,546,083	19.87	$7,972,081	66.48

Prices for purchase from related parties are not comparable because the manufacturing process and product specification are significantly different. Payment terms to UMC and UMCJ were end-of-month 45 to 60 days, which were similar those to other suppliers for the years ended December 31, 2006 and 2005, respectively.

b. Sales

In thousand NTD	For the year ended December 31, 2006		2005	
	Amount	% of net sales	Amount	% of net sales
MTL	$149,699	0.28	$110,085	0.24
ALi	12,883	0.02	24,917	0.05
Alpha	46,486	0.09	8,887	0.02
Total	$209,068	0.39	$143,889	0.31

Sales prices to the related parties were similar to those to third-party customers while trade credit terms were end-of-month 45 to 60 days. While, trade credit terms for third-party customers are the same or in advanced receipts for the years ended December 31, 2006 and 2005, respectively.

c. IC testing, experimental services and manufacturing technology services

In thousand NTD		For the year ended December 31, 2006	2005
KING YUAN	IC testing and experimental services	$1,159,672	$927,491
Alpha	Technology license expense	-	9,452
Total		$1,159,672	$936,943

d. The Company purchased certain patents and technical rights from ALi totally at the price of NT$274,381 thousand. The Company has fully paid the price during the year ended December 31, 2004. The title of NT$168,670 thousand of the underlying patents and technical rights have been transferred to the Company during the year ended December 31, 2004 and was recorded under the caption of patents and technical rights. The remaining NT$105,711 thousand of the patents and technical rights has been transferred to the Company in January, 2005 and recorded under the caption of prepayments for patents and technical rights.

e. The Company bought 100,000 shares of Wiseali's common stock from ALi totally at the price of NT$2,900 thousand in June, 2005.

f. The Board of Directors resolved to sell part of its building and miscellaneous equipment to PII in August 2006 and the Company entered into a facility sales agreement with PII in amount of NT$82,220 thousand. The title of facility has been perfectly passed to PII in November 2006 and the Company incurred a loss on disposal of assets amounting to NT$18,691 thousand accordingly. The selling price has been fully collected as of the end of Year 2006.

(3) Receivables and payables resulting from the above transactions:

a. Receivables from related parties

	As of December 31,			
In thousand NTD	2006		2005	
	Amount	%	Amount	%
MTL	$-	-	$45,946	1.14
ALi	43	-	4,200	0.10
Alpha	164	-	276	0.01
Subtotal	207	-	50,422	1.25
Less: Allowance for doubtful accounts	-	-	(3,077)	(0.08)
Net	$207	-	$47,345	1.17

b. Payables to related parties

	As of December 31,			
In thousand NTD	2006		2005	
	Amount	%	Amount	%
UMC	$-	-	$1,931,843	38.97
KING YUAN	196,472	4.59	205,191	4.14
ALi	-	-	1,034	0.03
Other	4,580	0.11	263	-
Total	$201,052	4.70	$2,138,331	43.14

6. Assets Pledged As Collateral

(1) As of December 31, 2006: None

(2) As of December 31, 2005:

In thousand NTD	Net book value	Secured financial institutions	Contents (Purpose)
Restricted deposits-current	$24,000(Note)	Farmers Bank of China	Long-term debt

Note：The company paid off this debt on October, 2005. The Company didn’t finished handling and removing hypothecation yet up to December 31, 2005.

7. Commitments and Contingencies

(1) Litigation

a. On April 7, 2005, Sanyo Electric Co. (“Sanyo”) filed a complaint with the Central District of California, USA, alleging certain of the Company’s chips infringed two of its US patents (Pat. No. 5499252 and 5818801), seeking damages and injunctive relief against any and all infringing products. The Company filed a motion to add a counterclaim with one US patent (Pat. No. 6003151), seeking damages and injunctive relief against any and all of Sanyo’s infringing products. The Central District of California granted the Company’s motion on December 5, 2006.

On August 31, 2005, the Company filed a complaint against Sanyo and Sanyo North America Corp. in the Eastern District of Texas, stating that Sanyo’s products such as DVD players, DVD recorders, and digital televisions separately infringed certain of the Company’s US patents (Pat. No. 5867819 and 6118486), seeking damages and future injunctive relief against any and all of Sanyo’s infringing products. In addition, the Company amended its complaint on October 3, 2006, adding that Sanyo’s DVD recorders, digital cameras and cellular phones also infringed another one of the Company’s US patents (Pat. No. 5751356). On November 28, 2005, Sanyo filed motion to transfer this action to Central District of California where a second and unrelated action is pending. Furthermore, Sanyo attempted to add two counterclaims for patent infringement that included two unrelated patents (Sanyo’s U.S. Patent No. 6594213 and 6487616). On February 1, 2006, the Texas Court denied Sanyo’s motion to transfer. The judge in the Eastern District of Texas severed Sanyo’s counterclaims from the Texas case and transferred U.S. Patent No. 6594213 and 6487616 to the Central District of California where they were re-filed as the current action. On April 25, 2006, Sanyo and the Company filed a joint stipulation that the action in the Central District, including Sanyo’s allegations that the Company’s Chips infringed U.S. Patents No. 6594213 and 6487616, be dismissed with prejudice. On April 28, 2006, the Court signed an order dismissing the Central District Case, and all claims pending therein, with prejudice. The Company will use its best efforts to handle this litigation.

b. On August 3, 2005, Matsushita Electric Industrial Co., Ltd. (“MEI”) filed a complaint for patent infringement against the Company in the U.S. District Court for the Northern District of California. In the complaint, MEI alleges that the Company infringes U.S. Pat. No. 5548249, 5970238 and 6728475. The Complaint seeks both damages and an injunction prohibiting the sale of the Company’s products that infringe upon the aforementioned MEI patents. The Company has asserted a counterclaim against MEI and Panasonic Corporation of North America (“Panasonic”) for patent infringement of U.S. Pat. No. 5970031, also seeking both damages and an injunction prohibiting the sale of all MEI products that infringe upon the aforementioned Company patent. Further, on October 17, 2005, the Company filed a complaint for patent infringement against MEI and Panasonic in the Eastern District of Texas, asserting that the DVD recorders and digital TVs of MEI and Panasonic infringe upon the Company’s U.S. Pat. No. 5802068 and 6118486, respectively. The Company is seeking monetary damages and an injunction. On February 2, 2006, Matsushita and Panasonic filed their answer to the complaint. Included in the answer are counterclaims for patent infringement of Matsushita’s U.S. Patent No. 5347232 and 6828865.The Company is cautiously handling these litigations.

(2) Commitments

a. As of December 31, 2006, totaling US$2,056 thousand of the Company’s other significant contracts remained unpaid.

b. The Company entered into a patent license agreement with Zoran Corporation and it's subsidiary-OAK in January 2006. Zoran Corporation and OAK granted to the Company and its subsidiaries the right of utilizing related patent on Optical Storage products. Both parties came to an agreement that, starting January 2006, the Company shall pay Zoran a monthly royalty charge of US$1,000 thousand for a period of 30 months if the sale of units of the licensed products reaches certain level. Total royalties charge shall not exceed the ceiling of US$30,000 thousand.

c. The Company has entered certain lease agreements for land with the Administrative Bureau of HSIP for its need of operation. Related rent incurred in the future would be as follows:

Lease Period	Amount
2007.01.01~2007.12.31	$25,474
2008.01.01~2008.12.31	24,406
2009.01.01~2009.12.31	23,879
2010.01.01~2010.12.31	23,879
2011.01.01~2023.12.31	295,326
Total	$392,964

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

10. Others

(1) Financial Instruments

a. Fair value of financial instruments

	As of December 31,			
	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Non-derivative				
Assets				
Cash and cash equivalents	$36,655,169	$36,655,169	$31,405,861	$31,405,861
Held for Trading financial assets-current (excluding derivatives)	$2,302,261	$2,302,261	$1,189,778	$1,200,411
Financial assets designated as at fair value through profit or loss	$400,944	$400,944	$-	$-
Receivables (including receivables from related parties)	$3,857,001	$3,857,001	$4,034,732	$4,034,732
Other receivables	$238,142	$238,142	$259,246	$259,246
Available-for-sale financial assets	$628,110	$628,110	$-	$-
Financial assets carried at cost	$3,000	$-	$15,000	$-
Bond portfolios with no active market	$1,000,000	$-	$1,000,000	$-
Investment accounted for using equity method				
-Those with market value	$1,056,954	$3,512,208	$787,517	$2,102,253
-Those without market value	$18,462,942	$-	$12,584,959	$-
Refundable deposits	$13,888	$13,888	$72,707	$72,707
Restricted deposits	$-	$-	$24,000	$24,000
Liabilities				
Payables (including due to related parties)	$4,280,726	$4,280,726	$4,957,361	$4,957,361
Income taxes payables	$2,341,449	$2,341,449	$909,647	$909,647
Accrued expenses	$1,971,445	$1,971,445	$3,452,174	$3,452,174
Payables to contractors and equipment suppliers	$160,161	$160,161	$316,185	$316,185

	As of December 31,			
	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Derivatives				
Assets				
Held for trading financial assets-current				
Forward exchange contracts	$897	$897	$52,016	$49,010
Held for trading financial liabilities-current				
Forward exchange contracts	$14,586	$14,586	$-	$-

(a) The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:

(i) The fair values of the Company's short-term financial instruments were based on the book value of those instruments at the reporting date due to their short maturities. This method was applied to cash and cash equivalents, accounts receivable, other receivables, payables, income taxes payables, accrued expenses and payables to contractors and equipment suppliers.

(ii) The fair values of the Company's refundable deposits and restricted deposits were based on the book value because the Company predicts the future cash inflow is similar with the book value.

(iii) The fair values of held for trading financial assets and available-for-sale financial assets were based on their quoted market price at the reporting date.

(iv) Financial assets carried at cost: Holdings in the following stocks that have no material influence, or derivatives linked to and settled in those stocks:

I. Stocks not listed on the Taiwan Stock Exchange or the GreTai.

II. Emerging stocks.

(v) The fair values of the Company's investments accounted for under equity method were based on quoted market prices, if available, at the reporting date. If market prices were impractical and not available, the Company did not provide the information of fair values.

(vi) The fair values of derivative financial instruments-forward exchange contracts and financial assets designated as at fair value through profit or loss - credit link deposits, were based on the quoted market price provided by counter-party banks.

(b) Losses recognized for the changes in fair value of financial assets estimated using valuation techniques were NT$12,745 thousand for the year ended December 31, 2006.

(c) As of December 31, 2006 and 2005, financial assets exposed to fair value interest rate risk were NT$34,641,577 thousand and NT$26,417,495 thousand, respectively, and financial assets exposed to cash flow interest rate risk were NT$3,564,536 thousand and NT$6,212,144 thousand, respectively.

(d) Interest income recognized from financial assets and financial liabilities that are not at fair value through profit or loss amounted to NT$597,295 thousand and NT$380,070 thousand as of December 31, 2006 and 2005, respectively. The Company recognized an unrealized gain of NT$78,110 thousand and NT$0 in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2006 and 2005, respectively, and the amount that was removed from equity and recognized in profit or loss was nil for the years ended December 31, 2006 and 2005. The Company also recognized an unrealized gain of NT$2,601,866 thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for under equity method for the year ended December 31, 2006. Please refer to Note 4.(6) I to the financial statements for details.

(e) The impairment loss on financial assets amounted to NT$12,000 thousand and NT$0 for the years ended December 31, 2006 and 2005, respectively.

b.

(a) Risk management policy and hedge strategy for financial instruments

The Company held certain non-derivative financial instruments, including: cash and cash equivalents, held for trading financial assets-mutual fund, government bonds and corporate bonds. The Company held the financial instruments to meet operating cash needs. The Company held other financial instruments such as receivables, other receivables, payables, financial assets designated as at fair value through profit or loss, available-for-sale financial assets, financial assets measured at cost, bond portfolios with no active market and long-term investments accounted for using equity method.

The Company entered into forward exchange contracts. Forward contracts were used to hedge foreign-currency-denominated assets and liabilities. Derivatives that do not meet the criteria for hedge accounting of the newly released SFAS No. 34 are initially recognized at financial assets/liabilities at fair value through profit or loss-current.

(b) Information of financial risks

Major risks of financial instruments were market risk, credit risk, liquidity risk and cash flow interest rate risk. The management policy was summarized as follows:

Market risk

Market risk includes currency risk; it comes from the purchases or sales activities which are not denominated in functional currency. The Company reviews its foreign-currency-denominated assets and liabilities, and decides to enter into forward exchange contracts for hedging exchange rate fluctuation risk to meet operating needs. Because the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the contracts are expected to offset changes in rates of a hedged item, and the market risk is not material. Credit-linked deposits are affected by interest rate. When interest rate increases, the market value may decrease even below the initial investment cost; in the contrary, the market value may increase. The fair value of mutual fund, government bonds and corporate bonds will be fluctuated by other market factors as well as interest rates.

Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counter-party or third-party breached the contracts. It affects significant concentrations of credit risk, components, the price of contract and other receivables of financial instruments. The accrual amount of credit risk were NT$187,437 thousand and NT$243,575 thousand as of December 31, 2006 and 2005, respectively. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk, which incurs when counter-party or third-party to a financial instrument fails to discharge an obligation and the Company is caused to suffer a financial loss.

Since the counter-party or third-party to the foregoing forward exchange contracts are of reputable financial institution, management believes that the Company’s exposure to default by those parties is low. Credit risk of credit-linked deposits would be incurred if the issuing banks breached the contracts or the debt issuer could not pay off the debts and the value of credit-linked deposits may drop to zero. Therefore, the Company minimized the credit risk by selecting counter-party who is reputable and in good financial standing.

Liquidity risk

The Company has sufficient operating capital to meet cash needs upon settlement of derivatives financial instruments. Therefore, the liquid risk is low.

Except for financial assets measured at cost, investment in bonds with no active market and long-term investment accounted for under equity method that may have significant liquidity risks resulted from lack of an active market, the equity securities, bonds and funds held by the Company are traded in active markets and cab be sold promptly at the prices close to its fair values. Since the exchange rates of forward exchange contracts are fixed at the time the contracts are entered into and the Company does hold and anticipates holding sufficient financial asset position in USD, no significant additional cash requirement is anticipated and the liquid risk is low.

The liquidity risk for credit-linked investment incurs since the Company has no right to have the instrument redeemed or called prior to its maturity. The Company minimized such risk by prudential evaluation over the underlying before investment.

Cash flow interest rate risk

The Company main financial instruments exposed to cash flow interest rate risk is the investment in time deposits with variable interest rate. There is no significant impact due to fluctuation in interest rate since the duration of time deposits is short. The cash flow risk from fluctuation in interest rate is minimized.

(2) Others

a. Based on the Board's approval at August 26, 2005, the Company set out its plan in acquiring Alpha Imaging Technology Corporation ("AIT") with a stock-for-stock transaction. Each of the Company's shares was entitled to 3.392 AIT shares according to the purchasing contract. At December 30, 2005, the contract is however cancelled due to the exchange rate unable to reflect true value of said transaction. The Board has approved on the cancellation.

b. Certain accounts in the financial statements of the Company as of December 31, 2005 have been reclassified to conform to the presentation of the current period.

11. Segment Information

(1) Major Customers

Sales to customers representing over 10% of the Company's net sales were as follows:

	For the year ended December 31,			
In thousand NTD	2006		2005	
Customers	Amounts	%	Amounts	%
A	$5,661,441	10.69	$7,440,702	16.00
B	6,262,884	11.83	2,366,420	5.09
C	7,037,408	13.29	1,282,282	2.76
	$18,961,733	35.81	$11,089,404	23.85

(2) Export Sales

The Company's export sales totaled NT$48,353,628 thousand and NT$40,028,366 thousand for the years ended December 31, 2005 and 2006, respectively, representing 91.23% and 86.10% of the Company's net sales for corresponding years.

(3) Geographic data

The Company has no significant foreign operation.

(4) Industry data

The Company operates predominantly in one industry segment, which being the designing, manufacturing, and supply of integrated circuit chips and decoders.

7. Consolidated Financial Statements and Auditor's Report

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

AS OF DECEMBER 31, 2006 AND 2005
AND FOR THE YEARS THEN ENDED

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2006 and for the year then ended prepared under the revised R.O.C.'s Statement of Financial Accounting Standards No.7 (referred to as "Consolidated Financial Statements") are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as "Combined Financial Statements"). Also, the footnotes disclosed in the consolidated financial statements have fully covered the required information in such combined financial statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

January 29, 2007

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
of MediaTek Inc.

We have audited the consolidated balance sheets of MediaTek Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MediaTek Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with the Business Accounting law, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and generally accepted accounting principles in the Republic of China.

As discussed in Note 3 to the financial statements, effective January 1, 2006, the Company and subsidiaries adopted the R.O.C. Statement of Financial Accounting Standards No. 34 "Accounting for Financial Instruments" and the Statement of Financial Accounting Standards No. 36 "Disclosure and Presentation of Financial Instruments" to account for the related assets.

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
January 29, 2007
Taipei, Taiwan
Republic of China

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the R.O.C. and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the R.O.C.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2006 and 2005
(Amounts in thousand New Taiwan Dollars)

ASSETS	Note	2006	2005
Current assets			
Cash and cash equivalents	2, 4(1)	$ 46,838,240	$ 43,645,596
Financial assets at fair value through profit or loss-current	2, 4(2)	2,927,925	2,165,728
Available-for-sale financial assets-current	2, 4(3)	3,097,254	-
Notes and accounts receivable, net	2, 4(4)	3,856,794	4,618,753
Receivables from related parties	5	207	10,448
Other receivables	4(5)	336,449	317,606
Inventories, net	2, 4(6)	3,494,063	3,662,766
Prepayments and other current assets		210,352	314,510
Assets of disposal group	2, 4(7)	-	1,490,914
Deferred income tax assets-current	2, 4(20)	335,144	237,422
Restricted deposits-current	5, 6	-	59,080
Total current assets		61,096,428	56,522,823
Funds and investments	2, 4(8)		
Financial assets designated as at fair value through profit or loss-noncurrent		64,189	-
Available-for-sale financial assets-noncurrent		3,329,893	-
Held-to-maturity financial assets-noncurrent		162,980	-
Financial assets carried at cost-noncurrent		698,942	651,196
Bond portfolios with no active market-noncurrent		1,000,000	1,000,000
Investments accounted for using equity method		2,091,768	51,730
Total funds and investments		7,347,772	1,702,926
Property, plant and equipment	2, 4(9), 5, 6		
Land		-	310,838
Buildings and facilities		4,113,175	1,003,003
Machinery and equipment		170,062	168,037
Research and development equipment		1,243,879	939,184
Miscellaneous equipment		147,762	167,782
Total cost		5,674,878	2,588,844
Less : Accumulated depreciation		(744,832)	(793,067)
Add : Construction in progress		-	2,711,279
Prepayments for equipment		125,479	19,998
Property, plant and equipment, net		5,055,525	4,527,054
Intangible assets			
Software	2	295,425	475,261
Goodwill	2	1,044	211,259
Patents, IPs and others	2	1,810,670	2,135,113
Total intangible assets		2,107,139	2,821,633
Other assets			
Leased assets	2, 4(9), 5, 6	-	1,011,902
Refundable deposits		25,351	81,905
Deferred assets	2	3,605	2,805
Deferred income tax assets-noncurrent	2, 4(20)	1,108,512	1,356,471
Total other assets		1,137,468	2,453,083
Total assets		$ 76,744,332	$ 68,027,519

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	2006	2005
Current liabilities			
Financial liabilities at fair value through profit or loss-current	2, 4(2)	$ 14,586	$ -
Notes and accounts payable		4,088,743	3,402,067
Payables to related parties	5	196,472	2,253,059
Income tax payable	2, 4(20)	2,341,571	913,252
Accrued expenses	7	2,037,920	3,629,217
Payables to contractors and equipment suppliers		162,559	316,582
Liabilities of disposal group	2, 4(7)	-	451,632
Other current liabilities		315,974	473,156
Total current liabilities		9,157,825	11,438,965
Long-term liabilities			
Bonds payable	2, 4(10)	-	921,672
Other liabilities			
Accrued pension liabilities	2, 4(11)	60,977	23,633
Guarantee deposit received	5	-	7,437
Deferred credits	2	-	183,851
Total other liabilities		60,977	214,921
Total liabilities		9,218,802	12,575,558
Shareholders' equity			
Capital			
Common stock	4(12)	9,683,127	8,640,506
Capital reserve			
Additional paid-in capital	4(14)	69,689	69,689
Treasury stock transaction	4(14)	218,673	145,472
Donated assets	4(14)	1,260	1,260
Long-term investment transaction	4(8), 4(14)	114,787	47,115
Total capital reserve		404,409	263,536
Retained earnings			
Legal reserve	4(13)	7,407,185	5,579,822
Special reserve	4(16)	714,649	714,649
Undistributed earnings	4(16)	47,175,664	37,993,458
Other adjustments			
Cumulative translation adjustments	2, 4(8)	(483,510)	(391,751)
Unrealized gain on financial instruments	2, 4(3), 4(8)	2,679,976	-
Treasury stock	2, 4(17)	(55,970)	(55,970)
Total shareholders' equity attributable to shareholders of parent company		67,525,530	52,744,250
Minority interests in subsidiaries		-	2,707,711
Total shareholders' equity		67,525,530	55,451,961
Total liabilities and shareholders' equity		$ 76,744,332	$ 68,027,519

The accompanying notes are an integral part to these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2006 and 2005

(Amounts in thousand New Taiwan Dollars, except earnings per share)

Description	Note	2006		2005	
Gross sales		$ 58,690,081		$ 54,764,973	
Less : Sales returns and discounts		(2,292,796)		(1,962,213)	
Net sales	2, 4(18), 5	56,397,285		52,802,760	
Cost of goods sold	4(19), 5	(24,518,804)		(25,525,492)	
Gross profits		31,878,481		27,277,268	
Operating expenses	2, 4(19), 5				
Selling expenses		(1,047,741)		(920,150)	
Administrative expenses		(1,660,768)		(1,645,489)	
Research and development expenses		(5,904,793)		(7,537,232)	
Total operating expenses		(8,613,302)		(10,102,871)	
Operating income		23,265,179		17,174,397	
Non-operating income and gains					
Interest income		1,161,541		749,000	
Gain on equity investments, net	2, 4(8)	97,156		-	
Gain on disposal of property, plant and equipments	2	36,126		9,868	
Gain on disposal of investments	2	441,595		91,159	
Foreign exchange gains, net	2, 4(2)	56,159		-	
Reversal of bad debts	2, 4(4)	56,139		-	
Reversal of inventory loss provision	2, 4(6)	-		590,497	
Reversal of accrued license fee		-		419,056	
Valuation gain on financial instruments	2, 4(2)	143,751		43,867	
Others	5	115,348		99,032	
Total non-operating income and gains		2,107,815		2,002,479	
Non-operating expenses and losses					
Interest expense		(6,826)		(19,207)	
Loss on disposal of property, plant and equipments	2, 5	(21,066)		(6,186)	
Foreign exchange loss, net	2, 4(2)	-		(21,632)	
Inventory loss provision	2, 4(6)	(267,567)		-	
Impairment loss and loss on long-term investments	2, 4(8)	(12,000)		(47,716)	
Others	2, 4(10)	(80,863)		(85,675)	
Total non-operating expenses and losses		(388,322)		(180,416)	
Income from continuing operations before income taxes		24,984,672		18,996,460	
Income tax expense	2, 4(20)	(1,838,776)		(135,797)	
Income from continuing operations		23,145,896		18,860,663	
Cumulative effect of changes in accounting principles (net of income tax benefit of NT$12 thousand)	3	9,314		-	
Consolidated net income		$ 23,155,210		$ 18,860,663	
Income Attributable to:					
Shareholders of parent		$ 22,579,582		$ 18,273,633	
Minority interests		575,628		587,030	
Consolidated net income		$ 23,155,210		$ 18,860,663	
		Before tax	After tax	Before tax	After tax
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(21)				
Income from continuing operations		$ 26.00	$ 24.09	$ 19.77	$ 19.63
Cumulative effect of changes in accounting principles		0.01	0.01	-	-
Consolidated net income		26.01	24.10	19.77	19.63
Net income attributable to minority interests		(0.63)	(0.60)	(0.62)	(0.61)
Net income attributable to shareholders of parent		$ 25.38	$ 23.50	$ 19.15	$ 19.02

The accompanying notes are an integral part to these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITIES

For the years ended December 31, 2006 and 2005

(Amounts in thousand New Taiwan Dollars)

	Common stock	Capital reserve	Retained Earnings			Cumulative translation adjustments	Unrealized gain on financial instruments	Treasury stock	Total shareholders' equity attributable to shareholders of parent company	Minority interests in subsidiaries	Total shareholders' equity
			Legal reserve	Special reserve	Undistributed earnings						
Balance as of January 1, 2005	$ 7,693,359	$ 155,924	$ 4,147,524	$ 49,071	$ 31,363,021	$ (714,649)	$ -	$ (55,970)	$ 42,638,280	$ 154,824	$ 42,793,104
Appropriation and distribution of 2004 earnings:											
Legal reserve	-	-	1,432,298	-	(1,432,298)	-	-	-	-	-	-
Special reserve	-	-	-	665,578	(665,578)	-	-	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(36,675)	-	-	-	(36,675)	-	(36,675)
Employees' bonuses	177,811	-	-	-	(1,045,951)	-	-	-	(868,140)	-	(868,140)
Shareholders' dividends	769,336	-	-	-	(8,462,694)	-	-	-	(7,693,358)	-	(7,693,358)
Net income attributable to parent company's shareholders for the year ended December 31, 2004	-	-	-	-	18,273,633	-	-	-	18,273,633	-	18,273,633
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	60,497	-	-	-	-	-	-	60,497	-	60,497
Adjustment arising from changes in percentage of ownership in investees	-	47,115	-	-	-	-	-	-	47,115	-	47,115
Cumulative translation adjustments	-	-	-	-	-	322,898	-	-	322,898	-	322,898
Increase in minority interests	-	-	-	-	-	-	-	-	-	2,552,887	2,552,887
Balance as of December 31, 2005	8,640,506	263,536	5,579,822	714,649	37,993,458	(391,751)	-	(55,970)	52,744,250	2,707,711	55,451,961
Appropriation and distribution of 2005 earnings:											
Legal reserve	-	-	1,827,363	-	(1,827,363)	-	-	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(49,339)	-	-	-	(49,339)	-	(49,339)
Employees' bonuses	178,570	-	-	-	(1,152,067)	-	-	-	(973,497)	-	(973,497)
Shareholders' dividends	864,051	-	-	-	(10,368,607)	-	-	-	(9,504,556)	-	(9,504,556)
Net income attributable to parent company's shareholders for the year ended December 31, 2006	-	-	-	-	22,579,582	-	-	-	22,579,582	-	22,579,582
Unrealized gain on financial instruments	-	-	-	-	-	-	2,679,976	-	2,679,976	-	2,679,976
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	73,201	-	-	-	-	-	-	73,201	-	73,201
Adjustment arising from changes in percentage of ownership in investees	-	67,672	-	-	-	-	-	-	67,672	-	67,672
Cumulative translation adjustments	-	-	-	-	-	(91,759)	-	-	(91,759)	-	(91,759)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	(2,707,711)	(2,707,711)
Balance as of December 31, 2006	$ 9,683,127	$ 404,409	$ 7,407,185	$ 714,649	$ 47,175,664	$ (483,510)	$ 2,679,976	$ (55,970)	$ 67,525,530	$ -	$ 67,525,530

The accompanying notes are an integral part to these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2006 and 2005

(Amounts in thousand New Taiwan Dollars)

Description	2006	2005
Cash flows from operating activities :		
Consolidated net income	$ 23,155,210	$ 18,860,663
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of changes in accounting principles	(9,314)	-
Depreciation	421,053	290,814
Amortization	1,180,911	934,775
Bad debt loss provision (reversal)	(56,139)	49,633
Inventory loss provision (reversal)	267,567	(590,497)
Cash dividends from the equity investees	22,716	-
Net gain on equity investments	(97,156)	-
Valuation gain on financial instruments	(143,751)	(43,867)
Impairment loss and loss on long-term investments	12,000	47,716
Gain on disposal of investments	(441,594)	(91,159)
Interest income from bond portfolios with no active market	-	(5,763)
Gain on disposal of property, plant and equipment, net	(15,060)	(3,682)
Loss on reacquisition of bonds (recorded under non-operating expenses)	-	2
Decrease (increase) in notes and accounts receivable	815,021	(1,127,075)
Decrease in receivables from related parties	13,318	26,434
Increase in other receivables	(18,843)	(117,574)
(Increase) decrease in inventories	(98,864)	196,960
Decrease (increase) in deferred income tax assets	150,237	(824,982)
Decrease in prepayments and other current assets	104,158	262,147
Increase in notes payable and accounts payable	686,676	1,741,027
(Decrease) increase in payables to related parties	(2,056,587)	1,247,530
Increase in income taxes payable	1,428,319	344,548
(Decrease) increase in accrued expenses	(1,591,297)	2,203,917
Decrease (increase) in other current liabilities	(157,182)	346,962
Increase (decrease) in accrued pension liabilities	37,344	(50,431)
Accrued Premiums	-	14,024
Net cash provided by operating activities	23,608,743	23,712,122
Cash flows from investing activities :		
Decrease in restricted deposits	59,080	53,483
Increase in financial assets at fair value through profit or loss-current	(593,547)	(527,416)
Proceeds from disposal group as held for sale	590,860	-
Proceed from disposal of assets of disposal group	-	(1,039,282)
Increase in financial assets designated as at fair value through profit or loss-noncurrent	(65,700)	-
Increase in available-for-sale financial asset-current and noncurrent	(4,339,473)	-
Proceeds from disposal of available-for-sale financial assets-noncurrent	755,590	41,974
Increase in held-to-maturity financial assets	(162,980)	-
Proceed from disposal of financial assets measured at cost-noncurrent	-	58,000
Disinvestment of financial assets carried at cost-noncurrent refundable	10,500	30,043
Increase in financial assets carried at cost-noncurrent	(9,674)	-
Increase in bond portfolios with no active market-noncurrent	-	(1,000,000)
Proceeds from disposal of bond portfolios with no active market-noncurrent	-	73,339
Increase in investments accounted for using equity method	(1,894,726)	(500,128)
Proceeds from disposal of property, plant and equipment	521,003	14,464
Purchase of property, plant and equipment	(612,880)	(3,542,265)
Increase in intangible assets	(450,513)	(2,331,660)
Decrease (Increase) in refundable deposits	56,554	(69,337)
Proceeds fom disposal of deferred assets	-	691
Net cash used in investing activities	(6,135,906)	(8,738,094)
Cash flows from financing activities :		
Decrease in long-term debts	-	(10,643)
Increase (decrease) in bonds payable	(921,672)	908,797
Redemption of bonds	-	(1,149)
Increase (decrease) in deferred credits	(183,851)	183,851
Increase (decrease) in guarantee deposit received	(7,437)	7,437
Cash dividends	(9,504,556)	(7,693,358)
Directors' and supervisors' remuneration	(49,339)	(36,675)
Employees' bonuses	(973,497)	(868,140)
Cash dividends distributed to subsidiaries holding the Company's stock	73,201	60,497
(Decrease) increase in minority interest	(2,620,977)	2,051,766
Net cash used in financing activities	(14,188,128)	(5,397,617)
Effect of first inclusion for consolidation of certain subsidiaries	-	635,795
Effect of exchange rate changes	(92,065)	316,191
Net increase in cash and cash equivalents	3,192,644	10,528,397
Cash and cash equivalents at the beginning of the year	43,645,596	33,117,199
Cash and cash equivalents at the end of the year	$ 46,838,240	$ 43,645,596
Supplemental disclosures of cash flow information :		
Interest paid during the year	$ 1,442	$ 5,401
Income tax paid during the year	$ 375,740	$ 466,044
Activities partially effected cash flows :		
Purchase of property, plant and equipment	$ 458,857	$ 3,714,359
Less: increase (decrease) in payables to contractors and equipment suppliers	154,023	(172,094)
Cash paid for the purchase of property, plant and equipment	$ 612,880	$ 3,542,265
Non-cash activities :		
Stock dividends and employee bonus capitalized	$ 1,042,621	$ 947,147
Change in unrealized gain on financial instruments	$ 2,679,976	$ -

The accompanying notes are an integral part to these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. Organization and Operation

As officially approved, MediaTek Inc. (the “Company”) was incorporated at Hsinchu Science-based Industrial Park on May 28, 1997. Since then, it has been specialized in the R&D, production, manufacture and marketing of multimedia integrated circuits (ICs), computer peripherals oriented ICs, high-end consumer-oriented ICs and other ICs of extraordinary application. Meanwhile, it has rendered design, test runs, maintenance and repair and technological consultation services for software & hardware of the aforementioned products as well as import and export trade for the aforementioned products.

As of December 31, 2006 and 2005, the numbers of employees of the Company and subsidiaries totaled 2,117 and 2,333, respectively.

2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements are prepared in accordance with the R.O.C.’s “Business Accounting Law”, the “Guidelines Governing the Preparation of Financial Reports by Securities Issuer” and generally accepted accounting standards. Significant accounting policies are summarized as follows:

General Descriptions of the Consolidated Entities

Starting January 1, 2005, the Company adopted the revised R.O.C. Statement of Financial Accounting Standard (“SFAS”) No. 7 “Consolidated Financial Statements”. In accordance with the Statement, the accompanying consolidated financial statements include the accounts of the Company, all directly or indirectly majority-owned subsidiaries by the Company and those investees in which the Company’s ownership percentage is less than 50% but the Company has a controlling power. The consolidated subsidiaries are listed as follows:

		Percentage of Ownership		
Company	Main Business	As of December 31, 2006	As of December 31, 2005	Remark
MediaTek Investment Corp.	General investing	100.00%	100.00%	-
Hsu-Ta Investment Limited	General investing	100.00%	100.00%	-
Hsu-Chia Investment Limited	General investing	100.00%	100.00%	-
Hsu-Kang Investment Limited	General investing	100.00%	100.00%	-
Wiseali Technology Inc.	IC design and sales	100.00%	100.00%	-

Core Tech Resources Inc.	General investing	100.00%	100.00%	-
MediaTek Capital Corp.	General investing	100.00%	100.00%	-

(To be continued)

(Continued)

		Percentage of Ownership		
Company	Main Business	As of December 31, 2006	As of December 31, 2005	Remark
Gaintech Co. Limited	General investing	100.00%	100.00%	-
Alpha Imaging Technology Corporation	IC design and sales	43.18%	50.00%	4
Pixtel Media Technology Private Ltd.	Technology services	99.99%	99.99%	1
MediaTek Limited	Trading and general investing	100.00%	100.00%	-
Wireless ICs, Inc.	Technology services	100.00%	100.00%	2
CrystalMedia Technology, Inc.	Technology services	100.00%	100.00%	-
MediaTek Singapore Pte. Ltd.	Technology services	100.00%	100.00%	-
MediaTek Inc. China	Technology services	100.00%	100.00%	-
MediaTek (ShenZhen) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Beijing) Inc.	Technology services	100.00%	-	3
ALi Corporation and its consolidated subsidiaries	IC design and sales	22.68%	25.17%	4

Remark:

1. During June 2006, MediaTek Capital Corp. transferred all of its shares of Pixtel Media Technology Private Ltd. to Gaintech Co. Limited for the purpose of the investment re-structuring.
2. Wireless ICs, Inc. has been in liquidation since January 2006 and, therefore, was not included in the Company's consolidated financial statements as of December 31, 2006 and for the year then ended.
3. MediaTek (Beijing) Inc. was established by MediaTek Limited in November 2006.
4. Due to the fact that the Company no longer had controlling power in Alpha Imaging Technology Corporation, ALi Corporation and its subsidiaries starting the fourth quarter of the Year 2006, these companies are excluded in the Company's consolidated financial statements as of December 31, 2006. However their profits and losses for the nine months ended September 30, 2006 were consolidated.

ALi Corporation and its consolidated entities are as follows:

Company	Main Business	Percentage of Ownership As of December 31, 2005	Remark
ALi (BVI) Microelectronics Corporation	General investing	100.00%	-
ALi Microelectronics Corporation, USA	Computer chip group's marketing and business of North America are planned	100.00%	1
ALinx Technology Corp.	Research, development, design and sales of the electronic spare part, and the products intelligence proprietary business with relevant preceding paragraph	100.00%	1
ULi Electronics Inc.	Research, development, design, manufacturing and sales of the electronic spare part, and the products intelligence proprietary business with relevant preceding paragraph	36.29%	2
T-Square Technology Inc. (Cayman)	General investing	100.00%	-
ALi (Shanghai) Corp.	IC sales in China	100.00%	-
T-Square Electronics (Shanghai)	IC sales in China	100.00%	3
T-Square Electronics (ZHUHAI)	IC sales in China	100.00%	-
T-square Electronics (Beijing)	IC sales in China	100.00%	1
ALinx Technology (BVI) Corp.	General investing	-	1
ULi Electronics Inc. (BVI)	General investing	100.00%	2
ULi Electronics Inc. USA	Computer chip group's marketing and business of North America are planned	100.00%	2
ULi Electronics (Shanghai) Inc.	IC sales in China	100.00%	2

Remark:

1. ALi Microelectronics Corporation, USA, ALinx Technology Corp., T-square Electronics (Beijing) and ALinx Technology (BVI) Corp. were 100%-owned directly or indirectly by ALi Corporation. ALinx Technology (BVI) Corp. who was liquidated as of December 31, 2005 and the rest of these companies, who were also in process of liquidation then, were not included in the Company's consolidated financial statements as of and for the year ended December 31, 2005. Profits and losses prior to liquidation were still consolidated in the consolidated financial statements. Please refer to Note 4(8) to the financial statements for investment in these investee companies.

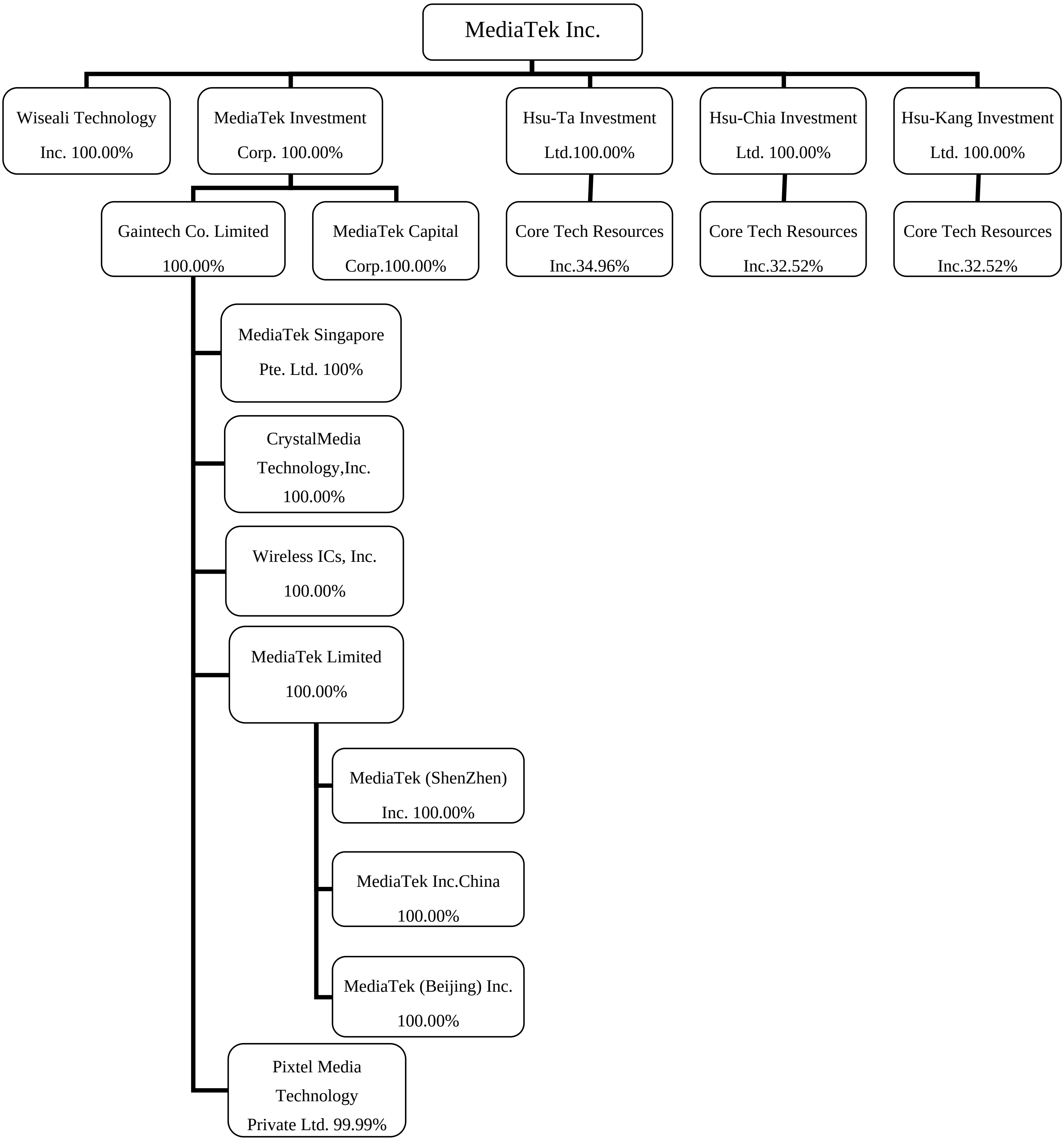
2. Corporation's (ALi's) ownership interest in ULi Electronics Inc. (ULi) changed from 58.18% to 36.29% during the Year 2005 because of several events, including disposal of ULi's shares, ULi's new shares issuance from capitalization of shareholder's dividends and employees' bonuses, and ULi's employee stock options being exercised. Though, ULi was deemed to being controlled by ALi and was included in consolidated entities because ALi was the major shareholder and one of legal representatives of ALi was elected as the Chairman of ULi's Board while the other delegated as the CEO.

The Board of Directors of ULi in a meeting held on December 14, 2005 resolved a merger with NVIDIA BVI Holdings Limited (“NVIDIA BVI”). NVIDIA BVI is to fully acquire ULi’s outstanding shares at the price of NT$19 each share. After the merger, ULi was dissolved while NAVIDA BVI remains existed.

ALi, as a major shareholder of ULi, resolved the merger both in its Board meeting on December 14, 2005 as well as shareholders’ meeting on January 6, 2006, and, therefore, reclassified its equity investment in ULi (including all directly or indirectly majority-owned subsidiaries of ULi) for a disposal group, stated at the lower of carrying value or fair value of net assets. ULi’s profits and losses prior to the merger were included in the Company’s consolidated financial statements for the year ended December 31, 2005. Subsequently on February 20, 2006, ALi sold its 31,098 thousand shares of ULi in total price of NT$590,860 thousand and recorded a gain from disposal of investment in amount of NT$ 213,632 thousand.

3. ALinx Technology (BVI) Corp., one of ALi Corporation’s subsidiaries, sold 100% of the outstanding voting shares of T-square Electronics (Shanghai) to ALi (BVI) Microelectronics in June 2005.

The following diagram presented information regarding the relationship and ownership percentages among the Company and subsidiaries as of December 31, 2006.



Principles of Consolidation

A. The consolidated financial statements were prepared in accordance with SFAS No. 7. The transactions between the consolidated entities were appropriately eliminated in the consolidated financial statements.

B. Investees in which the Company and subsidiaries hold more than 50% of voting rights, including those that are exercisable or convertible, are accounted for under the equity method and shall be consolidated, since the Company and subsidiaries are considered to possess control. Consolidation of an entity shall also be implemented if any of the following circumstances exists:

   a. the total amount of voting rights held by the investee exceeds 50% due to agreement with other investors;
   b. as permitted by law, or by contract agreements, the Company controls an entity's finances, operations and personnel affairs;
   c. the Company has authority to appoint or discharge more than half members of board of directors (or equivalents), by whom the investee is controlled;
   d. the Company leads and controls more than half of the members of the board of directors(or equivalents), by whom the investee is controlled;
   e. other indications of control possession.

C. A long-lived asset (i.e. the subsidiary classified as a disposal group) to be sold shall be classified as held for sale in the period in which all of the following criteria are met and measured at the lower of its carrying amount or fair value less cost to sell:
   a. Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group).
   b. The asset (disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal groups).
   c. An active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated.
   d. The sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale, within one year, except when certain criterion would be met.
   e. The asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
   f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

D. If the acquisition cost is greater or less than the proportionate book value of the investee, it is accounted for in accordance with the R.O.C. SFAS No. 25 “Business Combinations - Accounting Treatment under Purchased Method”. Effective January 1, 2006, pursuant to the newly revised SFAS No. 25, investment premiums, representing goodwill, are no longer amortized, and is assessed for impairment at least on an annual basis; while investment discounts continue to be amortized over the remaining period. In some cases, the fair value will exceed the investment cost. That excess generated after December 31, 2005 shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired noncurrent assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.

Foreign Currency Transactions

A. The Company maintains its accounting records in New Taiwan dollars ("NT Dollars" or "NT$"), while each foreign affiliate maintains it in the local currency of each foreign subsidiary as its functional currency. Transactions denominated in foreign currencies are recorded in NT Dollars using the exchange rates in effect at the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlements of the monetary assets and liabilities and on the retranslation of monetary assets and liabilities are included in earnings for the period. Exchange differences arising on the retranslation of non-monetary assets and liabilities carried at fair value are included in earnings for the period except for differences arising on the retranslation of non-monetary assets and liabilities in respect of which gains and losses are recognized directly in equity. For such non-monetary assets and liabilities, any exchange component of that gain or loss is also recognized directly in equity. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in the statements of operations.

B. The assets and liabilities of the foreign subsidiaries foreign are translated into NT Dollars, with the local currency of each foreign subsidiary as its functional currency, at current exchange rates in effect at the balance sheet date. Shareholders’ equity accounts should be translated at the historical rate except for the beginning balance of the retained earnings, which is carried by the translated amount of the last period. Dividends are translated at the spot rate of the declared date. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. Translation gains and losses are included as a component of shareholders’ equity. The accumulated exchange gains or losses resulting from the translation are recorded as cumulative translation adjustments under shareholders’ equity.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in interest rates. Commercial papers, negotiable certificates of deposit, and bank acceptances with original maturities of three months or less are considered cash equivalents.

Financial Assets and Financial Liabilities

A. Financial asset or liability is recognized when the Company becomes a party to the instrument contract. A regular way purchase or sale of financial assets are be recognized using either trade date accounting on equity instrument or settlement date accounting on debt security, beneficiary certificate and derivative instrument. Financial assets and financial liabilities are derecognized in accordance with R.O.C. SFAS No. 33 “Accounting for Derecognizing of Financial Assets and Financial Liabilities”.

B. When financial assets or financial liabilities are recognized initially, they are measured at fair value, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

C. Financial assets or financial liabilities are classified as follows:

a. Financial assets or financial liabilities at fair value through profit or loss
There are two classes of the financial assets or financial liabilities at fair value through profit or loss, one is held for trading and the other is upon initial recognition it is designated as at fair value through profit or loss. Such assets or liabilities are subsequently measured at fair value and changes in fair value are recognized in profit or loss.

b. Bond portfolios with no active market
It is a bond portfolio with fixed or determinable payments which is not quoted in an active market; or a preference shares which is not quoted in an active market that issuer has an obligation to redeem a preference share in specific price on a specific date, which shall be measured at amortized cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decreases is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

c. Financial assets carried at cost

It is not measured at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument, the amount of the impairment loss is recognized. Such impairment losses shall not be reversed.

d. Held-to-Maturity Financial Assets

Investments in debt securities shall be classified as held-to-maturity and measured at amortized cost in the statement of financial position only if the Company has the positive intent and ability to hold those securities to maturity. For individual securities classified as held-to-maturity, the Company shall determine whether a decline in fair value below the amortized cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings (that is, accounted for as a realized loss). The new cost basis could be restored for subsequent recoveries in fair value to the extent of amortized cost as if no impairment had ever occurred.

e. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as in any of the preceding categories, or are not classified as held-to-maturity investments or receivables.

When subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of shareholders’ equity. The accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders’ equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

The fair value, as mentioned above, for publicly traded securities or close-ended funds are based on closing prices of the balance sheet date, while those of open-ended funds are determined based on net assets value of the balance sheet date. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active market exists for its component parts, fair value is determined on the basis of the relevant market price for the component part.

Allowance for Doubtful Accounts

The allowance for doubtful accounts are provided based on the collectibility and aging analysis of notes receivable, accounts receivable, receivables from related parties and by examining current trends in the credit quality of its customers as well as its internal credit policies.

Inventories

Inventories are carried at lower of cost or market value using the weighted average cost method. Replacement cost is used to determine the market value of raw materials. Net realizable value is used to determine the market value of work in process and finished goods. The lower of cost or market value is applied on aggregate basis to total inventory. A slow-moving reserve is provided based on inventory aging.

Investment Accounted for Using Equity Method

A. Long-term investments in which the Company holds an interest of 20% or more or has the ability to exercise significant influence are accounted for under the equity method of accounting. The difference between the cost of the investment and the fair value of the identifiable assets at the date of acquisition is amortized over 5 years. Effective January 1, 2006, pursuant to the newly revised R.O.C. SFAS No. 25 "Business Combinations - Accounting Treatment under Purchased Method", investment premiums, representing goodwill, are no longer amortized but are assessed for impairment at least on an annual basis while investment discounts continue to be amortized over the remaining period. In some cases, the fair value will exceed the investment cost. That excess generated after December 31, 2005 shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired noncurrent assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.

B. Adjustment to capital reserve is required when the holding percentage changes due to unproportional subscription to investee's new shares issued. If the capital reserve is insufficient, retained earnings are adjusted. An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an investee and shall account for the investment in accordance with the R.O.C. SFAS No. 34 "Accounting for Financial Instruments" from that date. The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset.

C. Intercompany profits and losses shall be eliminated until realized by the investor or investee as if a corporate joint venture or investee enterprise were consolidated.

D. For equity investees in whom the Company does not possess control, the Company recognizes its investee's losses only to the extent the Company's long-term investment on that investee reaches zero. However, if the Company intends to provide further financial support for the investee company, or the investee company's losses are temporary and there exists sufficient evidence showing imminent return to profitable operations, then the Company shall continue to recognize investment losses in proportion to the stock ownership percentage. Such credit long-term investment balance shall first offset the advance (if any) the Company made to the investee company, the remaining shall be recorded under other liabilities. For equity investees in which the Company possesses control, the Company recognizes its investee's total losses unless other investors are obligated to and have the ability to assume a portion of the loss.

E. The accompanying consolidated financial statements include the accounts of all directly and indirectly majority-owned subsidiaries of the Company, and the accounts of investees in which the Company's ownership percentage is less than 50% but the Company has a controlling interest.

Property, Plant and Equipment

A. Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. Depreciation is computed on a straight-line basis over the following useful lives:

Buildings and facilities	2 to 50	years
Machinery and equipment	3 to 5	years
Research and development equipment	3 to 5	years
Miscellaneous equipment	2 to 15	years
Leased assets	50	years

B. Improvements and replacements are capitalized and depreciated over their estimated useful lives while ordinary repairs and maintenance are expensed as incurred.

C. When property, plant and equipment are disposed of, their original cost and accumulated depreciation and accumulated impairment are written off and related gains or losses are included in non-operating income or expenses.

D. If property, plant and equipment are highly probable be sold within one year. Thereafter a non-current asset (or disposal group) classified as held for sale should be measured at the lower of its carrying amount and fair value less costs to sell. Such assets measured at fair value and changes in fair value are recognized in profit and loss.

Intangible Assets

Software (Design software), patents and IPs and others are stated at cost and amortized on a straight-line basis over the following useful lives:

Software (Design software)	3	years
Patents, IPs and others	3 to 5	years

Deferred Assets

Deferred assets, including subsidies for electric wire, long-term license and maintenance fees of computer software and so on are amortized on a straight-line method over 3 to 5 years.

Asset Impairment

On January 1, 2005, the Company adopted R.O.C. SFAS No. 35 "Accounting for Assets Impairment". The Company is required to perform (1) goodwill impairment tests annually on a reporting unit level; and (2) evaluate whether indicators of impairment exist for assets subject to guidelines set forth under the Statement. The Statement requires that such assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Unrecoverable losses shall be recognized. Recognized losses on goodwill impairment shall not be reversed subsequently. For non-goodwill assets impaired in prior periods, a gain shall be recognized to the extent that such assets' carrying value do not exceed original value less associated depreciation or amortization.

Convertible Bonds

A. The convertible bonds issued prior to January 1, 2006 were accounted for as follows:

a. The interest-premium of puttable convertible bonds, which is the difference between the specified put price and the par value, should be amortized using the interest method and be recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option. If the bondholder does not exercise the put option, the interest-premium, which has been recognized as a liability, should be amortized over the period from the expiry date to the maturity date using the interest method.

b. When bondholders exercise their conversion rights, the book value of convertible bonds is credited to common stock at an amount equal to the par value of the common stock and the excess is credited to capital reserve. No gain or loss shall be recognized on bond conversion.

c. The cost of issuing convertible bonds is recorded as deferred charges and amortized over the period from the issuance date of the convertible bonds to the expiry date of the put option.

B. Effective on January 1, 2006, the newly-adopted the R.O.C. SFAS No. 34 is applied.

a. When a convertible bond is issued, the debt component shall be measured at fair value and the equity components then is computed by subtracting the fair value of debt component from the entire issuing value. An embedded derivative be separated from the host contract and accounted for as a derivative instrument if the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract.

b. The host contract of a convertible bond is subsequently measured at unamortized cost while embedded derivatives at fair value with changes in value reported in earnings as it occurs. Changes in fair value of a financial instrument that the Company either can or must settle by issuing its own equity instruments shall not be reported in financial statements.

c. Upon conversion, the carrying value of debt component of a convertible bond is credited to common stock at its par value and the difference between the carrying value of debt component of the bond and the par value of stock is recorded to capital reserve. No gain or loss is recognized.

d. The cost of issuing a convertible bond is allocated in proportion of the carrying values initially recognized for debt component and equity component.

Capital Expenditures vs. Revenue Expenditures

If the expenditure increases the future service potential of the assets and the lump sum purchase price per transaction exceeds criteria, the expenditure is capitalized, while the others are expensed as incurred.

Revenue Recognition

Revenue is recognized in accordance with the R.O.C. SFAS No. 32 "Accounting for Revenue Recognition".

Warranty Cost

ULi Electronics Inc. sold products with warranty. Loss from warranty obligation is accrued as an expense when related sale is recognized.

Employee Retirement Benefits

A. In accordance with the Labor Standards Law (the “Law”) of the R.O.C., the Company, ALi Corporation, ULi Electronics Inc. and Alpha Imaging Technology Corporation make monthly contributions based on certain percentage of wages and salaries paid to a pension fund maintained in the Central Trust of China. The fund is administered by the Employees' Retirement Fund Committee and deposited in the committee's name. The pension fund is not included in the financial statements of the Company and its subsidiaries mentioned above.

B. The Labor Pension Act (the “Act”), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Law can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of an employer monthly contribution to the pension fund should be at least 6% of the employee’s monthly wages.

C. The Company, ALi Corporation, ULi Electronics Inc. and Alpha Imaging Technology Corporation have a defined benefit pension plan covering substantially all of its employees and adopt the R.O.C. SFAS No. 18 "Accounting for Pensions". The minimum pension liability was recorded for the excess of accumulated pension obligations over the fair value of plan assets. Net transition assets or obligations from the plan assets are amortized using the straight-line method over the employees’ expected average remaining service period of 15 to 23 years. For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees’ individual pension accounts.

D. The Company’s foreign subsidiaries having a defined contribution pension plan make monthly contributions to pension funds in accordance with the native law. The monthly amount to be contributed is recorded as an expense at the respective months incurred.

Income Tax

A. In accordance with the R.O.C. SFAS No. 22 “Accounting for Income Taxes”, income tax is accounted for under the inter-period and intra-period income tax allocation method. Provision for income tax includes deferred tax resulting from temporary differences and investment tax credits. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. A deferred tax asset or liability is classified for current or noncurrent in according to the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

B. Income tax credit is accounted for in accordance with the R.O.C. SFAS No. 12 “Accounting for Income Tax Credit”. Income tax credits resulting from the acquisition of equipment, research and development expenditures and employee training shall be recognized using the flow-through method.

C. The Company and its domestic subsidiaries’ income taxes (10%) on undistributed earnings are recorded as expenses in the year when the stockholders have resolved that the earnings shall be retained.

D. Income Basic Tax Act took effect on January 1, 2006 upon the Company and its domestic subsidiaries. The alternative minimum tax ("AMT") imposed under the Income Basic Tax Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the Income Basic Tax Act. The tax effect of such amounts was taken into consideration in determining the realization of deferred income tax assets.

Employee Stock Option Plan

The Company and subsidiaries applied intrinsic value method to account for its compensating employees’ stock option plans. Under the method, the excess of the market price over exercise price at the plan date is adjusted under shareholders’ equity and expensed over grantee’s service periods. Disclosure of pro forma information for net income and earnings per share using fair value method is required.

Derivative Financial Instruments-Trading purpose

Derivative Financial Instruments that have been designated for hedging but not qualified for hedging effectiveness as SFAS No.34 indicates are classified as financial assets/liabilities for trading; for example, forward contract is recognized and re-measured at fair value. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability. The changes in fair value are recognized in profit and loss.

Earnings Per Share

EPS is computed and presented in accordance with the R.O.C. SFAS No. 24 “Earnings Per Share”. Basic EPS are computed by dividing net income by the weighted-average number of common share outstanding during the year. EPS are adjusted retroactively by stock dividends resulting from retained earnings or capital surplus. Furthermore, if the measurement date of the capital increase for stock dividend is prior to the issuance date of financial statements, EPS shall be adjusted retroactively.

Treasury Stock

A. The Company's shares owned by its subsidiaries were accounting-treated as treasury stock according to the R.O.C. SFAS No. 30 "Accounting for Treasury Stock". Cash dividends distributed to the Company's subsidiaries are deducted from investment income and credited to capital reserves-treasury stock transaction.

B. Treasury stock transactions are accounted for under cost method. The acquisition cost of shares is recorded under the caption of treasury stock, a contra shareholders' equity account.

C. When treasury stock is sold for more than its acquisition cost, the difference is credited to capital reserve-treasury stock transaction. If treasury stock is sold for less than its acquisition cost, the difference is charged to the same capital reserve account to the extent the capital reserve account to reduce to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.

D. When treasury stock is retired, the treasury stock account is credited and all capital account balances related to the treasury shares, including capital reserve-treasury stock transactions, are reduced on a proportionate basis. Any difference, if on credit side, is recorded in capital reserve- treasury stock transaction; if on debit side, retained earnings are charged.

3. Reasons and Effects for Change in Accounting Principles

A.

a. On January 1, 2006, the Company adopted the newly released R.O.C. SFAS No. 34 "Accounting for Financial Instruments" and No. 36, "Disclosure and Presentation for Financial Instruments". The effects of changes in adoption of the new principles are remarked as follows:

The Company had categorized its financial assets and liabilities in accordance with the new standards. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles under the statement of income. While, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recorded in the account of financial instruments' unrealized profit and loss under the shareholders' equity account's adjusted items.

The effects of adopting the newly released SFAS No. 34 and SFAS No. 36 were as follows:

	Amount (net of income tax)	
	Cumulative effect of changes in accounting principles	Other adjustments in shareholders' equity
Financial assets at fair value through profit or loss-current	$9,314	$-
Available-for-sale financial assets-current	-	2,374
Financial assets measured at cost-noncurrent	-	3
Total	$9,314	$2,377

The first-adoption of above-mentioned accounting principles had no impacts on the income from continuing operations for the year ended December 31, 2006 while resulting in an increase in cumulative effect of changes in accounting principles in amount of NT$9,314 thousand, including NT$8,056 thousand and NT$1,258 thousand of income attributable to shareholders of parent company and income attributable to minority interests, respectively. The basic earning per share attributable to shareholders of parent company increased by NT$0.01 accordingly.

b. As to different accounting policy regarding the financial instruments between the year of 2005 and 2006, are described as follows:

Short-term investments

Short-term investments are recorded at cost when acquired and are stated at the lower of aggregate cost or market value at the balance sheet date. The market value of listed equity securities or closed-end funds is determined by the average closing price during the last month of the fiscal year. The market value for open-end funds is determined by their equity per unit at the balance sheet date. No revenue is recognized when stock dividends are received. Instead, the number of shares increases and the cost per share is recalculated.

Long-term investments

(a) Long-term investments in which the Company holds less than 20% of the outstanding voting shares of the investee companies and is not able to exercise significant influence over the investee companies are stated at cost except for investments in listed companies which are stated at lower of cost or market value. The unrealized loss on long-term investments is recorded as a contra equity account.

(b) Investment in foreign entity which are started at cost and required to translated its cost into presentation currency at the balance sheet date. At lower of the rate at transaction date or the rate at balance sheet date, the exchange losses resulting from the translation are recorded as the account of cumulative translation adjustments under shareholders' equity.

c. Financial instruments-hedging purpose

A forward foreign exchange contract obligates the Company to exchange predetermined amounts of specified foreign currencies at specified exchange rates for another currency on a specified date. For contracts that are designated as hedges, discounts or premiums, being the difference between the spot exchange rate and the forward exchange rate at the inception of the contract, are accreted or amortized to the income statement over the contract lives using the straight-line method. Realized gains and losses from settlement or unrealized gains and losses resulting from changes in the spot exchange rate at the balance sheet date is recorded in the income statement as foreign exchange gains or losses in the period in which they relate. In addition, the receivables and payables related to the contracts of the same counter party were netted with the resulting amount presented as either an asset or a liability. Any gain or loss from hedging an identifiable foreign currency commitment should be deferred to the actual transaction date and recorded as an adjustment to the transaction price. However, if the deferred exchange loss results in a loss in the sub subsequent accounting period, the exchange loss should not be deferred. If the forward contract is not for a greater number of foreign currency units than the foreign currency commitment, the gain or loss on that portion of the contract which exceeds the foreign currency commitment should not be deferred and should be accounted for as the current period gain or loss.

B. Starting January 1, 2006, the revised R.O.C. SFAS No. 5 “Long-term Investment Accounted for Using the Equity Method” and No. 25 “Business Combinations - Accounting Treatment under Purchase Method” were made effective. The Company is required to be in full compliance with the provisions since then and shall not amortize goodwill associated with equity method investments after the date. As a result of such adoption, the Company’s consolidated total assets as of December 31, 2006 increased by NT$ 56,328 thousand and the net income attributable to the parent company shareholders increased by NT$56,328 thousand and basic earning per share attributable to shareholders of parent company increased by NT$0.06 for the year then ended.

C. Since January 1, 2005, the Company adopted accounting treatment for assets defined under the R.O.C. SFAS No. 35 “Accounting for Assets Impairment”. Restatements to prior period’s financial statements are prohibited in accordance with the Statement. In deed, there were no significant impacts on both the Company’s consolidated total assets as of December 31, 2005 and the consolidated net income and earning per share for the year then ended.

D. As discussed in Note 2 to the financial statements, Alpha Imaging Technology Corporation, ALi Corporation (including its subsidiaries) and Wireless ICs, Inc. were excluded from the Company’s consolidated financial statements as of December 31, 2006 and for the year then ended due to the facts that neither the Company nor subsidiaries had controlling power over ALi Corporation (including its subsidiaries) and Alpha Imaging Technology Corporation and that Wireless ICs, Inc. has been in the liquidation since January 2006.

4. Contents of Significant Accounts

(1) Cash and Cash Equivalents

	As of December 31,	
In thousand NTD	2006	2005
Petty cash	$1,077	$640
Saving and checking accounts	4,750,020	5,855,754
Time deposits	34,471,929	21,310,187
Cash equivalents- bonds-Repo	7,615,214	16,479,015
Total	$46,838,240	$43,645,596

As of December 31, 2006, the Company and subsidiaries have committed to sell the bonds-Repo back to the brokers during the three month period ended March 31, 2007.

Cash and cash equivalents were not pledged as of December 31, 2006.

(2) Financial assets and liabilities at fair value through profit or loss

(a)

In thousand NTD	As of December 31, 2006	2005
Held for trading financial assets		
Mutual fund	$2,285,973	$1,815,513
Stocks	-	32,754
Government bonds	-	199,778
Corporate bonds	150,000	65,700
Forward contracts	-	52,016
Subtotal	2,435,973	2,165,761
Adjustment for change in value of held for trading financial assets	91,008	(33)
Financial assets designated as at fair value through profit or loss		
Credit-linked deposit	400,000	-
Adjustment for change in value of financial assets designated as at fair value through profit or loss	944	-
Total	$2,927,925	$2,165,728

Credit-linked deposit is a compound financial instrument. Since it is impractical to measure the fair value of the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire hybrid contract shall be designated as a financial instrument at fair value with change in value through profit or loss. Please refer to Note 10 to the financial statements for the disclosures of relative risks information for credit-linked deposit.

The credit-linked deposits of the Company and subsidiaries were detailed as follow:

In thousand NTD Underlying investments	As of December 31, 2006	2005
AmTRAN Credit-linked deposit	$100,000	$-
Powerchip Credit-linked deposit	100,000	-
Chi Mei Credit-linked deposit	200,000	-
Dynamic Credit Protection Notes (Remark)	USD2,000 thousand	-

Remark:

It was accounted for as financial assets designated as at fair value through profit or loss - noncurrent.

(b)

In thousand NTD	As of December 31, 2006	As of December 31, 2005
Held for trading financial liabilities-current		
Adjustment for change in value of trading financial liabilities -Forward contracts	$14,586	$-

The Company and subsidiaries entered into forward exchange contracts with banks in 2006 and 2005. The purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk resulting from assets and liabilities denominated in foreign currency. As of December 31, 2006 and 2005, outstanding forward exchange contract were as follows:

a. As of December 31, 2006: (Remark 1)

Held for trading financial assets:

Financial Instruments	Type	Maturity	Contract amount (US$'000)
Forward exchange	Sell USD	January 2007	USD25,000

Held for trading financial liabilities:

Financial Instruments	Type	Maturity	Contract amount (US$'000)
Forward exchange	Sell USD	January 2007~February 2007	USD75,000

b. As of December 31, 2005: (Remark 2)

Financial Instruments	Type	Maturity	Contract amount (US$'000)
Forward exchange	Sell USD	January 2006~February 2006	USD100,000

In thousand NTD	December 31, 2005
Forward contract receivable	$3,330,140
Forward contract payable	(3,285,000)
Discount	6,876
Forward exchange contracts receivable-net	$52,016

As of December 31, 2005, forward exchange contracts receivable (net) from above contracts was classified under the caption of other receivables. While, upon the R.O.C SFAS No. 34 was adopted, it has been reclassified for financial asset at fair value through profit or loss-current.

Foreign exchange loss incurred from the derivatives for the years ended December 31, 2006 and 2005 amounted to NT$57,104 thousand and NT$205,220 thousand, respectively.

Remark 1:
The Company entered into forward exchange contracts for the year ended December 31, 2006 to manage exposures due to the fluctuations of foreign exchange rate. The forward exchange contracts entered into by the Company did not meet the criteria for hedge accounting prescribed by the R.O.C. SFAS No. 34 “Accounting for Financial Instruments”. Therefore, the Company hadn’t adopted hedge accounting. Accordingly the forward exchange contracts have been classified for financial assets/liabilities at fair value through profit or loss-current. Please refer to Note 10 to the financial statements for disclosure of relative risks.

Remark 2:
The forward exchange contracts were accounted for in accordance with the R.O.C. SFAS No. 14 “Accounting for Foreign Currency Translation” during the year of 2005.

(3) Available-for-sale financial assets-current

	As of December 31,	
In thousand NTD	2006	2005
Mutual fund and bonds	$3,072,361	$-
Adjustment for available-for-sale financial assets	24,893	-
Total	$3,097,254	$-

(4) Notes and Accounts Receivable-Net

	As of December 31,	
In thousand NTD	2006	2005
Notes receivable	$-	$1,416
Accounts receivable	4,044,231	4,861,680
Subtotal	4,044,231	4,863,096
Less: Allowance for doubtful accounts	(187,437)	(243,708)
Allowance for sales returns and discounts	-	(635)
Net	$3,856,794	$4,618,753

(5) Other Receivables

In thousand NTD	As of December 31, 2006	As of December 31, 2005
Interest receivable	$162,824	$104,484
VAT refundable	142,386	195,416
Others	31,239	17,706
Total	$336,449	$317,606

(6) Inventories-Net

In thousand NTD	As of December 31, 2006	As of December 31, 2005
Raw materials	$-	$134,534
Work in process	2,189,033	2,419,889
Finished goods	1,707,095	1,451,353
Inventories in transit	-	85,778
Subtotal	3,896,128	4,091,554
Less: Allowance for inventory obsolescence	(402,065)	(428,788)
Net	$3,494,063	$3,662,766

Inventories were not pledged.

(7) Subsidiaries Classified as A Disposal Group

The Company's subsidiaries classified as a disposal group which was held for sale as of December 31, 2005 included ULi Electronics Inc. and ULi's subsidiaries. Please refer to Note 2(1) to the financial statements for description of related transactions. Assets and liabilities of the disposal group are summarized as follows:

In thousand NTD	As of December 31, 2005
Assets of disposal group	
Current assets	$1,381,628
Property, plant and equipment	47,096
Other assets	62,190
Total	$1,490,914
Liabilities of disposal group	
Current liabilities	$434,837
Other liabilities	16,795
Total	$451,632

(8) Funds and Investments

a.

Items	Types	As of December 31, 2006 Shares/ units	Amounts (NT$ '000)	Ownership (%)
Financial assets designated as at fair value through profit or loss				
Dynamic Credit Protection Notes (Remark)	Credit link note	-	$64,189	-
Available-for-sale financial assets-noncurrent				
Pixart Imaging Inc.	Common share	5,350,531	2,634,992	5.12%
Stocks	Common share	11,050	961	-
Callable Range Accrual Note	Bond	-	65,830	-
IIT Private Equity Real Estate Fund	Fund	4,938,331	51,110	-
Cathay No.2 Real Estate Investment Trust	Fund	50,000,000	577,000	-
Subtotal			3,329,893	
Held-to-maturity financial assets-noncurrent				
GVEC CBO Series 2006-B Bonds	Bond	-	162,980	-
Financial assets carried at cost-noncurrent				
Yuantonix, Inc.	Common share	300,000	3,000	3.75%
Browave Corporation	Common share	940,000	13,922	1.14%
Communication V.C. Corp.	Common share	8,000,000	73,049	14.41%
Legend Tech. V.C. Inc. Corp.	Common share	2,450,000	32,180	6.33%
Inprocomm Inc.	Common share	1,080,000	-	14.81%
Tenor Electronics Corporation	Common share	4,012,500	50,250	14.59%
VIA Optical Solution, Inc.	Common share	2	1	-
Taifatech Inc.	Common share	2,000,000	40,000	11.76%
Andes Technologies, Inc.	Common share	8,000,000	100,000	12.70%
ARAFTEK	Preferred share	1,100,000	1,608	6.42%
IPC	Preferred share	2,400,000	11,759	13.83%
SINO PHOTONICS	Common share	1,200,000	39,115	9.88%
VenGlobal International Fund	Common share	1,000	20,995	5.66%
V Web Corp.	Preferred share and Common share	1,500,000	1,627	4.27%
WI HARPER INC FUND VI LTD.	Preferred share and Common share	32,970	97,788	0.07%
Genesis Venture	Common share	4,000,000	130,384	18.15%
Prepayment for investments-JAFCO			83,264	
Subtotal			698,942	

Items	As of December 31, 2006 Types	Shares/ units	Amounts (NT$ ’000)	Ownership (%)
Bond portfolios with no active market-noncurrent				
Chinatrust Financial Holding Co. Ltd	Series B preferred stock	25,000,000	1,000,000	-
Investment accounted for using equity method				
ALi Corporation	Common share	59,229,043	1,057,009	22.68%
Alpha Imaging Technology Corp.	Common share	15,268,500	418,537	43.18%
Airoha Technology Corp.	Common share	9,779,814	606,462	31.55%
Wireless ICs, Inc.	Common share	100,000	9,760	100.00%
Subtotal			2,091,768	
Total			$7,347,772	

Remark:

Please refer to Note 4(2) to the financial statements for the risks disclosures for credit-linked deposit designated as at fair value through profit or loss-noncurrent.

Items	As of December 31, 2005 Types	Shares/ units	Amounts (NT$ ’000)	Ownership (%)
Financial assets carried at cost-noncurrent				
Yuantonix, Inc.	Common share	1,500,000	$15,000	5.18%
Browave Corporation	Common share	940,000	13,922	1.14%
Communication V.C. Corp.	Common share	8,000,000	73,049	14.41%
Legend Tech. V.C. Inc. Corp.	Common share	3,500,000	42,681	6.33%
Pixart Imaging Inc.	Common share	5,127,632	69,533	6.77%
Inprocomm Inc.	Common share	1,080,000	-	14.81%
Tenor Electronics Corporation	Common share	3,000,000	30,000	15.00%
VIA Optical Solution, Inc.	Common share	77	1	-
VIA Networking Technologies, Inc	Common share	4	-	-
Taifatech Inc.	Common share	2,000,000	40,000	11.76%
Andes Technologies, Inc.	Common share	8,000,000	100,000	12.70%
ARAFTEK	Preferred share	1,100,000	1,620	6.42%
IPC	Preferred share	2,400,000	11,850	13.83%
SINO PHOTONICS	Common share	1,200,000	39,419	9.88%

Investee Companies	Types	Shares/ units	Amounts (NT$ '000)	Ownership (%)
VenGlobal International Fund	Common share	1,000	21,179	5.66%
V Web Corp.	Preferred share and Common share	1,500,000	1,639	4.59%
WI HARPER INC FUND VI LTD.	Preferred share and Common share	32,970	98,550	13.39%
Prosperity V.C. Corp.	Common share	5,000,000	50,000	6.10%
Richwave Technology Corp.	Common share	3,800,000	25,264	14.25%
EE Solutions Inc.	Common share	650,000	9,300	2.43%
DivX Networks, Inc.	Common share	430,441	1,319	0.76%
Prepayment for investments-JAFCO	Common share		6,870	
Subtotal			651,196	
Bond portfolios with no active market-noncurrent				
Chinatrust Financial Holding Co. Ltd	Series B preferred stock	25,000,000	1,000,000	-
Investment accounted for using equity method				
ALi Microelectronics Corporation, USA	Common share	3,600,000	-	100.00%
ALinx Technology Corp.	Common share	15,089,000	40,533	100.00%
T-square Electronics (Beijing)	Capital	-	11,197	100.00%
Subtotal			51,730	
Total			$1,702,926	

b. For the years ended December 31, 2006 and 2005, investment gain accounted for under equity method amounted to NT$97,156 thousand and NT$0, respectively.

c. In reference to Yuantonix, Inc.'s resolution to cancel its common stocks for covering accumulated deficits in May 2006, the Company assessed that the investment in Yuantonix, Inc. was impaired and, therefore, recognized an impairment loss in amount of NT$12,000 thousand.

d. One of the Company's subsidiaries, MediaTek Investment Corp., owned shares of Pixart Imaging Inc. ("Pixart") and accounted it for as an equity investment under cost method. As Pixart has successfully applied for IPO in the GTSM (Gre Tai Securities Market) and became a listed company with quoted market price since May 2006, MediaTek Investment Corp. has reclassified its shares of Pixart for available-for-sale financial assets-noncurrent and provided its 4,145,554 shares of Pixart to be locked in TDCC (Taiwan Depository & Clearing Corporation). As of December 31, 2006, these locked shares were restricted from any sale.

e. The original investment cost amounted to NT$42,222 thousand and US$1,000 thousand in Richwave Technology Incorporation and DivX Networks, Inc., respectively. Due to loss of those investee continuously, the Company and its subsidiaries recognized impairment loss in amount of NT$16,958 thousand and NT$31,915 thousand recorded under other loss on long-term investments, respectively.

f. In December 2005, the investment in series B preferred stocks (“Preferred B”) of Chinatrust Financial Holding Company is increased by NT$1,000,000. Terms and conditions of the stock are as follows:

(a) Duration: 7 years.

(b) Par value: NT$10 per share.

(c) Issuing price: NT$40 per share.

(d) Dividends:

Dividend is fixed at 3.5% per year based on actual issuing price, and is paid in cash on an annual basis. In any given year a dividend is not distributed, either due to a loss status or constraints under regulation requirements, such dividend is postponed to following years.

(e) Redemption at maturity:

Redemption price at maturity is set at 100% of actual issuing price, NT$40 per share.

Preferred stock issued under provision 1 of section 6 under the Articles of Incorporations is guaranteed the highest priority to the Company’s property in the event of liquidation. Preferred B stockholders are next in line followed by common stockholders; Stockholders of Preferred B is not granted voting rights in Shareholder’s Meeting unless such meeting is held among Preferred B stockholders only; Conversion of Preferred B to common shares of the company is disallowed; Cash or stock dividends distributed to common stockholders does not apply to Preferred B stockholders; In a capital raising event Preferred B stockholders enjoy a privileged right to participate, as is the case for stockholders of other classes of stocks issued.

The above-mentioned preferred stock held by the Company is a financial instrument with nature of bonds in substance and shall be classified as bond portfolios with no active market.

g. ALi Microelectronics Corporation, USA (“ALi USA”) was resolved to be dissolved in the shareholders’ annual general meeting, and ALi Corporation stopped valuing it at the equity method. As of December 31, 2005, the liquidation process has not completed. However, ALi USA has refunded the investment in the amount of NT$18,837 thousand. ALi Corporation recognized the liquidated gain in the amount of NT$1,775 thousand, which was recorded under subtrahend of other loss on long-term investments.

h. ALinx Technology Corp. started to liquidate in October 2005 and stopped valuing at the equity method. As of December 31, 2005, it has not completed the liquidation process.

i. T-square Electronics (Beijing) Corp., a subsidiary of T-square Technology Inc. (Cayman), started to liquidate in May 2005 and stopped valuing at the equity method. As of December 31, 2005, T-square Electronics (Beijing) Corp. has not completed the liquidation process, but T-square Technology Inc. (Cayman) has recognized the liquidated loss in the amount of NT$618 thousand recorded under other loss on long-term investments.

j. Wireless ICs, Inc. has resolved to be dissolved since January 2006 and the legal procedures of liquidation were not yet to complete as of December 31, 2006.

k. Since ALi Corporation, an investee accounted for under equity method, issued new shares for purpose of conversion of convertible bonds, exercise of employees' stock options and capitalization of employees' bonuses, the Company's shareholding on ALi Corporation has been changed. As a result, the Company has recognized a capital reserve of NT$75,020 thousand for the year ended December 31, 2006.

l. Subsidiaries excluded from consolidated entities:
For the year of 2006, due to the facts that Wireless ICs, Inc. has been in liquidation since January 2006 and that the Company no longer had controlling interest in Alpha Imaging Technology Corporation and ALi Corporation and its subsidiaries starting the fourth quarter of the Year 2006, these subsidiaries are excluded in the Company's consolidated financial statements as of December 31, 2006. For the year of 2005, ALinx Technology (BVI) Corp., who was liquidated as of December 31, 2005, and ALi Microelectronics Corporation, USA, ALinx Technology Corp., T-square Electronics (Beijing), who were not yet in process of liquidation then, were excluded in the Company's consolidated financial statements as of December 31, 2005.

m. Long-term investments were not pledged.

(9) Property, Plant, Equipment and Leased Assets

a. No interest was capitalized for the years ended December 31, 2006 and 2005, respectively.

b. Please refer to the Note 6 to the financial statements for property, plant, equipment and leased assets pledged as collaterals.

c. Leased assets of the Company’s subsidiaries as of December 31, 2005 were as follows:

In thousand NTD	As of December 31, 2005
Land	$717,460
Buildings and facilities	321,894
Subtotal	1,039,354
Less: Accumulated depreciation	(27,452)
Net	$1,011,902

(10) Convertible Bonds

In thousand NTD	As of December 31, 2005
Secured convertible bonds	$879,400
Add: Reserve for redemption	42,272
Subtotal	921,672
Less: Current portion	-
Net	$921,672

On November 13, 2002, ALi Corporation issued 5-year secured convertible bonds. The major terms of the issuance are as follows:

a. Total amount: NT$900,000 thousand

b. Coupon interest rate: 0%

c. Duration: 5 years (from November 13, 2002 to November 12, 2007)

d. Security:
The bonds are secured by China Developing Industrial Bank with the security term from the issuance date to the date when all principal and interest are fully paid. The coverage of security includes the principal of the bonds, the interest incurred as ALi Corporation executes the option of redemption and calculated based on the rate of return on bond redemption, and/or the compensative interest expense incurred as the bondholders execute the option of redemption based on the term of bonds.

e. Redemption at the option of ALi Corporation:
ALi Corporation may redeem the bonds at any time on the period from November 13, 2003 to October 4, 2007, if (i) the closing price of ALi Corporation’s shares for each of the 30 consecutive trading days is at least 50% of the conversion price; or, (ii) the principal amount of the bonds outstanding is less than 10% of the principal amount at the issuance date.

f. Redemption at the option of the holders:

The bonds are redeemable at 104.568% and 107.728 % of par at the option of the bondholders, in whole or in part, on November 13, 2005 and November 12, 2007, respectively.

g. Conversion period/Conversion price and adjustment:

(a) Conversion period: From February 13, 2003 to November 3, 2007.

(b) Conversion price and adjustment:

The conversion price was NT$58.3 per share at the issuance date. The conversion price will be subject to adjustment upon the occurrence of certain events set forth in the indenture, including, among other things, the declaration of dividend in common shares, subdivisions, consolidations, and the issuance of common shares in cash. However, the conversion price will be subject to adjustments in the event that changes occur to the capital structure. Based on the approval from the board of directors meeting held on April 12, 2005, ALi Corporation issued common stock in private. The conversion price was adjusted to NT$32.6.

(c) Reset conversion price:

Besides adjusting the general conversion price above, reset conversion price will adjust according to the formula of issued rules. Based on the approval from the board of directors meeting held on June 28, 2005, the conversion price will adjust to NT$32.2.

The conversion bonds was redeemable to NT$1,100 thousands by ALi Corporation in 2005. ALi Corporation recognized the redeemable loss in amount of NT$2 thousands and recorded it under non-operating expense.

As of December 31, 2005, NT$19,500 thousands convertible bonds have been converted to ALi Corporation's common stocks.

(11) Accrued Pension Liabilities

a. Defined Benefit Pension Plan

(a) The Company's pension fund contribute to a fiduciary account in China Trust Bank amounted to NT$40,978 thousand and NT$130,245 thousand (not included disposal subsidiary-ULi Electronics Inc.) as of December 31, 2006 and 2005, respectively.

(b)The components of net pension cost under the Labor Standard Law:

In thousand NTD	For the year ended December 31,	
	2006	2005
Service cost	$1,235	$22,139
Interest cost	3,714	6,742
Expected return on plan assets	(1,399)	(2,723)
Amortization	88	(1,175)
Over (reversal) statement	91	(25,344)
Other	1,728	920
Net pension cost	$5,457	$559

(c) The funded status of the Company's and subsidiaries' pension plans under the Labor Standards Law:

In thousand NTD	As of December 31,	
	2006	2005
Benefit obligations		
Vested benefit obligation	$-	$(142)
Non-vested benefit obligation	(54,118)	(70,138)
Accumulated benefit obligation	(54,118)	(70,280)
Effect of projected future salary increase	(84,503)	(103,617)
Projected benefit obligation	(138,621)	(173,897)
Fair value of plan assets	40,978	130,245
Funded status of pension plan	(97,643)	(43,652)
Unrecognized net transitional obligation	971	3,077
Unrecognized loss	35,934	17,173
Over-accrual	(239)	(231)
Accrued pension liabilities	$(60,977)	$(23,633)

(d) The vested benefit of the Company and its subsidiaries amounted to NT$0 and NT$215 thousand (not included disposal subsidiary-ULi Electronics Inc.) for the years ended December 31, 2006 and 2005, respectively.

(e) The underlying actuarial assumptions:

	For the year ended December 31,	
	2006	2005
Discount rate	2.75%	3.5%
Rate of increase in future compensation levels	4.0%	3.0%~5.0%
Expected long-term rate of return on plan assets	2.75%	3.0%~3.5%

b. Defined Contribution Pension Plan

The Company and its subsidiaries adopting defined contribution pension plans and making contribution to pension funds in accordance with the native law, pension expenses amounted to NT$77,703 thousand and NT$50,194 thousand for the years ended December 31, 2006 and 2005, respectively.

(12) Common Stock

As of January 1, 2005, the authorized and issued common shares of the Company amounted to NT$8,960,000 thousand and NT$7,693,359 thousand, divided into 896,000,000 shares and 769,335,831 shares, respectively, each share at par value of NT$10.

Based on the resolution of shareholders' general meeting on June 13, 2005, the Company's Articles of Incorporation as revised provided that the authorized capital, NT$400,000 thousand reserved for the grant of options to qualified employees was amended to NT$200,000 thousand. The shareholders further resolved to issue 94,714,749 new shares at par value of NT$10 for the capitalization of shareholders' dividends of NT$769,336 thousand and employees' bonuses of NT$177,811 thousand. The capitalization date was set on August 16, 2005 and the governmental approval has been successfully obtained.

Based on the resolution of shareholders' general meeting on June 21, 2006, the Company increased its authorized capital to NT$12,000,000 thousand, divided into 1,200,000,000 shares, each shares at par value of NT$10. Among the authorized capital, NT$200,000 thousand was reserved for the grant of options to qualified employees. The shareholders further resolved to issue 104,262,103 new shares at per value of NT$10 for the capitalization of shareholders' dividends of NT$864,051 thousand and employees' bonuses of NT$178,570 thousand. The capitalization date was set on August 8, 2006 and the government approval has been successfully obtained.

As of December 31, 2006, the authorized and issued common shares of the Company amounted to NT$12,000,000 thousand and NT$9,683,127 thousand, divided into 1,200,000,000 (including 20,000,000 shares reserved for exercise of employee stock options) shares and 968,312,683 shares, respectively, each share at par value of NT$10.

(13) Legal Reserve

According to the R.O.C. Company Law, 10% of the Company's net income, after deducting previous years' losses, if any, is appropriated as legal reserve prior to any distribution until such reserve is equal to the Company's paid-in capital. When the legal reserve is equal to or more than 50% of paid-in capital, 50% of such reserve may be distributed to the Company's shareholders through the issuance of additional common share.

(14) Capital Reserve

In thousand NTD	As of December 31, 2006	2005
Additional paid-in capital	$69,689	$69,689
Treasury stock transaction	218,673	145,472
Donated assets	1,260	1,260
Long-term Investments	114,787	47,115
Total	$404,409	$263,536

According to the R.O.C. Company Law, capital reserve can only be used for making up deficiencies or distributions of stock dividends. The Company shall not use capital reserve to make up its loss unless legal reserve is insufficient for making good such losses.

The Company had paid cash dividend in amount of NT$73,201 thousand and NT$60,497 thousand to certain subsidiaries who owned the Company's common shares for the years ended December 31, 2006 and 2005, respectively. Since the Company's shares held by its subsidiaries are treated as treasury stocks, the cash dividend paid to the Company's subsidiaries are recorded as an adjustment to capital reserve - treasury stock transactions accordingly.

(15) Employee Stock Option Plans

As of December 31, 2005, the Company's subsidiaries have adopted certain employee stock option plans. Information with respect to each stock option plan was as follows:

Plan	Approve date by board of directors meeting /SFB	Grant Dates	Units Granted	Remark	Exercisable Period	Restrict Period	Exercise Price	Adjusted Exercise Price
ALi Corporation								
Second Employee stock option plan in 2001	2001.12.04	2002.04.01	4,245	1	2002.04.01~ 2006.04.01	2002.04.01~ 2004.03.31	74.5	52.9
First Employee stock option plan in 2002	2002.04.16	2002.04.17	2,605	1	2002.04.17~ 2006.04.17	2002.04.17~ 2004.04.16	77.0	54.6
First Employee stock option plan in 2003	2003.12.31	2004.05.20	1,616	1	2004.05.20~ 2008.05.20	2004.05.20~ 2006.05.19	19.6	17.7
First Employee stock option plan in 2004	2004.11.26	2005.03.24	5,670	1	2005.03.24~ 2008.03.24	2005.03.24~ 2007.03.23	22.15	20.5

Plan	Approve date by board of directors meeting /SFB	Grant Dates	Units Granted		Exercisable Period	Restrict Period	Exercise Price	Adjusted Exercise Price
Alpha Imaging Technology Corp.								
First Employee stock option plan in 2004	2004.05.31	2004.05.31	474,000	2	-	-	12	-
Second Employee stock option plan in 2004	2004.12.20	2004.12.20	212,000	2	-	-	12	-
First Employee stock option plan in 2005	2005.06.10	2005.06.10	144,000	2	-	-	12	-

Remark:

1. Each unit can be exercised for one thousand common shares.

2. Each unit can be exercised for one common share.

For the year ended December 31, 2005, additional 3,610 thousand common shares and 144 thousand of ALi Corporation and Alpha Imagine Technology Corp. were issued for employee stock options exercised. The accumulative common shares of ALi Corporation and Alpha Imagine Technology Corp. issued for this purpose were 6,896 thousand shares and 830 thousand shares as of December 31, 2005, respectively.

According to Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C. letters No. 0920003788 released on September 15, 2003, employee stock option plans with a grant date or revise date after December 31, 2003 shall be accounted for in accordance with accounting standards issued by the Accounting Research and Development Foundation in Taiwan.

Alpha Imaging Technology Corp. has adopted the intrinsic value method. The compensation expense incurred was NT$8,784 thousand for the year ended December 31, 2005. As of December 31, 2005, all employees' stock options have been executed and therefore, no outstanding employees' stock options were outstanding.

Alpha Imaging Technology Corp. has used the intrinsic value method to recognize compensation costs for its employee stock options. Pro forma information under fair value method using Black-Shole Option Pricing Model is shown as followed:

	For the year ended December 31, 2005
Dividend yield	-%
Volatility factors for expected market price (Remark)	-%
Risk free interest rate	1.88%
Expected life	4 years

Remark:

According to letter No.070 released by the Accounting Research and Development Foundation in Taiwan, the Company needed not to consider the volatility factors for expected market price when calculating the fair value of the employee stock options because the shares of Alpha Imaging Technology Corp. were not yet publicly issued.

The respective information of the units and weighted average exercise price for stock option plans of Alpha Imaging Technology Corporation as follows:

	For the year ended December 31, 2005	
	Units (in thousands)	Weighted average exercise price (NT$)
Outstanding at beginning of year	-	$-
Granted units	144	12
Exercised units	(144)	12
Revoked (forfeited) units	-	-
Outstanding at end of year	-	-
Exercisable at end of year	-	-
Weighted average fair value of options granted during the year	$61.80	

ALi Corporation has adopted the intrinsic value method. For the year ended December 31, 2005 and 2004, no compensation expense shall be recognized as the exercise prices equal to the market prices of the underlying stocks on the dates of grant. Pro forma information under fair value method using Black-Schole Option Pricing Model is shown as follows:

	For the year ended December 31, 2005	2004
Dividend yield	-%	-%
Volatility factors for expected market price	26.36%	56.25%
Risk free interest rate	1.88%	1.98%
Expected life	3 years	4 years

As of December 31, 2005, information related to ALi Corporation's compensatory employee stock options granted for the year ended December 31, 2004 and 2003 is shown as follows:

Stock Options	For the year ended December 31, 2005 Units (in thousands)	Weighted average exercise price (NT$)
Outstanding at beginning of year	1,616	$17.70
Granted units	5,670	20.50
Exercised units	-	-
Revoked (forfeited) units	-	-
Outstanding at end of year	7,286	19.88
Exercisable at end of year	-	
Weight-average fair value of options granted during the year	NT$4.5	

As of December 31, 2005 the respective information of the units and weighted average exercise price for stock option plans as follows:

		Outstanding stock options			Exercisable stock options	
	Range of Exercise Price (NT$)	Outstanding Units (in thousand)	Weighted-Average Expected Remaining Year	Weighted-Average Exercise Price (NT$)	Exercisable Units (in thousand)	Weighted-Average Exercise Price (NT$)
Stock option plan of 2003	$17.70	1,616	2.39	$17.70	-	-
Stock option plan of 2004	20.50	5,670	2.23	20.50	-	-
Total		7,286	2.27	19.88	-	-

The Company’s pro-forma information for the compensation expense recognized under fair value method of ALi Corporation and Alpha Imaging Technology Corporation were as follows:

		For the year ended December 31, 2005
Consolidated net income attributable to parent company's shareholders	Net income	$18,273,633
	Pro-forma net income	18,270,058
Basic EPS	Earnings per share	19.02
	Pro-forma earnings per share	19.01
Consolidated net income attributable to minority interests	Net income	587,030
	Pro-forma net income	577,723
Basic EPS	Earnings per share	0.61
	Pro-forma earnings per share	0.60

(16) Earnings Distribution

Net income for the year ended December 31, 2005 may be appropriated or distributed in the following sequences:

(a) Income tax obligation;
(b) Offsetting accumulated deficits, if any;
(c) Legal reserve at 10% of net income;
(d) Reserve or reverse for special reserve in compliance with the Company Law or the Securities and Exchange Law;
(e) Remuneration for directors and supervisors to a maximum of 0.5% of the remaining of (a) through (d), while remuneration for directors and supervisors’ services is limited to cash payments.
(f) The remaining balance after all the above appropriations and distributions, combining with inappropriate earnings from prior years, shall be fully for shareholders’ dividends and employees’ bonuses and may be retained or distributed proportionally. The portion of employees’ bonuses may be within 10% to 15% of total earnings resolved to distribute for shareholders’ dividends and employees’ bonuses. Employees’ bonuses may be distributed in form of shares or cash, or both. The qualification of employees entitled to the bonuses is at the discretion of board meeting. Employees serving the Company’s subsidiaries are inclusive.

Shareholders' dividends and employees' bonuses may be distributed in the form of shares or cash, or both, and cash dividends to be distributed might not be less than 10% of total dividends to be distributed.

The Company's Articles of Incorporation, revised on June 21, 2006, provided that the appropriation earning for 2006 are consistent with the above appropriation of earning for 2005. According to the amended articles, the portion of employees' bonuses may not be less than 1% of total earnings resolved to distribute for shareholders' dividends and employees' bonuses.

According to the regulations of Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C., the Company is required to appropriate a special reserve in the amount equal to the sum of debit elements under shareholders' equity, such as unrealized loss on long-term equity investment, negative cumulative translation adjustment, at each year-end. Such special reserve is prohibited from being distributed. However, if any of the debit elements is reversed, the special reserve in the amount equal to the reversal may be released for earnings distribution.

(17) Treasury Stock

The Company's shares owned by its subsidiaries are also accounted for as treasury stock. Movement of the Company's treasury stock was as follows:

	January 1, 2006		Additions		December 31, 2006		
Owner	Shares	Amount (NT$'000)	Shares	Amount (NT$'000)	Shares	Amount (NT$'000)	Market Value (NT$'000)
MediaTek Capital Corp.	6,654,670	$55,970	665,467 (Remark)	$-	7,320,137	$55,970	$2,466,886

	January 1, 2005		Additions		December 31, 2005		
Owner	Shares	Amount (NT$'000)	Shares	Amount (NT$'000)	Shares	Amount (NT$'000)	Market Value (NT$'000)
MediaTek Capital Corp.	6,049,700	$55,970	604,970 (Remark)	$-	6,654,670	$55,970	$2,395,082

Remark: Stock dividends received.

Cash dividends distributed to the Company's subsidiaries are deducted from investment income account and credited to capital reserves-treasury stock transaction. Please refer to note 4. (14).

(18) Sales Revenues-Net

In thousand NTD	For the year ended December 31, 2006	2005
Revenues from sales of chipsets	$58,190,110	$54,301,326
Others	499,971	463,647
Subtotal	58,690,081	54,764,973
Less: Sales returns and discounts	(2,292,796)	(1,962,213)
Net sales	$56,397,285	$52,802,760

(19) Personnel, Deprecation and Amortization Expenses

	For the year ended December 31,					
	2006			2005		
In thousand NTD	Recorded under cost of goods sold	Recorded under operating expense	Total	Recorded under cost of goods sold	Recorded under operating expense	Total
Personnel Expense						
Salary expense	$86,223	$2,719,036	$2,805,259	$87,055	$2,606,186	$2,693,241
Insurance expense	4,012	95,194	99,206	4,273	101,161	105,434
Pension expense	3,051	80,109	83,160	3,338	47,415	50,753
Other	1,048	40,926	41,974	1,146	34,885	36,031
Total	$94,334	$2,935,265	$3,029,599	$95,812	$2,789,647	$2,885,459
Depreciation	$7,256	$413,797	$421,053	$15,668	$275,146	$290,814
Amortization (Remark)	$1,302	$1,179,609	$1,180,911	$1,017	$933,758	$934,775

Remark: The amount includes amortization of technical rights.

(20) Income Tax

a. Pursuant to the "Statute for Upgrading Industries", the Company is entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. The Company has elected the tax exemption period to be from January 1, 2002 through December 31, 2006, January 1, 2003 through December 31, 2007, January 1, 2004 through December 31, 2008, and January 1, 2005 through December 31, 2009.

b. The Company and subsidiaries have filed respective business income tax return separately. There is no allowance for combining their filings into one.

c. The Company's income tax returns for the years from 1998 to 2001 have been assessed and approved by the tax authorities NT$418,697 thousand of additional income tax payable was imposed. Though the Company has vigorously filed several administrative appeals to tax authority and the Courts, the Company has fully accrued the additional tax liability. For 1999's appeal, the final ruling in favor for the Company has been determined by court during July 2006 and the tax authority has to re-assess the tax return accordingly. Beside, the tax authority has assessed the Company's income tax returns for the Year 2002 and imposed an additional income tax of NT$899,276 thousand. The discrepancy between the Company's tax return filing and the result of tax authority's assessment was mainly because of the different viewpoints on the calculating exempted income from tax holiday. The Company has vigorously filed a revision on the tax assessment and sufficiently accrued the probable tax payable.

d. The Company and domestic subsidiaries' available investment tax credits as of December 31, 2005 were as follows:

Year incurred	Nature of Expenditures	Total credit amount (NT$'000)	Unused amount (NT$'000)	Year expired
2004	R&D	$1,224,202	$905,204	2008
2004	Investment in important technology-based enterprises	13,160	3,007	2008
2005	R&D	1,095,201	1,095,201	2009
2005	Human development	1,168	1,168	2009
2006(Estimate)	R&D	1,321,874	1,321,874	2010
2006(Estimate)	Human development	1,327	1,327	2010
	Total	$3,656,932	$3,327,781	

The investment tax credits listed above have been included in deferred income tax assets.

e.

(a) Deferred income tax assets (liabilities) *(In thousand NTD)*

	As of December 31, 2006
Total deferred income tax liabilities	$(18,905)
Total deferred income tax assets	$3,796,916
Valuation allowance for deferred income tax assets	$2,334,355

(b) Temporary differences generated from deferred income tax assets (liabilities) *(In thousand NTD)*

	As of December 31, 2006	
The Company and domestic subsidiaries	Amount	Tax effect
Deductible temporary difference-Recognition of unrealized allowance for inventory obsolescence	$402,065	$3,875
Deductible temporary difference-Unrealized allowance for doubtful accounts recognition	$146,975	$1,416
Deductible temporary difference-Unrealized technology license fee	$1,084,050	$10,447
Taxable temporary difference-Unrealized foreign exchange gain	$(108,616)	$(1,047)
Deductible temporary difference-Unrealized loss on valuation of financial assets	$13,689	$132
Deductible temporary difference-Unrealized long-term investment loss	$1,702,351	$425,588
Deductible temporary difference-others	$492	$123
Investment tax credits		$3,327,781
The foreign subsidiaries		
R&D investment tax credits		$23,888
Deductible temporary difference-others		$3,666
Taxable temporary difference-others		$(17,858)

(c)

In thousand NTD	As of December 31, 2006
Deferred income tax assets-current	$350,305
Valuation allowance for deferred income tax assets-current	(6,673)
Net deferred income tax assets-current	343,632
Deferred income tax liabilities-current	(8,488)
Net deferred income tax assets and liabilities-current	$335,144

(d)

In thousand NTD	As of December 31, 2006
Deferred income tax assets-noncurrent	$3,446,611
Valuation allowance for deferred income tax assets-noncurrent	(2,327,682)
Net deferred income tax assets-noncurrent	1,118,929
Deferred income tax liabilities-noncurrent	(10,417)
Net deferred income tax assets and liabilities-noncurrent	$1,108,512

(e) Income tax payable and income tax expense are reconciled as follows:

In thousand NTD	For the year ended December 31, 2006
Income tax payable	$233,664
10% tax on undistributed earnings	487,881
Investment tax credits	(363,257)
Deferred income tax effects	
Investment tax credits	213,108
Valuation allowance	(319,567)
Others	256,696
Accruals for additional prior year income tax	1,331,000
Prior year income tax adjustment	112,331
Others	(113,092)
Income tax expense	1,838,764
Tax benefit from cumulative effect of changes in accounting principles	12
Income tax expense from continuing operations	$1,838,776

(f) Integrated income tax information

In thousand NT	As of December 31, 2006
Balance of the imputation credit account (ICA)	$712,526
Expected creditable ratio	2.19%(Remark)

Remark: The ratio was computed based on the amount of actual available shareholders' tax credits plus estimated income tax payable as of December 31, 2006.

(g) Information related to undistributed retained earnings

In thousand NTD	As of December 31, 2006
Prior to 1998	$-
After 1998 (inclusive)	47,175,664
Total	$47,175,664

f. (a) Deferred income tax assets (liabilities) (*In thousand NTD)*

	As of December 31, 2005
Total deferred income tax liabilities	$(36,224)
Total deferred income tax assets	$4,284,039
Valuation allowance for deferred income tax assets	$2,653,922

(b) Temporary differences generated from deferred income tax assets (liabilities) *(In thousand NTD)*

	As of December 31, 2005	
The Company and domestic subsidiaries	Amount	Tax effect
Deductible temporary difference-Recognition of unrealized accrued expenses	$14,674	$52
Deductible temporary difference-Recognition of unrealized allowance for inventory obsolescence	$428,788	$67,756
Deductible temporary difference-Unrealized allowance for doubtful accounts	$200,792	$717
Deductible temporary difference-Unrealized technology license fee	$1,806,750	$6,454
Taxable temporary difference-Unrealized foreign exchange gain	$(42,439)	$(4,358)
Deductible temporary difference-Unrealized long-term investment loss	$693,420	$173,355
Deductible temporary difference-Unrealized sales discounts	$328,393	$82,098
Deductible temporary difference-Allowance for sales returns and discounts	$635	$159
Taxable temporary difference-Cumulative translation adjustments	$(47,648)	$(11,912)
Taxable temporary difference-Unrealized pension expense	$(34,202)	$(8,551)
Deductible temporary difference-Recognition of unrealized pension expenses	$319	$80
Deductible temporary difference-Unrealized patents and computer software cost	$316,990	$79,248
Deductible temporary difference-others	$807,062	$201,766
Loss carry forwards	$432,249	$105,812
Investment tax credits		$3,542,263
The foreign subsidiaries		
Research and development tax credit		$22,514
Loss carry forwards		$413
Deductible temporary difference-other		$1,352
Taxable temporary difference-other		$(11,403)

(c)

In thousand NTD	As of December 31, 2005
Deferred income tax assets-current	$580,245
Valuation allowance for deferred income tax assets-current	(338,465)
Net deferred income tax assets-current	241,780
Deferred tax income liabilities-current	(4,358)
Net deferred income tax assets and liabilities-current	$237,422

(d)

In thousand NTD	As of December 31, 2005
Deferred income tax assets-noncurrent	$3,703,794
Valuation allowance for deferred income tax assets-noncurrent	(2,315,457)
Net deferred income tax assets-noncurrent	1,388,337
Deferred income tax liabilities-noncurrent	(31,866)
Net deferred income tax assets and liabilities-noncurrent	$1,356,471

(e) Income tax payable and income tax expense are reconciled as follows:

In thousand NTD	For the year ended December 31, 2005
Income tax payable	$113,721
10% tax on undistributed earnings	151,227
Investment tax credits	(132,474)
Deferred income tax effects	
Investment tax credits	(1,998,352)
Valuation allowance	1,719,648
Others	(546,278)
Accruals for additional prior year income tax	657,236
Prior year income tax adjustment	40,158
Others	130,911
Income tax expense from continuing operations	$135,797

(f) Integrated income tax information

In thousand NTD	As of December 31, 2005
Balance of the imputation credit account (ICA)	$696,965
Actual creditable ratio	2.16%

(g) Information related to undistributed retained earnings

(In thousand NTD)	As of December 31, 2005
Prior to 1998	$-
After 1998 (inclusive)	37,993,458
Total	$37,993,458

(21) Earnings Per Share

The weighted average numbers of common shares outstanding were computed as follows:

(in shares)

	For the year ended December 31,	
Contents	2006	2005
Weighted average shares outstanding, ending (Less the Company's share owned by its subsidiary)	960,992,546	960,992,546

	Amount (numerator)			Earning per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
For the year ended December 31, 2005:					
Consolidated net income attributable to parent company's shareholders					
Basic EPS					
Income before cumulative effect of changes in accounting principles	$24,383,678	$22,571,526	960,992,546	$25.37	$23.49
Cumulative effect of changes in accounting principles	8,044	8,056		0.01	0.01
Net income	$24,391,722	$22,579,582		$25.38	$23.50
Consolidated net income attributable to minority interests					
Basic EPS					
Income before cumulative effect of changes in accounting principles	$600,994	$574,370	960,992,546	$0.63	$0.60
Cumulative effect of changes in accounting principles	1,258	1,258		-	-
Net income	$602,252	$575,628		$0.63	$0.60

	Amount (numerator)			Earning per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
For the year ended December 31, 2005:					
Consolidated net income attributable to parent company's shareholders					
Basic EPS					
Income before cumulative effect of changes in accounting principles	$18,400,854	$18,273,633	960,992,546	$19.15	$19.02
Cumulative effect of changes in accounting principles	-	-		-	-
Net income	$18,400,854	$18,273,633		$19.15	$19.02
Consolidated net income attributable to minority interests					
Basic EPS					
Income before cumulative effect of changes in accounting principles	$595,606	$587,030	960,992,546	$0.62	$0.61
Cumulative effect of changes in accounting principles	-	-		-	-
Net income	$595,606	$587,030		$0.62	$0.61

5. Related Party Transactions

(1) Related Parties and Relations

Related parties	Relations
United Microelectronics Corp. ("UMC")	The supervisor of the Company (Remark 1)
King Yuan Electronics Co., Ltd. ("KING YUAN")	The chairman of the Company and KING YUAN are close relatives.
PixArt Imaging Inc.("PII")	A subsidiary served as the Board
ALi Corporation ("ALi")	Equity investee(Remark 2)
Alpha Imaging Technology Corp. ("Alpha")	Indirect equity investee(Remark 2)
UMC Japan ("UMCJ")	Affiliated company of UMC(Remark 1)
Jmicron Technology Corp. ("Jmicron")	Same person represents the chairman of both companies' boards.
Richwave Technology Corp. ("Richwave")	ALi is legal representative of Richwave Technology Corp. (Remark 3)
ULi Electronics Inc.("ULi")	Affiliated company of the Company(Remark 4)

Remark 1:

Due to UMC resigning from the supervisor of the Company on April 18, 2006, UMC and its affiliated companies were not the related parties of the Company since then. The following related party transactions and accounts related to UMC and its affiliated companies were only up to March 31, 2006.

Remark 2:

The following information related to Alpha, ALi and its subsidiaries were presented as related party transactions and accounts starting October 2006 as the Company lost its controlling power over these companies. Prior to then, they were consolidated in the Company's financial statements.

Remark 3:

Because ALi disposed its shares of Richwave during April and May, 2006, Richwave was not accounted for as a related party of the Company since then. The following related party transactions and accounts regarding Richware were presented only up to May 31, 2006.

Remark 4:

With respect to the merger between ULi and NVIDIA described in the Note 2(1) to the financial statements, the assets and liabilities of ULi's subsidiaries were included in disposal group, instead of being presented in related party accounts, as of December 31, 2005. Though, the transactions between ULi and its related parties were accounted for related party transactions for the year then ended. As the merger was made effective and ULi was dissolved at February 2006, the transactions incurred between the Company and ULi and for the period from January 1 to the merger date were accounted for as related party transactions in the Company's consolidated financial statements.

(2) Major Transactions with Related Parties

a. Sales

	For the year ended December 31,			
In thousand NTD	2006		2005	
	Amount	%	Amount	%
Richwave	$298	-	$105	-
Alpha	11,877	0.02	-	-
ALi	41	-	-	-
Total	$12,216	0.02	$105	-

The prices were made according to the product specification and the price terms for the related parties were similar to those for regular customers.

b. Purchases

In thousand NTD	As of December 31, 2006		2005	
	Amount (Remark)	%	Amount	%
UMC	$2,783,853	19.36	$8,776,449	60.24
UMCJ	-	-	277,704	1.91
Jmicron	-	-	4,492	0.03
Total	$2,783,853	19.36	9,058,645	62.18

Remark: Prices for purchases from related parties are not comparable because the manufacturing process and product specification are significantly different. Payment terms to UMC was end-of-month 45 to 60 days, and to other suppliers were end-of-month 45 to 90 days.

c. Alpha was pledged a time deposit of NT$30,000 thousand to UMC as a production deposits for the year ended December 31, 2005. It is recorded under the caption of restricted deposit, please refer to Note 6. ULi pledged a time deposit of NT$81,900 thousand to UMC as a production deposit for the year ended December 31, 2005.

d. The Company and subsidiaries paid NT$1,162,614 thousand and NT$935,679 thousand to KING YUAN for the years ended December 31, 2006 and 2005, respectively, for its various IC testing and experimental services.

e. The Company and subsidiary paid NT$1,424 thousand and NT$23,901 thousand to UMC for indirect materials and technology service for the years ended December 31, 2006 and 2005, respectively.

f. ALi earned NT$521 thousand of revenue for the year ended December 31, 2006 by providing ULi with R&D and administrative services.

g. ALi rented part of its NASA building to ULi and earned rental revenue in amount of NT$3,755 thousand for the year ended December 31, 2006. As of December 31, 2005, ULi deposited NT$3,478 thousand to ALi for the office lease and recorded it under the account of deposits received. Please also refer to Note 5(3) (a).

h. ALi purchased materials in amount of NT$6,468 thousand from third-party suppliers on behalf of ULi for the year ended December 31, 2006.

i. The Board of the Company in a meeting held in August 2006 resolved to sell part of its buildings and miscellaneous equipment to PII. An agreement at the selling price of NT$82,220 thousand, not including sale tax, was entered into right in the same month. The Company passed the title of the underlying facility to PII in November 2006 and incurred a loss on disposal of fixed assets of NT$18,691 thousand with payment in full by PII prior to the end of the year 2006.

(3) Receivables and payables resulting from the above transactions:

(a) Receivables from related parties

	As of December 31,			
In thousand NTD	2006		2005	
	Amount	%	Amount	%
ULi(Remark)	$-	-	$9,785	0.21
Richwave	-	-	663	0.01
ALi	43	-	-	-
Alpha	164	-	-	-
Total	$207	-	$10,448	0.22

Remark: ULi, one of ALi's subsidiaries, was held for disposal as of December 31, 2005, and was not eliminated reciprocal receivables and payables.

(b) Payables to related parties

	As of December 31,			
In thousand NTD	2006		2005	
	Amount	%	Amount	%
UMC	$-	-	$2,046,192	36.18
KING YUAN	196,472	4.58	206,528	3.65
Other	-	-	339	0.01
Total	$196,472	4.58	$2,253,059	39.84

6. Assets Pledged As Collateral

(1) As of December 31, 2006: None

(2) As of December 31, 2005:

In thousand NTD	Net book value	Secured financial institutions	Contents (Purpose)
Restricted deposits-current	$24,000(Remark)	Farmers Bank of China	Long-term debt
Restricted deposits-current	30,000	UMC	Production deposit
Restricted deposits-current	5,000	ChiaoTong Bank	Tariff execution deposits
Restricted deposits-current	80	Chinese Petroleum Corp.	Membership of auto club
Land, building and facilities (including leased assets)	1,451,348	Chinese Development Industrial Bank	Secured convertible bonds
Total	$1,510,428		

Remark：The company paid off these debts in October 2005. The Company didn't finished handling and removing hypothecation yet up to December 31, 2005.

7. Commitments and Contingencies

(1) Litigation

a. On April 7, 2005, Sanyo Electric Co. ("Sanyo") filed a complaint with the Central District of California, USA, alleging certain of the Company's chips infringed two of its US patents (Pat. No. 5499252 and 5818801), seeking damages and injunctive relief against any and all infringing products. The Company filed a motion to add a counterclaim with one US patent (Pat. No. 6003151), seeking damages and injunctive relief against any and all of Sanyo's infringing products. The Central District of California granted the Company's motion on December 5, 2006.

On August 31, 2005, the Company filed a complaint against Sanyo and Sanyo North America Corp. in the Eastern District of Texas, stating that Sanyo's products such as DVD players, DVD recorders, and digital televisions separately infringed certain of the Company's US patents (Pat. No. 5867819 and 6118486), seeking damages and future injunctive relief against any and all of Sanyo's infringing products. In addition, the Company amended its complaint on October 3, 2006, adding that Sanyo's DVD recorders, digital cameras and cellular phones also infringed another one of the Company's US patents (Pat. No. 5751356). On November 28, 2005, Sanyo filed motion to transfer this action to Central District of California where a second and unrelated action is pending. Furthermore, Sanyo attempted to add two counterclaims for patent infringement that included two unrelated patents (Sanyo’s U.S. Patent No.6594213 and 6487616). On February 1, 2006, the Texas Court denied Sanyo’s motion to transfer. The judge in the Eastern District of Texas severed Sanyo’s counterclaims from the Texas case and transferred U.S. Patent No.6594213 and 6487616 to the Central District of California where they were re-filed as the current action. On April 25, 2006, Sanyo and the Company filed a joint stipulation that the action in the Central District, including Sanyo’s allegations that the Company’s Chips infringed U.S. Patents No.6594213 and 6487616, be dismissed with prejudice. On April 28, 2006, the Court signed an order dismissing the Central District Case, and all claims pending therein, with prejudice. The Company will use its best efforts to handle this litigation.

b. On August 3, 2005, Matsushita Electric Industrial Co., Ltd. (“MEI”) filed a complaint for patent infringement against the Company in the U.S. District Court for the Northern District of California. In the complaint, MEI alleges that the Company infringes U.S. Pat. No.5548249, 5970238 and 6728475. The Complaint seeks both damages and an injunction prohibiting the sale of the Company’s products that infringe upon the aforementioned MEI patents. The Company has asserted a counterclaim against MEI and Panasonic Corporation of North America (“Panasonic”) for patent infringement of U.S. Pat. No.5970031, also seeking both damages and an injunction prohibiting the sale of all MEI products that infringe upon the aforementioned Company patent. Further, on October 17, 2005, the Company filed a complaint for patent infringement against MEI and Panasonic in the Eastern District of Texas, asserting that the DVD recorders and digital TVs of MEI and Panasonic infringe upon the Company’s U.S. Pat. No.5802068 and 6118486, respectively. The Company is seeking monetary damages and an injunction. On February 2, 2006, Matsushita and Panasonic filed their answer to the complaint. Included in the answer are counterclaims for patent infringement of Matsushita’s U.S. Patent No.5347232 and 6828865.The Company is cautiously handling these litigations.

(2) Commitments

a. As of December 31, 2006, totaling US$2,056 thousand of the Company’s other significant contracts remained unpaid.

b. The Company entered into a patent license agreement with Zoran Corporation and it's subsidiary-OAK in January 2006. Zoran Corporation and OAK granted to the Company and its subsidiaries the right of utilizing related patent on Optical Storage products. Both parties came to an agreement that, starting January 2006, the Company shall pay Zoran a monthly royalty charge of US$1,000 thousand for a period of 30 months if the sale of units of the licensed products reaches certain level. Total royalties charge shall not exceed the ceiling of US$30,000 thousand.

c. The Company has entered certain lease agreements for land with the Administrative Bureau of HSIP for its need of operation. Related rent incurred in the future would be as follows:

Lease Period	Amount
2007.01.01~2007.12.31	$25,474
2008.01.01~2008.12.31	24,406
2009.01.01~2009.12.31	23,879
2010.01.01~2010.12.31	23,879
2011.01.01~2023.12.31	295,326
Total	$392,964

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

10. Others

(1) Financial Instruments

a. Fair value of financial instruments

	As of December 31,			
	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Non-derivative				
Assets				
Cash and cash equivalents	$46,838,240	$46,838,240	$43,645,496	$43,645,496
Held for trading financial assets-current (excluding derivatives)	$2,526,084	$2,526,084	$2,113,712	$2,133,837
Financial assets designated as at fair value through profit or loss	$465,133	$465,133	$-	$-
Receivables (including receivables from related parties)	$3,857,001	$3,857,001	$4,629,201	$4,629,201
Other receivables	$336,449	$336,449	$317,606	$317,606
Available-for-sale financial assets	$6,427,147	$6,427,147	$-	$-
Held-to- maturity financial assets	$162,980	$162,980	$-	$-
Financial assets carried at cost	$698,942	$-	$651,196	$-
Bond portfolios with no active market	$1,000,000	$-	$1,000,000	$-
Investment accounted for using equity method				
-Those with market value	$1,057,009	$3,512,282	$-	$-
-Those without market value	$1,034,759	$-	$51,730	$-
Refundable deposits	$25,351	$25,351	$81,905	$81,905
Restricted deposits	$-	$-	$59,080	$59,080
Liabilities				
Payables (including due to related parties)	$4,285,215	$4,285,215	$5,655,126	$5,655,126
Income taxes payables	$2,341,571	$2,341,571	$913,252	$913,252
Accrued expenses	$2,037,920	$2,037,920	$3,629,217	$3,629,217
Payables to contractors and equipment suppliers	$162,559	$162,559	$316,582	$316,582
Bonds payable	$-	$-	$961,672	$1,074,979
Guarantee deposit	$-	$-	$7,437	$7,437
Derivatives				
Assets				
Held for trading financial assets-current				
Forward exchange contracts	$897	$897	$52,016	$49,010
Held for trading financial liabilities-current				
Forward exchange contracts	$14,586	$14,586	$-	$-

(a) The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:

(i) The fair values of the Company’s short-term financial instruments were based on the book value of those instruments at the reporting date due to their short maturities. This method was applied to cash and cash equivalents, accounts receivable, other receivables, payables, income taxes payables, accrued expenses and payables to equipment suppliers and Payables to contractors and equipment supplier.

(ii) The fair values of the Company’s refundable deposits、Guarantee deposit and restricted deposits were based on the book value because the Company predicts the future cash inflow is similar with the book value.

(iii) The fair values of held for trading financial assets-current and available-for-sale financial assets were based on their quoted market price at the reporting date.

(iv) Financial assets carried at cost: Holdings in the following stocks that have no material influence, or derivatives linked to and settled in those stocks:

I. Stocks not listed on the Taiwan Stock Exchange or the GreTai.

II. Emerging stocks.

(v) The fair values of the Company’s investments accounted for under equity method were based on quoted market prices, if available, at the reporting date. If market prices were impractical and not available, the Company did not provide the information of fair values.

(vi) The fair values of derivative financial instruments-forward exchange contracts and financial assets designated as at fair value through profit or loss - credit link deposits, were based on the quoted market price provided by counter-party banks.

(vii) The fair values of derivative financial instruments-forward exchange contracts and financial assets designated as at fair value through profit or loss - credit link deposits, were based on the quoted market price.

(viii) The fair values of Bonds payable were based on the quoted market price.

(ix) If an active market for held-to-maturity financial assets is available and provides reasonable quoted prices, the Company would apply the quoted market price for its fair value. While, the Company alternatively assesses the fair value for held-to-maturity financial assets by applying a valuation technique upon any active market being not available. The estimations and assumptions underlying the valuation technique applied by the Company are in consistence with those underlying the pricing techniques commonly used by financial market participants. The discount rates used by the Company in applying the valuation technique are equivalent to the rates of return on those financial instruments with terms and characteristics similar in substance, if obtainable.

(b) Losses recognized for the changes in fair value of financial assets estimated using valuation techniques were NT$12,252 thousand for the year ended December 31, 2006.

(c) Financial assets exposed to fair value risk due to fixed interest rate amounted to NT$38,383,129 thousand and NT$33,364,832 thousand as of December 31, 2006 and 2005, respectively, while financial liabilities NT$0 and NT$921,672 thousand, respectively. The financial assets exposed to cash flow risk due to variable interest rate amounted to NT$7,684,860 thousand and NT$11,604,682 thousand as of December 31, 2006 and 2005, respectively, while financial liabilities were none.

(d) Interest income recognized from financial assets and financial liabilities other than at fair value through profit or loss amounted to NT$944,614 thousand and NT$709,190 thousand as of December 31, 2006 and 2005, respectively, while interest expense NT$6,826 thousand and NT$19,207 thousand, respectively. The Company and subsidiaries recognized unrealized gains, not through earning but shareholder’s equity, of NT$78,110 thousand and NT$0 for changes in fair value of available-for-sale financial assets for the years ended December 31, 2006 and 2005, respectively, while the amounts that were realized in earnings and removed from equity were nil. Impairment loss on financial assets amounted to NT$12,000 thousand and NT$48,873 thousand for the years ended December 31, 2006 and 2005, respectively.

b.

(a) Risk management policy and hedge strategy for financial instruments

The Company and its subsidiaries held certain non-derivative financial instruments, including: cash and cash equivalents, held for trading financial assets-mutual fund, government bonds and corporate bonds. The Company held the financial instruments to meet operating cash needs. The Company held other financial instruments such as receivables, other receivables, payables, financial assets designated as at fair value through profit or loss, available-for-sale financial assets, financial assets measured at cost, bond portfolios with no active market, held-to-maturity financial assets and long-term investments accounted for using equity method.

The Company and its subsidiaries entered into forward exchange contracts. Forward contracts were used to hedge foreign-currency-denominated assets and liabilities. Derivatives that do not meet the criteria for hedge accounting of the newly released SFAS No. 34 are initially recognized at financial assets/liabilities at fair value through profit or loss-current.

(b) Information of financial risks

Major risks of financial instruments were market risk, credit risk, liquidity risk and cash flow interest rate risk. The management policy was summarized as follows:

Market risk

Market risk includes currency risk; it comes from the purchases or sales activities which are not denominated in functional currency. The Company and its subsidiaries review its foreign-currency-denominated assets and liabilities, and decide to enter into forward exchange contracts for hedging exchange rate fluctuation risk to meet operating needs. Because the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the contracts are expected to offset changes in rates of a hedged item, and the market risk is not material. Credit-linked deposits are affected by interest rate. When interest rate increases, the market value may decrease even blow the initial investment cost; in the contrary, the market value may increase. The fair value of mutual fund, government bonds and corporate bonds will be fluctuated by other market factors as well as interest rates.

Credit risk

Credit risk represents the potential loss that would be incurred by the Company and its subsidiaries if the counter-party or third-party breached the contracts. It affects significant concentrations of credit risk, components, the price of contract and other receivables of financial instruments. The accrual amount of credit risk were NT$187,437 thousand and NT$243,708 thousand as of December 31, 2006 and 2005, respectively. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk, which incurs when counter-party or third-party to a financial instrument fails to discharge an obligation and the Company and its subsidiaries are caused to suffer a financial loss. Since the counter-party or third-party to the foregoing forward exchange contracts are of reputable financial institution, management believes that the Company and its subsidiaries' exposure to default by those parties is low. Credit risk of credit-linked deposits would be incurred if issuing banks breached the contracts or the debt issuer could not pay off the debts and the value of credit-linked deposits may drop to zero. Therefore, the Company and its subsidiaries minimized the credit risk by selecting counter-party who is reputable and in good financial standing.

Liquidity risk

The Company and its subsidiaries have sufficient operating capital to meet cash needs upon settlement of derivatives financial instruments. Therefore, the liquid risk is low.

Except for financial assets measured at cost, investment in bonds with no active market and long-term investment accounted for under equity method that may have significant liquidity risks resulted from lack of an active market, the equity securities, bonds and funds held by the Company and its subsidiaries are traded in active markets and cab be sold promptly at the prices close to its fair values. Since the exchange rates of forward exchange contracts are fixed at the time the contracts are entered into and the Company and its subsidiaries do hold and anticipates holding sufficient financial asset position in USD, no significant additional cash requirement is anticipated and the liquid risk is low.

The liquidity risk for credit-linked investment incurs since the Company and its subsidiaries have no right to have the instrument redeemed or called prior to its maturity. The Company and its subsidiaries minimized such risk by prudential evaluation over the underlying before investment.

Cash flow interest rate risk

The Company and its subsidiaries main financial instruments exposed to cash flow interest rate risk is the investment in time deposits with variable interest rate. There is no significant impact due to fluctuation in interest rate since the duration of time deposits is short. The cash flow risk from fluctuation in interest rate is minimized.

(2) Others

a. Based on the Board’s approval at August 26, 2005, the Company set out its plan in acquiring Alpha Imaging Technology Corporation (“AIT”) with a stock-for-stock transaction. Each of the Company’s shares was entitled to 3.392 AIT shares according to the purchasing contract. At December 30, 2005, the contract is however cancelled due to the exchange rate unable to reflect true value of said transaction. The Board has approved on the cancellation.

b. Certain accounts in the financial statements of the Company and subsidiaries as of December 31, 2005 have been reclassified to conform to the presentation of the current period.

(3) Intercompany relationships and significant intercompany transactions for the year ended December 31, 2006: (Please refer to the Note 5 to the consolidated financial statements for transactions between the consolidated entities, including the Company and Subsidiaries, and the unconsolidated; while, the Company's shares owned by subsidiaries were described in the Note 4. (17) to the consolidated financial statements.)

No. (Remark 1)	Company Name	Counter Party	Relationship with the Company (Remark 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Remark 3)
0	MediaTek Inc.	MediaTek Limited	1	Sales revenue	$149,699	Collection terms were month end 45 days	0.26%
		Crystal Media Technology, Inc.	2	Research and development expenses	$32,348	-	0.06%
1	MediaTek Capital Corp.	Gaintech Co. Limited	3	Receivables from related parties	$58,228	Remark 4	0.08%
2	Gaintech Co. Limited	Pixtel Media Technology Private Ltd	3	Payable to related parties	$29,545	By the contract	0.04%
			3	Administrative expenses	$113,196		0.19%
		MediaTek Sinagapore Pte. Ltd.	3	Prepayments	$46,350		0.06%
			3	Administrative expenses	$135,354		0.23%
		CrystalMedia Technology, Inc.	3	Payable to related parties	$34,243		0.04%
			3	Administrative expenses	$177,322		0.30%

No. (Remark 1)	Company Name	Counter Party	Relationship with the Company (Remark 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Remark 3)
3	MediaTek Limited	MediaTek Inc. China	3	Payable to related parties	$12,224	By the contract	0.02%
			3	Administrative expenses	$77,266		0.13%
		MedaiTek (ShenZhen) Inc.	3	Administrative expenses	$175,678		0.30%
		MediaTek (Beijing) Inc.	3	Administrative expenses	$22,773		0.04%
4	MedaiTek (ShenZhen) Inc.	MediaTek (Beijing) Inc.	3	Payable to related parties	$551	-	-

Intercompany relationships and significant intercompany transactions for the year ended December 31, 2005:

No. (Remark 1)	Company Name	Counter Party	Relationship with the Company (Remark 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated total revenue or total assets (Remark 3)
0	MediaTek Inc.	ALi Corporation	1	Receivables from related parties	$4,200	Collection terms were month end 45 ~60 days	0.01%
			1	Sales revenue	$24,917		0.05%
			2	Payables to related parties	$1,034	Payment terms were month end 45 ~60 days	-
			2	Patents and IPs	$190,542	By the contract	0.28%
			2	Research and development expenses	$83,839		0.15%
			2	Long-term investments	$2,900	Remark 4	-
		MediaTek Limited	1	Sales revenue	$110,085	Collection terms were month end 45 ~60 days	0.20%
			1	Receivables from related parties	$45,946		0.07%

No. (Remark 1)	Company Name	Counter Party	Relationship with the Company (Remark 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Remark 3)
0	MediaTek Inc.	CrystalMedia Technology, Inc.	2	Research and development expenses	$95,220	By the contract	0.17%
			2	Patents and IPs	$32,348		0.05%
		Wireless ICs, Inc.	2	Research and development expenses	$45,028		0.08%
		Alpha Imaging Technology Corporation	1	Receivables from related parties	$276		-
			1	Sales revenue	$8,887		0.02%
			1	Other revenue	$78		-
			2	Research and development expenses	$9,452		0.02%
1	Gaintech Co. Limited	Pixtel Media Technology Private Limited	3	Administrative expenses	$80,448		0.15%
		CrystalMedia Technology, Inc.	3	Receivables from related parties	$24,861		0.04%
			3	Administrative expenses	$61,140		0.11%
		Wireless ICs, Inc.	3	Administrative expenses	$64,358		0.12%
		Media Singapore Pte. Ltd.	3	Prepayments	$27,347		0.04%
			3	Administrative expenses	$53,659		0.10%

No. (Remark1)	Company Name	Counter Party	Relationship with the Company (Remark 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Remark 3)
2	MediaTek Limited	MediaTek Inc. China	3	Administrative expenses	$57,922	By the contract	0.11%
		MediaTek (ShenZhen) Inc.	3	Administrative expenses	$82,700		0.15%
3	ALi Corporation	ULi Electronics Inc.	3	Subtrahend of the operation cost	$6,410	By the contract	0.01%
				Sales revenue	$7,750	Remark 5	0.01%
				Rental revenue	$23,025	By the rental contract	0.04%
		ALi (BVI) Microelectronics Corporation	3	Software	$71,429	By the contract	0.11%
			3	Payables to related parties	$26,181	Collection terms were month end 30~60 days	0.04%
		T-Square Technology Inc. (Cayman)	3	Software	$70,972	By the contract	0.10%
			3	Prepayments	$16,598		0.02%
4	ALi (BVI) Microelectronics Corporation	ALi (Shanghai) Corp.	3	Software	$50,675		0.07%
		T-Square Electronics (Shanghai)	3	Software	$16,476		0.02%

No. (Remark 1)	Company Name	Counter Party	Relationship with the Company (Remark 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Remark 3)
5	ULi Electronics Inc.	ULi Electronics Inc. (BVI)	3	Service fee	$10,198	By the contract	0.02%
			3	Software	$34,471	Payment terms were month end 30~60 days	0.05%
		ULi Electronics Inc. USA	3	Service fee	$62,617	By the contract	0.11%
			3	Payables to related parties	$6,287	Payment terms were month end 30~60 days	0.01%
			3	Refundable deposits	$4,853	By the contract	0.01%
		ALi Corporation	3	Deferred assets	$691	Payment terms were month end 30~60 days	-
			3	Indirect material	$467		-
6	ULi Electronics Inc. (BVI)	ALi (Shanghai) Corp.	3	Software	$5,716	By the contract	0.01%
		ULi Electronics (Shanghai) Inc.	3	Service fee	$9,665		0.02%
			3	Software	$27,063		0.04%
7	ULi Electronics Inc. USA	ULi Electronics Inc.	3	Property, plant and equipment	$1,152		-

No. (Remark 1)	Company Name	Counter Party	Relationship with the Company (Remark 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Remark 3)
8	ALi (Shanghai) Corp.	ALi (BVI) Microelectronics Corporation	3	Receivables from related parties	$26,181	Collection terms were month end 30~60 days	0.04%
9	T-Square Technology Inc. (Cayman)	T-Square Electronics (Shanghai)	3	Software	$15,752	By the contract	0.02%
		T-Square Electronics (ZHUHAI)	3	Software	$39,385		0.06%
		T-square Electronics (Beijing)	3	Software	$15,835		0.02%
10	T-Square Electronics (ZHUHAI)	ALi Corporation	2	Property, plant and equipment	$194	Payment terms were month end 30~60 days	-

Remark 1: The Company and its subsidiaries are coded as follows:

1. The Company is coded “0”.
2. The subsidiaries are coded consecutively beginning from “1”in the order presented in the table above.

Remark 2: Transactions are categorized as follows:

1. The holding company to subsidiary.
2. Subsidiary to holding company.
3. Subsidiary to subsidiary.

Remark 3: The percentage with respect to the consolidated asset/liability for transactions of balance sheet items is based on each item’s balance at period-end. For profit or loss items, cumulative balance is used as basis.

Remark 4: In June 2006, MediaTek Capital Corp. transferred all of its shares in Pixtel Media Technology Private Ltd. to Gaintech Co. Limited, due to changes in investment structure.

Remark 5: The price between ALi Corporation and ULi Electronics Inc. was determined through mutual agreement based on research and develop, manufacture and selling IC cooperatively.

8. The Effect of Insolvency of the Company and Affiliates on the Financial Position of the Company: None.

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