

Stock Code: 2454 Date: March 31, 2008

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Website of Taiwan Stock Exchange Corporation (TSEC), Public Information Observatory:

http://emops.tse.com.tw/emops_all.htm

Website for MediaTek Inc. Annual Report Disclosure:

http://www.mediatek.com/IR/Annual_Reports.html



MEDIATEK

Annual Report 2007

I. Names, Titles, Telephones, E-mail Addresses of Spokesperson, and Deputy Spokesperson:

Spokesperson:

Name: Minto Yu

Title: Vice President, CFO & Spokesperson

TEL: 886-3-567-0766

E-mail: ir@mediatek.com

Deputy Spokesperson:

Name: Sophia Liang

Title: Senior Dept. Manager, Fin Division

TEL:886-3-567-0766

E-mail: ir@mediatek.com

II. MediaTek Inc. Address & Telephone Number:

Headquarters Address: No.1, Dusing Rd. 1, HsinChu Science Park, HsinChu, Taiwan 300

TEL : 886-3- 567-0766

Taipei Office Address: 5F, No.22, Lane 35, Jihu Rd., Neihu District, Taipei, Taiwan 114

TEL : 886-2-2659-8088

III. Company Name, Address, Website and Telephone Number of the Transfer Agent:

Company Name: Chinatrust Commercial Bank, Transfer Agency Department.

Address: 6F, No. 83, Chungching S. Road, Sec. 1, Chungcheng District, Taipei

Website: <http://www.chinatrust.com.tw>

TEL: 886-2-2181-1911

IV. Names of Independent Auditors for Financial Statements in Recent Years, Their Office Name, Address, Website and Telephone Number:

Names: Chien-Kuo Yang, Hsin-Min Hsu

Office: Ernst & Young

Address: 9F, No.333, Keelung Road, Sec. 1, Taipei

Website: <http://www.ey.com>

TEL: 886-2-2720-4000

**V. Name of Overseas Securities Dealers and Methods to Inquire about Overseas Securities:
Nil**

VI. MediaTek Website: <http://www.mediatek.com>

ANNUAL REPORT 2007

TABLE OF CONTENTS

I.	Letter to Shareholders	4
II.	Company Profile	6
	1. An Introduction to MediaTek	6
	2. Milestones	6
III.	Corporate Governance	8
	1. Organization	8
	2. Directors and Supervisors	9
	3. Management Team	15
	4. Corporate Governance Report	19
	5. Information Regarding MediaTek's Independent Auditors	26
	6. Net Changes in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders with 10% Shareholding or More	27
	7. Information of Our Top 10 Shareholders Who are Related Parties to Each Other	28
	8. Long-Term Investment Ownership	28
IV.	Capital and Shares	29
	1. Capital and Shares	29
	2. Status of Corporate Bonds	35
	3. Status of Preferred Shares	35
	4. Status of GDR/ADR	35
	5. Status of Employee Stock Option	35
	6. Status of New Share Issuance in Connection with Mergers and Acquisitions	35
	7. Financing Plans and Implementation	36
V	Business Activities	37
	1. Business Scope	37
	2. Market, Production and Sales Outlook	42
	3. Employees	51
	4. Environmental Protection Expenditure	51
	5. Labor Relations	52
	6. Social Responsibility	55
	7. Important Contracts	58
VI	Financial Status, Operating Results and Status of Risk Management	59
	1. Financial Status	59
	2. Operating Results	60
	3. Evaluation on Assets and Liabilities	61
	4. Analysis of Devaluation of Assets	61
	5. Cash Flow Analysis	62

6.	The Effect of Major Capital Expenditure on Financial Position and Operation	62
7.	Direct Investment Policy, Reasons for Profit or Loss, Correction Plan and Investment Plan for the Coming Year	63
8.	Risk Management	63
9.	Other Important Notice	68
VII	Special Notes	69
1.	Profiles of Affiliates and Subsidiaries	69
2.	Status of Private Placement Securities	76
3.	Status of MediaTek's Common Shares Acquired, Disposed of and Held by Subsidiaries	76
4.	Any Events That Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan	76
5.	Other Necessary Supplement	76
VIII	Financial Information	77
1.	Condensed Balance Sheet	77
2.	Condensed Income Statement	78
3.	Auditors' Opinions from 2003 to 2007	78
4.	Financial Analysis from 2003 to 2007	79
5.	Supervisors' Report	81
6.	Financial Statements and Auditors' Report	82
7.	Consolidated Financial Statements and Auditors' Report	129
8.	The Effect of Insolvency of the Company and Affiliates on the Financial Status of the Company	195

I. Letter to Shareholders

Dear Shareholders,

MediaTek achieved a historical high in revenue and earnings per share in 2007. Consolidated revenue of this year totaled NT\$80.7 billion, a 43% growth over last year. Net income was NT\$33.6 billion, an increase of 49% from last year. Earnings per share reached NT\$32.59, soaring from NT\$21.93 of previous year. In the area of wireless handset chipsets, we continued upgrading our total solution for customers. Not only are we the industry leader in technology, our shipment volume has grown at an accelerated pace and market share has continued to expand. These factors have propelled the Company to become one the top three suppliers of wireless handsets chipsets in the world. MediaTek's high definition digital TV chipsets business also commands a leading position with our advanced highly integrated single chip. MediaTek ramped up to become the second largest supplier in the world for DTV chipsets. Other products, such as GPS receiver chipsets and Blu-ray chipsets have also been successfully launched as we persist as an industry pioneer.

Last year, MediaTek was not only the winner of "Best Financially Managed Fabless Company Award" selected by FSA (Fabless Semiconductor Association) in consecutive years but also the winner of "Forbes FAB 50". In addition, MediaTek was the first and only company in Taiwan to have published 7 papers in the span of five years to IEEE ISSCC, the paramount indicator of the IC design industry. Furthermore, MediaTek has received the "Distinguished Innovation Accomplishment Award" from the Ministry of Economic Affairs for the second time, the only company in Taiwan except TSMC to win this award twice. These results show the relentless efforts of MediaTek in technology innovation that are repeatedly recognized by professional institutions at home and overseas. In terms of social responsibility, MediaTek proactively supports education in technology in order to properly train students in technology and align them with global standards. Last year, MediaTek was conferred the "2007 Excellence in Corporate Social Responsibility Award" by Common Wealth Magazine and the "Corporate Social Responsibility Award" by Global Views Monthly.

MediaTek also participated aggressively in global mergers and acquisitions in year 2007. The Company acquired NuCORE Technology Inc., a US digital camera chipset design company. It purchased the Othello® radio and SoftFone® baseband chipset product lines as well as certain cellular handset baseband support operations of Analog Devices, Inc. These acquisitions allowed MediaTek to break through critical technologies and helped speed up its globalization process. In addition, the acquisitions also facilitated services for first-tier customers and recruitment of talents throughout the world. Nonetheless, the cross-border organizational structure and operational methods prompted the needs to upgrade the international management know-how's, which remains an important challenge for the Company in the foreseeable future.

Despite its leadership position in the industry, MediaTek still faces the challenges of rapid

technology advancement and accelerated replacement of semiconductor technologies. Ever-shrinking product life cycle, along with acute price competition, has made cost reduction increasingly important. In the future, MediaTek will face more sophisticated competitors and challenges. Under the challenging environment, the Company still strives for perpetual breakthroughs and innovations. With the rich portfolio of intellectual property rights as its competitive strength, the Company will be able to continue delivering value and increase its competitiveness as a worldwide leader in the IC industry.

Last year marked the 10th anniversary of MediaTek. The product lines, organization, and employees of the Company have undergone significant changes over the years to accommodate the growing market. This is particularly true after the aforementioned mergers and acquisitions, which upsized the number of overseas employees of the organization by more than 40%. To cope with these changes, the Company has redesigned its Corporate Identity System and defined the corporate mission and vision. Mediatek's Mission: Through constant innovation, MediaTek strives to provide the best IC products and services in order to fulfill people's potential needs of entertainment, communication, and information. Vision: Enhance and enrich people's life.

Looking into the future, the digital home and wireless communication industries have great growth potential and opportunities. Through broadening the product lines and deepening the technological development, MediaTek will compete at a global level as a major player. The Company will respond to the changes in the market with an international mindset and will continue to provide customers with the most competitive products and services. The Company will also work hard to maximize shareholders' value. Finally, I wish to express my gratitude to all our shareholders for your continued supports throughout the year.

Ming-Kai Tsai
Chairman

Ching-Jiang Hsieh
President

II. Company Profile

1. An Introduction to MediaTek

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 Mainland China, Singapore, India, U.S., Japan, Korea, Ireland, Denmark and England. MediaTek is a leading fabless semiconductor company for wireless communication and digital media solutions. The Company is a market leader and pioneers in cutting-edge SOC system solutions for wireless communications, high-definition digital TV, optical storage, and high definition DVD chipset products.

Since its establishment, the compounded annual sales growth rate of the Company has reached 30%. 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 in terms of technology but also by market share. While Mediatek’s sales grows and market share expands, the Company continually strives to innovate, in order to enhance the product value and maintain stable profitability.

2. Milestones

May 1997	MediaTek founded
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	Listed on the Taiwan Stock Exchange (TSE) under ticker of 2454
Oct. 2001	The 9 th 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 Asiamoney
Oct. 2003	The 15th Executive Yuan National Quality Award
Dec. 2003	2003 SIPA Innovative Product Award, DVD-Dual Chipsets
Jan. 2004	Launched GSM Mobile Phone Chipsets
May 2004	Ranked No.3 by Euromoney for “Best Corporate Governance in Taiwan”
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

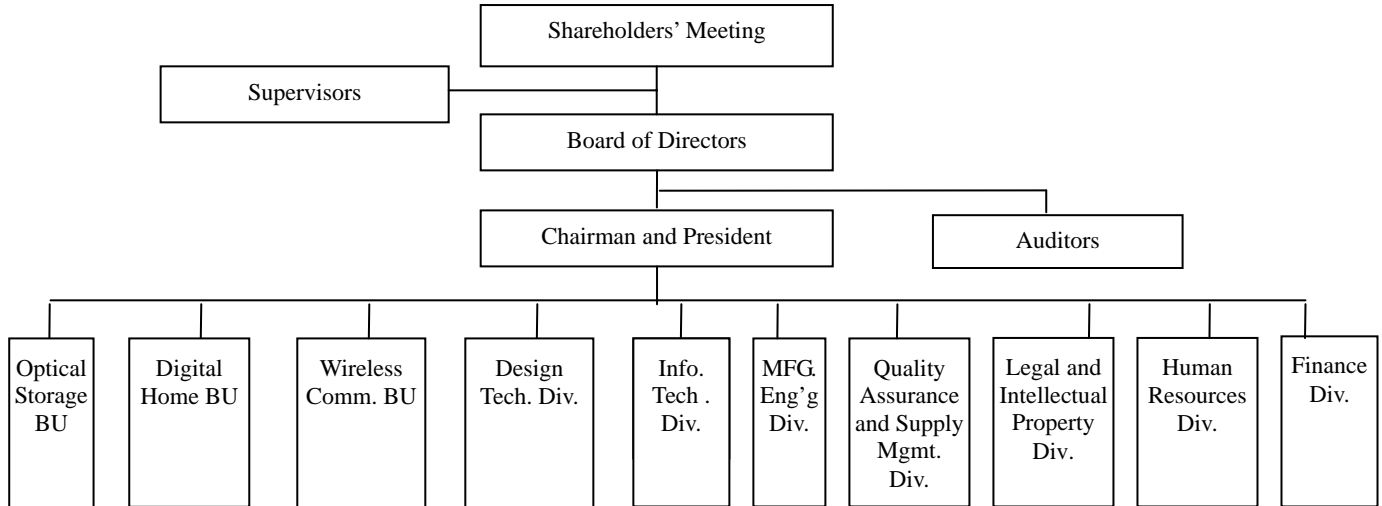
- Dec. 2006 Awarded “This year’s Best Financially Managed Company” by FSA (Fabless Semiconductor Association)
- Dec. 2006 2006 SIPA Innovative Product Award, Blu-ray/HD DVD/DVD/CD Rewritable Chipsets
- Jan. 2007 Launched GPS Receiver Single Chip
- Feb. 2007 Launched First Generation Blu-Ray Chips
- Sep. 2007 Awarded” Distinguished Innovation Accomplishment” at the 15th ITA Award by Ministry of Economic Affairs
- Dec. 2007 Awarded “This year’s Best Financially Managed Company” by FSA

III. Corporate Governance

1. Organization

1.1 Organization

Mar. 31, 2008



1.2 Business of Key Departments

Department	Business
Optical Storage Business Unit	R&D and sales of optical storage chips.
Digital Home Business Unit	R&D and sales of digital home chips.
Wireless Communication Business Unit	R&D and sales of wireless communication chips.
Design Technology Division	Design services and technical platform development.
Information Technology 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 reliability management, customer satisfaction management, production planning and procurement.
Legal and Intellectual Property Division	Corporate 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

Mar. 31, 2008 / 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%	40,087,313	3.85%	52,799,106	5.07%	-	-	-Master,Electrical Engineering, University of Cincinnati, USA -President of the 2nd Business Group, UMC	-CEO, MediaTek -Director / Chairman of MediaTek's Affiliates -Chariman of 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%	29,798,619	2.86%	10,635,058	1.02%	-	-	-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%	4,412,159	0.42%	2,054,085	0.20%	-	-	-Master, Electrical Engineering, National Taiwan University -Engineering, Multimedia R&D Team,UMC	-President, MediaTek -Director/Chairman of MediaTek 's Affiliates	None			
Director	National Taiwan University Statutory representative: Ming-Je Tang	2006.06. 21	3 yrs	2002.06. 03	2,455	0.00%	2,835	0.00%	0	0.00%	-	-	Ph.D., Business Management, MIT, USA	- Vice President of National Taiwan University - Director of Trend Technology and Education Foundation	None			
Director	National Chiao Tung University Statutory representative: Ching-Teng Lin (Note)	2006.06. 21	3 yrs	2002.06. 03	2,455	0.00%	2,835	0.00%	0	0.00%	-	-	Ph.D. (E.E.) Purdue University, West Lafayette, IN., U.S.A	Dean of Academic Affairs of NCTU	None			

Supervisor	MediaTek Capital Co. Statutory representative: Paul Wang	2006.06. 21	3 yrs	2006.06. 21	6,654,670	0.77%	7,686,143	0.74%	0	0.00%	-	-	-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%	2,024	0.00%	0	0.00%	-	-	-Ph. D., Electrical Engineering, MIT, USA -President, National Tsing Hua University	- Chairman, Dramexchange Technology Inc. -Director of CMSC Inc., -Independent Director of Anpec Electronics Corp., UMC 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%	202	0.00%	0	0.00%	-	-	-Ph.D., Electrical Engineering, National Cheng Kung University - Dean of Academic Affairs, National Cheng Kung University	- President of Kun Shan University - Independent director of Macronix International Co., Ltd.	None

Note : The representative of National Chiao-Tung University, Mr.Chung-Yu Wu, has resigned from the Board as of Feb.1, 2007. Since Jun.8, 2007, Mr. Ching-Teng Lin has become the representative of the university.

2.2 Major Institutional 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

Name	Qualifications	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	Have work experience in commerce, law, finance, accounting or otherwise necessary for the business of the Company	Criteria (Note)										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	✓			✓	✓		✓	✓	✓	✓	✓	✓	✓		0
National Chiao Tung University Statutory representative: Ching-Teng Lin	✓			✓	✓		✓	✓	✓	✓	✓	✓	✓		0
MediaTek Capital Co. Statutory representative: Paul Wang				✓	✓		✓	✓	✓	✓	✓	✓	✓		1
National Tsing Hua University Statutory representative: Chung-Lang, Liu	✓			✓	✓		✓	✓	✓	✓	✓	✓	✓		3
National Cheng Kung University Statutory representative: Yan-Kuin, Su	✓			✓	✓		✓	✓	✓	✓	✓	✓	✓		1

Note : 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 1 % 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 Remunerations Paid to Directors and Supervisors

2.4.1 Remunerations Paid to Directors(Note 1)

Unit: Share/ NTD1,000

Title	Name	Remunerations paid to directors						(A+B+C) as % of 2007 Net Income		Compensations earned as employee of MediaTek or of MediaTek affiliates						(A+B+C+D+E) as % of 2007 Net Income		Other compensations from non-subsidiary affiliates		
		Salary(A)		Compensation from profit sharing (B) (Note 3)		Allowance(C)		Salary, bonus and etc. (D)		Employee profit sharing (E) (Note 4)				Employee Stock Option						
		MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek	MediaTek		Consolidated Entities of MediaTek		MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek			
		Cash	Stock	Cash	Stock	Cash	Stock	Cash	Stock	Cash	Stock	Cash	Stock	MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek			
Chairman	Ming-Kai Tsai																			
Vice Chairman	Jyh-Jer Cho																			
Director	Ching-Jiang Hsieh																			
Director	National Taiwan University Statutory representative: Ming-Je Tang	-	-	47,240	47,240	45	45	0.14	0.14	15,467	15,467	13,520	101,759	13,520	101,759	-	-	0.53	0.53	None
Director	National Chiao Tung University Statutory representative: Ching-Teng Lin (Note 2)																			

Note 1: The policies, standards, combinations, procedures and performance of remunerations paid to directors : The compensations are determined in accordance with the procedures set forth in MediaTek's Articles of Incorporation which authorized Board of Directors to resolve the compensation based on the industry level. The Articles of Incorporation also provides that MediaTek shall allocate the compensations to its directors and supervisors at 0.5% maximum of the earnings available after deducting the amount of legal reserve.

Note 2: The representative of National Chiao-Tung University, Mr.Chung-Yu Wu, has resigned from the Board as of Feb.1, 2007. Since Jun.8, 2007, Mr. Ching-Teng Lin has been designated to the representative of the university.

Note 3: The Board resolved on Mar. 20, 2008 to propose the amount of NT\$47,240 thousand as remunerations for directors. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting in Jun. 2008. The updated information shall be posted on the website of the Company

Note 4: The Board resolved on Mar. 20, 2008 to propose the amount of NT\$3,418,900 thousand as employee bonus. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting in Jun. 2008. The updated information shall be posted on the website of the Company. . 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. 2007 and taken into retrospect of the ex-dividend and ex-right cut-off day.

Scale of remunerations to directors of the Company	Name and Number of Directors			
	Total compensations paid to directors (A+B+C)		Total compensations 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	Ming-Kai Tsai , Jyh-Jer Cho , Ching-Jiang Hsieh , National Taiwan University , National Chiao Tung University		Jyh-Jer Cho , National Taiwan University , National Chiao Tung University	
\$10,000,000~\$15,000,000	-	-	-	-
\$15,000,000~\$30,000,000	-	-	-	-
\$30,000,000 ~\$50,000,000	-	-	-	-
\$50,000,000 ~\$100,000,000	-	-	Ming-Kai Tsai , Ching-Jiang Hsieh -	Ming-Kai Tsai , Ching-Jiang Hsieh --
\$100,000,000 above	-	-	-	-
Total	5		5	

2.4.2 Remunerations Paid to Supervisors(Note 1)

Unit: NTD 1,000

Title	Name	Remunerations paid to supervisors						(A+B+C) as % 2007 Net Income		Other compensations from non-subsidiary affiliates : None
		Salary(A)		Compensation form profit sharing (B) (Note 2)		Allowance(C)		MediaTek	Consolidated Entities of MediaTek	
		MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek			
Supervisor	MediaTek Capital Co. Statutory representative: Paul Wang									
Supervisor	National Tsing Hua University Statutory representative: Chung-Lang, Liu	-	-	28,344	28,344	15	15	0.08	0.08	
Supervisor	National Cheng Kung University Statutory representative: Yan-Kuin, Su									

Note 1: The policies, standards, combinations, procedures and performance of remunerations paid to supervisors : The compensations are determined in accordance with the procedures set forth in MediaTek's Articles of Incorporation which authorized Board of Directors to resolve the compensation based on the industry level. The Articles of Incorporation also provides that MediaTek shall allocate the compensation to its directors and supervisors at 0.5% maximum of the earnings available after deducting the amount of legal reserve.

Note 2: The Board resolved on Mar.20, 2008 to propose the amount of NT\$28,344 thousand as remunerations for supervisors. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting in Jun. 2008. The updated information shall be posted on the website of the Company .

Scale of remunerations to supervisors of the Company	Name and Number of Supervisors	
	Total compensations paid to supervisors (A+B+C)	
	MediaTek	Consolidated Entities of MediaTek
Less than \$2,000,000	-	-
\$2,000,000~\$5,000,000		
\$5,000,000 ~\$10,000,000	MediaTek Capital Co. , National Tsing Hua University , National Cheng Kung University	
\$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	3	

3. Management Team

3.1 Profiles of Key Managers

March 31, 2008 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	40,087,313	3.85%	52,799,106	5.07%	-	-	-Master, Electrical Engineering, University of Cincinnati, USA -President of the 2 nd Business Group, UMC	-Director/ Chairman of MediaTek's affiliates , -Chairmen of Alpha Imaging Technology Corp., Andes Technology Corp., JMicon Technology Corp., and Mobitek Communication Corp.			None
Vice Chairman	Jyh-Jer Cho	2005.09.15	29,798,619	2.86%	10,635,058	1.02%	-	-	-Master, Electronic Engineering, National Chiao Tung University -Manager, Multi-media R&D Team, UMC	None			None
President	Ching-Jiang Hsieh	2005.09.15	4,412,159	0.42%	2,054,085	0.20%	-	-	-Master, Electrical Engineering, National Taiwan University -Engineer, Multimedia R&D Team, UMC	Director/ Chairman of MediaTek's affiliates			None
Executive Vice President	Ji-Chang Hsu	2006.01.01	244,374	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	246,418	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	475,382	0.05%	246,715	0.02%	-	-	-Ph.D., 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	2,708,046	0.26%	697,598	0.07%	-	-	-Master, Electronic Engineering, Polytechnic University, USA -Engineer, Multimedia R&D Team, UMC	None			None
Vice President	Kou-Hung Loh	2006.07.01	233,038	0.02%	-	-	-	-	-Ph. D., Electrical Engineering, Texas A&M University ,	Director/ President of MediaTek's affiliates			None

									-CEO and Founder of Silicon Bridge		
CFO and Spokesman	Ming-To Yu	2001.08.31	227,177	0.02%	381,045	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
Vice President	Christian Kermarrec	2008.01.11	0	0.00%	-	-	-	-	-Master , Engineering , Le Conservatoire National des Arts et Metiers in Paris -Vice president of wireless business unit in Analog Devices Inc.	None	None

3.2 Remunerations and Employee Bonus Paid to Key Managers(Note 1)

Unit: Share/ NTD 1,000

Title	Name	Salary(A)		Bonus(B)		Employee Profit Sharing (C)				(A+B+C) as % of 2007 net income		ESOP		Other compensation from non-subsidiary affiliates
		MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek	MediaTek(Note 2)		Consolidated Entities of MediaTek		MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek	
						Cash	Stock	Cash	Stock					
Chairman & CEO	Ming-Kai Tsai	15,750	21,169	31,936	41,929	41,340	350,892	41,340	350,892	1.31	1.36	-	-	None
Vice Chairman	Jyh-Jer Cho													
President	Ching-Jiang Hsieh													
Executive 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													
Vice President	Christian Kermarrec													

Note 1: The policies, standards, combinations, procedures and performance of remunerations paid to managers : The compensations are determined in accordance with the procedures set forth in MediaTek's Articles of Incorporation and complied with Article 29 of the Company Law of Taiwan.

Note 2 : The Board resolved to propose the amount of NT\$3,418,900 thousand as employee bonus on Mar. 20, 2008. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting in Jun. 2008. The updated information shall be posted on the website of the Company. . Before this report is put in printing, distribution of profit sharing to employees was still unresolved. The above figures were only estimation. Stock price is based on the closing price in the end of Dec. 2007 and taken into retrospect of the ex-dividend and ex-right cut-off day.

Scale of remunerations to managers of the Company	Name and Number of Key Managers	
	MediaTek	Consolidated Entities of MediaTek
Less than \$2,000,000	Jyh-Jer Cho Christian Kermarrec	
\$2,000,000~\$5,000,000	-	-
\$5,000,000 ~\$10,000,000	-	-
\$10,000,000~\$15,000,000	-	-
\$15,000,000~\$30,000,000	Kou-Hung Loh	
\$30,000,000 ~\$50,000,000		-
\$50,000,000 ~\$100,000,000	Ming-Kai Tsai , Ching-Jiang Hsieh , Ji-Chang Hsu , Hsi-Yuan Hsu , Ping-Hsing Lu , Chwei-Hung Chang , Ming-To Yu	
\$100,000,000 above	-	-
Total	10	

4. Corporate Governance Report

4.1 Board of Directors' Meeting Status

The Board of the Company has held 8 sessions in 2007, 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	8	0	100%	
Vice Chairman	Jyh-Jer Cho	6	1	88%	
Director	Ching-Jiang Hsieh	8	0	100%	
Director	National Taiwan University Statutory representative: Ming-Je Tang	7	0	88%	
Director	National Chiao Tung University Statutory representative : Chung-Yu Wu	-	-	-	Mr. Wu resigned from the Board on Feb.1, 2007.
Director	National Chiao Tung University Statutory representative : Ching-Teng Lin	5	0	83%	Because Mr. Wu resigned from the Board on Feb.1, 2007, Mr. Ching-Teng Lin has been designated to the new representative of the university since Jun.8, 2007.
Supervisor	MediaTek Capital Co. Statutory representative: Paul Wang	3	0	38%	
Supervisor	National Tsing Hua University Statutory representative: Chung-Lang, Liu	5	0	63%	
Supervisor	National Cheng Kung University Statutory representative: Yan-Kuin , Su	0	0	0%	
Other important notice : None.					

4.2 Corporate Governance Status and the Reasons for Non-Implementation to the Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies

Subject	Status	The Non-Implementation to the Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies
<p>1. Shareholding Structure & Shareholders' Right</p> <p>1.1 The way of handling shareholders' suggestions and disputes</p> <p>1.2 The Company's possession of major shareholders' list and the list of ultimate owners of these major shareholders</p> <p>1.3 Risk management mechanism and firewall between the Company and its affiliates</p>	<p>MediaTek has designated relevant departments, such as Investor Relations, Public Relations, Legal, etc., to handle shareholder's suggestions or disputes.</p> <p>MediaTek tracks the shareholdings of directors, supervisors, officers, and shareholders holding more than 10% of the outstanding shares of MediaTek.</p> <p>The Company has already considered the firewall mechanism when designing the structure of subsidiaries and affiliates. All subsidiaries have also instituted relevant internal control systems.</p>	<p>None</p> <p>None</p> <p>None</p>
<p>2. Organization and responsibilities of the Board of Directors :</p> <p>2.1 Independent directors</p> <p>2.2 Regular evaluation of independent auditors' independency</p>	<p>Currently, the Company has two seats of external directors (NTU/NCTU).</p> <p>The employment or replacement of independent auditors is required by the approval of the Board, who will conduct evaluation on independent auditors' independency on a regular basis. To enhance the independency of the independent auditors, the Company will replace those who have served to audit the financial statements of the Company for five years.</p>	<p>Currently, the Company has external directors, and will add seats for independent directors in the future if necessary.</p> <p>None</p>
<p>3. Organization and responsibilities of Supervisors</p> <p>3.1 Independent supervisors.</p> <p>3.2 Communication channels with</p>	<p>The Company has two seats of external supervisors (NTHU/NCKU)</p> <p>The employees and managers of relevant departments regularly report and present Company information to supervisors. Information</p>	<p>Currently, the Company has external supervisors, and will add the seats for independent supervisors in the future if it is necessary.</p>

employees and shareholders	on supervisors is public. All employees, shareholders and stakeholders may contact supervisors freely.	None
4. Communication channels with stakeholders.	MediaTek designates relevant departments to communicate with stakeholders on a case by case basis.	None
5. Information Disclosure 5.1 Establishment of corporate website to disclose information regarding the Company's financials, business and corporate governance status 5.2 Other information disclosure channel (e.g. English website, appointment of responsible people to handle, collect and disclose information, implementation of spokesperson system, and web casting investors conference	1. MediaTek discloses financial information and the status of corporate governance through its website www.mediatek.com). 2. The Company has designated specific personnel to handle the collection and disclosure of information about the Company (contact: Sophia Liang; Telephone 03-5670766, ext. 26568 / e-mail:ir@mediatek.com) 3. The Company has established the spokesperson system (spokesperson: Minto Yu ;deputy spokesperson: Sophia Liang). 4. Information for investor conferences is posted simultaneously on the Company website. 5. The Company discloses all information to shareholders and stakeholders through the Company website and the MOPS website.	None None None None None
6. Operations of the Company's nomination committee, compensation committee, or other committees	None	Will establish such committee if it is necessary
7. If the Company has established corporate governance policies based on "Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies", specifying discrepancy between the policies and its implementation: MediaTek does not establish any internal corporate governance policies. For the status of MediaTek's corporate governance, 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 "Business Activities – 4. Environmental Protection Expenditure , 5. Labor Relations and 6. Social responsibility " of this Annual Report.		

9. Other essential information to facilitate the better understanding of the Company's corporate governance practices (e.g., directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of consumers/customers protection policies, and purchasing insurance for directors and supervisors.):
- 9.1 From time to time, MediaTek provides directors and supervisors information concerning regulatory requirements and developments as related to directors' and supervisors' activities. MediaTek management also regularly presents Company's business and other information to directors and supervisors. Information of directors' and supervisors' training records is disclosed on MOPS website.
 - 9.2 The Company has already instituted internal control system as required by law and has properly implemented 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.20, 2008

MediaTek Inc. has conducted internal audit in accordance with its Internal Control Regulation covering the period from January 1 to December 31, 2007, 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 20, 2008 with 4 directors in session under unanimous consent.

MediaTek Inc.

Ming-Kai Tsai
Chairman

Ching-Jiang Hsieh
President

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 2007 Shareholders General Meeting on June 11, 2007 in the auditorium of the Hsinchu Science Park Recreation Center. Resolutions were as follows:

- (1) 2006 Business Report and Financial Statements.
- (2) Distribution of 2006 profits.
- (3) Capitalization of 2006 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) The proposal for issuance of common shares for overseas DR offering. The aforementioned proposals such as distribution of 2006 profits and capitalization of 2006 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 10 sessions in 2007 and this year before this report is put in printing: Called for Shareholders General Meeting for 2007; approved the business 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 or Disposition of Assets; approved the proposal for issuance of common shares for overseas DR offering; approved the operation budget for fiscal year 2007; approved the interim report of 2007; called for Shareholders General Meeting for 2008; approved the operation report, financial statements, distribution of profits and capitalization of retained earnings for fiscal year 2007; approved the share swap with NuCORE Technology, Inc. and approved the purchase of Analog Devices' cellular radio and baseband chipset operations.

4.7 Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors : None.

- 4.8 Summary of Resignation Status for Personnel Related on Financial Statement from January 1, 2007 to March 31, 2008 : None.

5. Information Regarding MediaTek's Independent Auditors

Information on Audit Fees:

Not applicable. Non-audit fees paid to MediaTek's independent audit firm and its affiliates did not exceed 25 percent of the audit fees paid in 2007. The 2007 audit fees paid to MediaTek's independent auditor were not reduced by more than 15 percent compared with 2006.

Information on Replacement of Independent Auditors in the Last Two Years and Thereafter:

Due to Ernst & Young internal organizational structure change, independent auditors were replaced from Hui-Hsin Yeh and Ting-Ming Chang to Hui-Hsin Yeh and Hsin-Ming Hsu since 1Q07. Owing to the internal policy of Ernest and Young, independent auditors must be rotated after auditing the same company for five consecutive years. Because Hui-Hsin Yeh has been auditing MediaTek for five years, the independent auditors were replaced by Chien-Kuo Yand and Ting-Ming Chang in 4Q07.

- 5.3 The Chairman, President, CFO or CAO Who Has Worked with the Audit Firm or Its Affiliates in 2007: None.

6. Net Changes in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders with 10% Shareholding or More

Unit: Share

Title	Name	2007		Jan 1. to Mar. 31 2008	
		Net change in shareholding	Net change in shares pledged	Net change in shareholding	Net change in shares pledged
Chairman & CEO	Ming-Kai Tsai	1,968,919	-	-	-
Vice Chairman	Jyh-Jer Cho	1,440,886	-	-	-
Director & President	Ching-Jiang Hsieh	209,721	-	-	-
Director	National Taiwan University	135	-	-	-
Director	National Chiao Tung University	135	-	-	-
Supervisor	MediaTek Capital Co.	366,606	-	-	-
Supervisor	National Tsing Hua University	96	-	-	-
Supervisor	National Cheng Kung University	9	-	-	-
Executive Vice President	Ji-Chang Hsu	77,484	-	-	-
Vice President	Hsi-Yuan Hsu	71,210	-	-	-
Vice President	Ping-Hsing Lu	54,399	-	-	-
Vice President	Chwei-Hung Chang	196,287	-	-	-
Vice President	Kou-Hung Loh	11,097	-	-	-
CFO and Spokesperson	Ming-To Yu	68,151	-	-	-
Vice President	Christian Kermarrec	N/A	N/A	-	-

Stock Trade with Related Party: None.

Stock Pledge with Related Party: None.

6. Information on Our Top 10 Shareholders Who are Related Parties to Each Other

Jul. 31, 2007; Unit: Share/%

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	Relationship
Chui-Hsing Lee	49,342,534	4.76%	43,634,885	4.21%	-	-	Ming-Kai Tsai	Spouse
Ming-Kai Tsai	40,124,313	3.87%	52,853,106	5.09%	-	-	Chui-Hsing Lee	Spouse
Jyh-Jer Cho	29,775,619	2.87%	10,635,058	1.03%	-	-	-	-
Trustee Account of MediaTek Employee Bonus	23,126,696	2.23%	-	-	-	-	-	-
GMO Emerging Market Fund	17,662,365	1.70%	-	-	-	-	-	-
UMC	14,606,023	1.41%	-	-	-	-	-	-
Ding-Jen Liu	14,279,488	1.38%	870,597	0.08%	-	-	-	-
EuroPacific Growth Fund	13,797,688	1.33%	-	-	-	-	-	-
Goldman Sachs International	12,990,433	1.25%	-	-	-	-	-	-
Bureau of Labor Insurance	12,426,855	1.20%	-	-	-	-	-	-

8. Long-Term Investment Ownership

December 31, 2007; 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.	1,091,474,200	100.00%	0	0.00%	1,091,474,200	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.	62,169,271	21.48%	0	0.00%	62,169,271	21.48%
Yuantonix, Inc.	300,000	3.75%	0	0.00%	300,000	3.75%

IV. Capital and Shares

1. Capital and Shares

1.1 Source of Equity:

Mar. 31, 2008; Unit: 1,000 Shares/ NTD 1,000

Year & month	Issuing price	Authorized capital		Paid-in capital		Source of equity	Non-cash assets pledged as equity	Remarks
		Quantity	Amount	Quantity	Amount			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 capitalization 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 capitalization 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 capitalization 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 capitalization 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 capitalization of retained earnings amounting to 1,444,598	-	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 capitalization 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 capitalization 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 capitalization 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 capitalization of retained earnings amounting to 1,042,621	-	2006.07.13 Financial Supervisory Commission Jin-Guan Cheng Tze-0950130197
Jul. 2007	10	1,200,000	12,000,000	1,037,412	10,374,120	Raise capital by capitalization of retained earnings amounting to 690,993	-	2007.06.25 Financial Supervisory Commission Jin-Guan Cheng Tze-0960031987
Sep. 2007	10	1,200,000	12,000,000	1,040,854	10,408,538	Share swap 34,418	NuCORE Technology Inc. 69% shareholding	2007.08.30 Financial Supervisory Commission Jin-Guan Cheng Tze-0960045488

Mar. 31, 2008;Unit:Share

Type of stock	Authorized Capital			Remarks
	Outstanding shares	Un-issued	Total	
Common shares	1,040,853,762	159,146,238	1,200,000,000	Listed on TSE

Other Reporting System Related Information : None

1.2 Structure of Shareholders:

Jul. 31, 2007

Shareholder structure	Government agencies	Financial institutions	Other institutional shareholders	Individuals QFII	QFII	Total
Quantity						
Number of shareholders	1	42	456	1,042	24,024	25,565
Quantity of holding	12,426,855	40,561,118	119,804,970	537,140,008	327,479,078	1,037,412,029
Proportion of holding	1.20%	3.91%	11.55%	51.78%	31.56%	100.00%

1.3 Distribution of Shareholding:

Jul. 31, 2007

Levels of shareholding	Number of shareholders	Quantity of shareholding	Proportion of shareholding
1 to 999	9,290	2,326,990	0.22%
1,000 to 5,000	11,405	20,728,333	2.00%
5,001 to 10,000	1,799	12,207,784	1.18%
10,001 to 15,000	670	7,860,633	0.76%
15,001 to 20,000	325	5,600,534	0.54%
20,001 to 30,000	406	9,464,559	0.91%
30,001 to 40,000	241	8,261,701	0.80%
40,001 to 50,000	150	6,623,965	0.64%
50,001 to 100,000	368	26,296,203	2.53%
100,001 to 200,000	304	43,251,342	4.17%
200,001 to 400,000	232	63,416,003	6.11%
400,001 to 600,000	103	49,787,436	4.80%
600,001 to 800,000	69	47,961,908	4.62%
800,001 to 1,000,000	36	32,243,054	3.11%
More than 1,000,001	167	701,381,584	67.61%
Total	25,565	1,037,412,029	100.00%

Preferred Stock : None.

1.4 Major Shareholders:

Jul. 31, 2007

Shareholding	Total Shares Owned	Ownership(%)
Name of dominant shareholder		
Chui-Hsing Lee	49,342,534	4.76%
Ming-Kai Tsai	40,124,313	3.87%
Jyh-Jer Cho	29,775,619	2.87%
Trustee Account of MediaTek Employee Bonus	23,126,696	2.23%
GMO Emerging Market Fund	17,662,365	1.70%
UMC	14,606,023	1.41%
Ding-Jen Liu	14,279,488	1.38%
EuroPacific Growth Fund	13,797,688	1.33%
Goldman Sachs International	12,990,433	1.25%
Bureau of Labor Insurance	12,426,855	1.20%

1.5 Market Price, Net value, Earnings and Dividend Per Share and Related Information over the Last Two Years:

Unit: Share/ NTD1.00

Subject		Year	2006 (paid out in 2007)	2007 (paid out in 2008)	Jan.1 to Mar. 31, 2008(Note 4)
Market price per share	High		418.0	656.0	429.0
	Low		259.0	325.5	291.5
	Average		332.3	477.2	346.5
Net value per share	Cum-Dividend		70.27	83.18	85.97
	Ex-dividend		54.07	*	*
EPS	Weighed average of outstanding shares		960,992,546	1,030,847,985	1,033,167,619
	EPS	Before adjustment	23.50	32.59	**
		After adjustment	21.93	*	**
Dividend per share	Cash dividend		15.00	*	**
	Stock dividend	Retained earnings	0.50	*	**
		Capital surplus	-	*	**
	Accumulated unpaid dividends		-	-	**
Analysis of ROI	P/E ratio (Note1)		14.14	14.64	**
	P/P ration (Note2)		22.15	*	**
	Cash dividend yield (Note 3)		4.5%	*	**

* : 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

1.6 Dividend Policy and Status of Execution:

1.6.1 Dividend Policy under the Article of Incorporation:

As the Company is in growing phase, the policy of profit distribution may be subject to current and future investment environments, capital needs, competition in Taiwan and abroad, anticipated capital plan, along with shareholder's interests, balanced dividend, and Company's long-term financial planning. Every year, the Board of Directors propose profit distribution at the 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): 2007 dividend payout proposal resolved by the Board is stated as follows:

- A. Stock dividends for common shares: Amounted to NT\$104,085,370 and the holding of 1,000 shares shall be entitled to 10 shares worth of stock dividends. The Board shall determine the pay out date upon the approval of shareholders at the Shareholders General Meeting and competent authority.
- B. Cash dividends for common shares: Amounted to NT\$19,776,221,484. The Board shall determine the pay out date upon the approval of the Shareholders General Meeting and competent authority.

1.7 Effects of 2008 Business Performance and Earnings Per Share from Stock Dividend Distribution Which is Going to be Resolved at the Shareholders General Meeting: None.

1.8 Employee Bonus and Directors and Supervisors Compensation:

1.8.1 Employee Bonus and Directors and Supervisors Compensation as Stated in the Article of Incorporation:

The earnings of the Company as shown on 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 of 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 to the previous unappropriated retained earnings shall be distributed 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 Directors and Supervisors Compensation and the Estimated EPS:

The Board resolved to distribute earnings in the fiscal year 2007 on Mar.20, 2008, pending on the approval of shareholders at the Shareholders General Meeting. The aforementioned proposal stated that employee cash bonus and stock bonus as well as directors and supervisors compensation amounted to NT\$3,200,000,000, NT\$218,900,000, and NT\$75,583,579 respectively. The proposal stated that employee stock bonus totaled 21,890,000 shares or 67.77% of capitalization of retained earnings for this year. Estimated EPS after the distribution of employee bonus and remunerations to directors and supervisors is NT\$29.20.

1.8.3 Earnings Retained in Previous Period Allocated as Employee Bonus and Directors and Supervisors Compensation:

This is specified according to a Board resolution on Mar. 21, 2007 for the distribution of retained earnings in fiscal year 2006, which was approved by Shareholders General Meeting on June 11, 2007. The allocation of employee cash bonus, employee stock bonus and remunerations to directors and supervisors amounted to NT\$975,089,310, NT\$206,837,120, and NT\$63,108,817 respectively.

1.9 Repurchase of Company Shares in the Period from January 1, 2007 to Mar. 31, 2008: 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:

5.1 The Status of Unexercised Options and the Impact to Shareholders:

ESOP Granted	First Grant
Approved Date by the Securities and & Futures Bureau	12/19/2007
Issue(Grant)Date	03/31/2008
Number of Options Granted	1,134,119
Percentage of Shares Exercisable to Outstanding Common Shares(%)	0.11%
Option Duration	10 years
Source of Option Shares	New Common Share
Vesting Shares	2 nd year : 30% 3 rd year : 60% 4 th year : 100%
Shares Exercised	0
Value of Shares Exercised (NT\$)	0
Shares Unexercised	1,134,119
Original Grant Price Per Share(NT\$)	400.00
Percentage of Shares Unexercised to Outstanding Common Shares(%)	0.11%
Impact to Shareholders' Equity	Dilution to shareholders' equity is limited

5.2 Employee Stock Option Granted to Management Team and to Top 10 Employees with an Individual Grant Value over NT\$30,000,000: None.

6. Status of New Shares Issuance in Connection with Mergers and Acquisitions :

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 issued 3,441,733 common shares and MediaTek-NuCORE share swap ratio was 1:21.36. Aforementioned transaction was completed by Sept. 2007. The purpose of acquiring 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.

Information of NuCORE:

Unit: USD

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. Financing Plans and Implementation

7.1. Financing Plans:

Unaccomplished plans of stock offering or private placement, or plans accomplished in the last three years but not yielding desired results yet:

Share swap with NuCORE Technology Inc.

7.2 Implementation:

Analysis on the utilization of the above plan, their status of implementation, and the actual result with the desired result comparison to the previous quarter before the publication date :

A. MediaTek issued 3,441,733 common shares with NT\$10 per share and the MediaTek-NuCORE share swap ratio was 1:21.36. For the fractional shares which were less than one full share, the distribution was made in the form of cash to shareholders of NuCORE Technology, Inc. (Cash was rounded to the nearest dollar amount.)

B. Status of Implementation : Newly issued stocks have been listed since Sep. 11, 2007 and were approved by Science Park Administration Yuan-Shang-Tze 0960024707 on Sep.12, 2007.

V. Business Activities

1. Business Scope

1.1 Business Scope

1.1.1 The Main Business Activities of MediaTek Include:

- A. Research, development, manufacturing, and sales of the following products:
 - a. Multimedia Integrated Circuits (IC)
 - b. Computer peripheral integrated circuits
 - c. High-end consumer electronic integrated circuits
 - d. Other integrated circuits for special applications
 - e. Patents of the relevant aforesaid products, purchase and sale of circuit layout rights, and licensing businesses.
- B. Provide the aforementioned products with software& hardware application design test, maintenance and technological consultation services.
- C. Engage in import and export trade for products related to above.

1.1.2 Revenue Mix (2007):

Product Category	Multimedia IC Chipsets	Others *
Revenue Mix	99.22%	0.78%

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

1.1.3 Products Currently Offered by MediaTek:

- A. Optical storage chipsets.
- B. DVD-Player single chip.
- C. Mobile communication chipsets.
- D. Bluetooth and cell phone peripherals chipsets.
- E. WLAN chipsets.
- F. Digital television controller chips.
- G. ATSC and DVB-T decoder and demodulator chipsets.
- H. GPS receiver chips
- I. WiMAX chips
- J. Digital Still Camera controller chips

1.1.4 New Products Planned for Development

- A. Highly integrated Blu-ray chipsets.
- B. High performance and highly integrated DVD-Rewritable chips.
- C. Next generation highly-integrated 3G/2.75G mobile communication chipsets.
- D. Next generation of highly integrated Mobile TV chips.

E. High definition Digital Still Camera chips.

1.2 Industry Outlook

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

The relationships between the upstream, midstream and downstream 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 specialization is the main difference that sets Taiwan's IC industry apart from its overseas peers. Major international companies usually operate vertically across the value chain, from design, manufacturing, to packaging, testing, and even system integration. However, in a rapidly changing industrial environment where the cost of capital investments continues to expand, Taiwan's specialized model provides more flexibility to respond to industry changes. With more focused resources invested into specific industry sectors, Taiwan IC industry has created solid performance over the past years

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

A. IC Design:

Essentially, IC design houses design products based on integrated circuits. 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 complete semiconductor industry ecosystem and the increasing abundant IC design talents, 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. Continuous investments in maintenance and R&D are also required in order to keep its efficiency and competitiveness

C. IC Packaging and Testing:

The function of this industry is to complete the production process by turning the fabricated IC wafers into packaged and tested chips ready to be shipped to customers. It is also a capital and technology intensive industry. However, the barrier to entry in this industry is far lower than that of the 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 Industry:

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

With increasing adoption of high-definition flat-panel displays and emergence of Blu-Ray as the next-generation optical storage standard, the market is expected to grow steadily in 2008 and soar in 2009. MediaTek will continue to leverage its past experiences as well as the spirits of innovation and services to expand its market share by meeting the demand from its consumers world-wide.

B. GPS Industry:

GPS (Global Position System) is a positioning system that makes use of satellites in orbit around Earth. With the US government's disabling the SA code, GPS applications have increased rapidly. These include automobile, leisure, personal tracking and fleet management. GPS is now applied on handheld devices (mobile phones, PDA and PND), OBU (On-Board Unit) and trackers.

MediaTek is a new player in the GPS receiver chip market but a first-tier customer has adopted our products because of the outstanding performance. In the future, we will continue to invest in the development of new GPS receiver chips and refine our software technologies to maintain our technology leadership. By leveraging MediaTek's other resources and customer base, we will use our products' outstanding performance and flexible product strategies to expand our market share in the global GPS market.

C. Digital Home Electronics Industry:

The demand for DVD players remains strong. The increasing price competitiveness has encouraged consumers to upgrade from VCD to DVD, driving growth in the emerging markets. In US and Europe, the DVD player market is now saturated and will be gradually be replaced by the new generation of high-definition Blu-ray players.

For the digital flat panel TV market, the global market in 2008 is projected to be over 90 million units. The major end consumer markets will continue to be North America, Europe and Japan. With these countries planning a complete switch over to digital TV programming, built-in ATSC/DVB-T digital receivers are now considered standard accessories for flat panel TVs.

The global digital camera market in 2008 is projected to be over 120 million units. The major end consumer markets will continue to be North America and Europe. The market will grow steadily as North American/European consumers upgrade to cameras with better performance. More affordable pricing will also stimulate market growth in emerging markets. Taiwan is currently the main ODM service provider for digital cameras. In 2008, it is expected to manufacture over 40% of all digital cameras in the world.

D. Wireless Communications Industry:

In order to boost the average revenue per user, operators have continued to roll-out HSDPA networks that support high-speed data transmissions. The percentage of high-end mobile phones equipped with 3G has continued to increase, with mid-end multimedia mobile phones moving towards 2.75G. The very low-cost mobile phone market is beginning to mature and is controlled by a small number of brands with economy of scale and extensive distribution networks. Nevertheless, new players are continuing to compete against these brands in emerging markets in the mid-to-low end multimedia mobile phone segment. In terms of applications, the major brands have started offering GPS mobile phones. The market has begun to heat up as regional mapping data and services become available as well. On the other hand, the TV mobile phone market has shown no significant growth due to the conflict of interest between governments, operators and telecommunication service providers.

1.3 Technology and R&D

1.3.1 R&D spending in the last fiscal year and current fiscal year from Jan.1, 2008 to Mar. 31, 2008 were NT\$7,187,028 thousand and NT\$2,955,248 thousand respectively.

1.3.2 Successfully developed technologies and products in the last fiscal year and current fiscal year from Jan.1, 2008 to Mar. 31, 2008 :

R&D Accomplishments
1. Launched highly integrated 20X DVD-Rewritable chip
2. Launched 6X Blu-ray/HD-DVD multi-function rewritable chipsets
3. Launched DVD-Player chip with integrated HDMI
4. Launched highly integrated GSM/GPRS/EDGE chipsets
5. Launched highly integrated low-power consumption Bluetooth chips
6. Launched mobile phone peripherals such as FM and touch-screen controller chips
7. Launched high-sensitivity/low power consumption GPS receiver chips
8. Launched ATSC digital TV chips with integrated demodulator
9. Launched 120HZ dynamic image processing chips
10. Launched high definition digital camera controller chips

1.4 Long and Short-Term Business Development Plan

1.4.1 Optical Storage Products:

In addition to maintaining MediaTek's high market share of existing product lines, other short term goals include the development of core technologies to launch highly integrated DVD-Rewritable chips with even better performance. In the long run, MediaTek plans to continue developing highly integrated chips for next-generation high capacity optical storage products such as Blu-ray and HD-DVD to successfully take a leading position in the market during the initial development stage. By continuing to cultivate our expertise in SOC (System-On-Chip) design and system development, this will help us maintain our competitive advantages in the optical storage sector. There is a trend towards consolidation into a few key players in the drive manufacturing sector. MediaTek must therefore continue to build closer relationships with our customers and provide better services.

1.4.2 GPS Products:

MediaTek will not only continue to improve on sensitivity and power consumption for our GPS products but will also extend its support to Europe's Galileo, Russia's Glonass and China's Compass Navigation Satellite Systems. MediaTek develops A-GPS software that will improve GPS positioning and make its products more competitive. Our short term goal is to become the leader in the PND market while our long term goals are to expand into the mobile phone, OBU and even digital camera markets.

1.4.3 Digital Home Electronics Products:

MediaTek will continue to launch DVD players, digital flat panel TV chips and digital camera controller chips that are more highly integrated, with more features, and more price competitive. For new product R&D, we will accelerate the development of next generation high-definition Blu-ray products and mobile TVs to maintain our industry leadership.

1.4.4 Wireless Communications Products:

MediaTek will continue to launch highly integrated mobile phone chipsets and peripheral application chips for different market segments. By providing very competitive products with a high performance-to-cost ratio, we can strengthen our partnership with international operators and distributors and help our customers expand their market share. We will also develop 3G and Open OS mobile communications technologies in order to continually expand our customer base.

2. Market, Production and Sales Outlook

2.1 Market Analysis

2.1.1 Major Product Markets:

Unit: NTD1,000

Region \ Year	2007	
	Sales	Percentage
Export Sales	67,608,828	90.41%
Domestic Sales	7,169,751	9.59%
Total	74,778,579	100.00%

2.1.2 Market Share:

For fiscal year 2007, MediaTek's optical storage and digital consumer products had approximately 24% market share. MediaTek's market share in the wireless communication and digital TV businesses were approximately 11% and 8% 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 CD-ROM and the fast growing DVD-Rewritable products. Beside providing a comprehensive product range, our comprehensive customer services also enable our customers to quickly enter the market and reap the benefits. This is the reason why MediaTek has continued to maintain its high market share despite the stiff competition. On the supply side, the main CD-ROM supplier is MediaTek; the main DVD-ROM suppliers are MediaTek and Panasonic; the main CD-R/RW suppliers are MediaTek and Samsung Semiconductor; the main COMBI chipset suppliers are MediaTek and Panasonic; the main DVD-Rewritable suppliers are MediaTek, Renesas, NEC and Panasonic; for Blu-ray and HD DVD products, apart from MediaTek, the other main suppliers are mainly Japanese companies such as Sony, NEC, Panasonic, Renesas and Toshiba. There are other domestic and overseas vendors trying to enter the optical storage industry but the impact so far has been limited. On the demand side, the global IT market is still in a gradual growth phase. Due to the strong growth in notebook industry, the demand has been boosted for slim-type optical drives. With growing demand from gaming console products such as Wii, PS3 and Xbox360, the demand of optical storage chipsets will continually grow in the future.

B. GPS Products:

2007 has been a year with dramatic change within GPS industry. There were several mergers and acquisitions: Broadcom acquired Global Locate, SiRF acquire Centrality, CSR acquired NordNav and NXP acquired GloNav. These have been driven not only by GPS chip vendors looking for synergies but also mobile phone and Bluetooth chip vendors seeking to acquire access to GPS technology. These show that GPS will become a standard feature for consumer products in the future.

On the demand side, the demand for GPS receiver chips mainly comes from PND (Portable Navigation Device). In 2007, global PND shipments were estimated to be around 30 million units, which doubled the number of shipments in 2006. The global market for PND is expected to surpass 40 million units in 2008. Improved mapping data (3D mapping) and the introduction of new applications will continue to drive the growth in global PND shipments in the future.

C. Digital Home Electronics Products:

MediaTek has a strong leadership position in the DVD player market. Through continuous roll-out of even more cost-effective products, our shipments of DVD player sales are expected to continue a steady growth. For digital flat panel TVs, we currently offer the most highly integrated SOC product in the industry. This will help us penetrate the supply chains of first-tier brands and expand our market share even further. In digital camera, MediaTek has acquired core image processing technologies through our acquisition of NuCORE . This will allow us to quickly establish our market leadership by offering high quality and cost-competitive products.

D. Wireless Communications Products:

Emerging countries have continually been the major growth driver of global mobile phone market. The trend of replacing low-end black & white screen mobile phones with low-end color and multimedia mobile phones has started to emerge. In developed countries, smart phones are now moving towards 3.5G HSDPA as its data transmission rates now meet the needs of general business users. 3G feature is no longer exclusive feature of high-end multimedia phones – operators are now partnering with handset makers to release low-cost 3G phones in order to recoup their 3G infrastructure investment as early as possible. For the mid-tier mobile phone market, in addition to shifting towards EDGE, mobile phone makers are also hoping to win consumers through enhanced applications. Besides the improvements of multimedia applications, GPS and Mobile TV applications that used to be the functions of high-end smart phones are beginning to appear on mid-end mobile phones as well.

2.1.4 Competitive Advantage:

A. An Exceptional Management Team:

MediaTek's management team has been working together in the multimedia industry for many years and has continued to grow with the participation of 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 from years of close working relationship, and the outstanding quality of our employees, MediaTek not only continued to launch new products but also improved the corporate structure several times, laying the foundation on future development.

B. Strength in System-on-Chip Development:

System-on-Chip (SOC) has been the topics 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 competitive products year after year.

2.1.5 Favorable and Unfavorable factors and the Counter-Measures:

Favorable Factors:

A. Continued Growth in Demand and Expanded Applications from Optical Drive Market:

In recent years the PC market has not grown as strongly as it had in the past, so some large vendors have begun shifting their focus from the PC to the digital home electronics market. Optical drives are no longer just a PC peripheral but also are being used in audio-visual entertainment. This trend will significantly expand the range of applications available for optical drives. Other devices such as Wii, PS3, Xbox360 and Camcorder will also need to use the optical drive as their digital storage media. MediaTek is therefore moving in the direction of 3C integration.

B. Taiwanese Manufactures will replace Japanese Manufactures in Slim Type Optical Drive Markets:

The notebook computer market will continue to grow at a faster rate than the overall PC market in the next few years. This will drive the demand for slim type optical drives that are mainly used in notebook computers. Due to the higher entry barrier for slim type optical drives, the market is currently dominated by the Japanese manufacturers. But Taiwanese drive manufactures have begun to make inroads in recent years. This market will bring significant revenues and profits for Taiwanese manufactures. Apart from Taiwanese manufactures, MediaTek's chips have now been adopted by Japanese and Korean drive manufactures for their slim type optical drive products. Our increasing market share demonstrates the advantage we have in product quality and technical support service.

C. Favorable Factors for GPS Products:

Apart from the continued growth of the PND market, major mobile phone makers have started to promote GPS mobile phones which we believe has a great deal of potential. Additionally, a new and very popular feature is the pairing of digital photos with map coordinates as a photo management application. The increasing shipments of digital cameras may stimulate the growth of the GPS market as well. For the OBU market, car navigation systems used to be the exclusive accommodations of luxury sedans. The affordability of the after-market OBU products, however, has triggered new developments in this market and helped to drive the growth of the GPS industry.

D. Continued Growth in DVD-Player Worldwide Penetration:

DVD players' penetration rate in emerging markets is continuing to increase. By introducing products with new features and better product mix, MediaTek will continue to increase our product margins.

E. Continued Growth of the Digital Flat Panel TV Market:

The global digital flat panel TV market will continue to maintain its double-digit growth rate. By launching highly integrated products ahead of our competitors, MediaTek will boost our market share effectively.

F. Acquisition of ADI Cellular Radio and Baseband Chipset Operations Provides Access to TD-SCDMA and Baseband/RF Technologies :

In 2008 MediaTek officially acquired ADI Cellular Radio and Baseband Chipset Operations. It does not only boosts our technical capabilities in TD-SCDMA and other RF related technologies but also allow us expand our regional customers' base.

G. New Mobile Phone Applications Expected to Become Mainstream in 2008:

MediaTek has always invested heavily in the development of new mobile phone applications to provide our customers with accessible and stable integrated solutions. The strong market demand for more powerful multimedia features and new applications such as GPS has enabled MediaTek to leverage our past experience in multimedia technologies and other business divisions. By combining this expertise with wireless communications technologies, we are able to provide customers with highly integrated product solutions that offer shorter development lead time.

H. 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 demand from China 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 capacity.

I. Solid Management Team and High Quality Human Resources:

The management team of MediaTek works closely together to establish our multimedia business. They have accumulated a great deal of experiences and have built a strong rapport over the years. Over 90% of our employees hold a master's degree or higher and the exceptional personnel quality is one of the keys to our leading position which our competitors have not been able to realize.

Unfavorable Factors and Countermeasures:

- A. The information technology industry is changing rapidly and new technologies may appear at any time. As the result, product life cycle keeps shortening and price competition is commonplace in the industry.

Countermeasures:

As part of the extremely competitive technology industry, MediaTek is always marshalling resources for 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 continue marketing 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:

In addition to 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 development of 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:

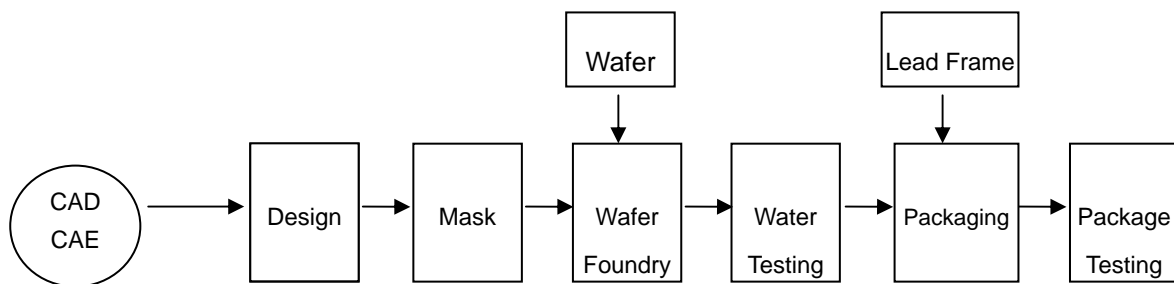
- A. CD-ROM and DVD-ROM chipsets have two main applications. The first is in game console storage devices and the other in multimedia PC storage devices. The former is a closed market with only a few buyers such as Sony, Nintendo and Microsoft. The latter however is the PC market which Taiwan is familiar with. 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 voice only and mainstream GPRS chipsets to high-end multimedia audio-visual cell phones are areas in which MediaTek's wireless communication chipset technology excels.
- 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 as well as a digital TV decoder/demodulator chipset.

2.2.2 Key Product Manufacturing Process

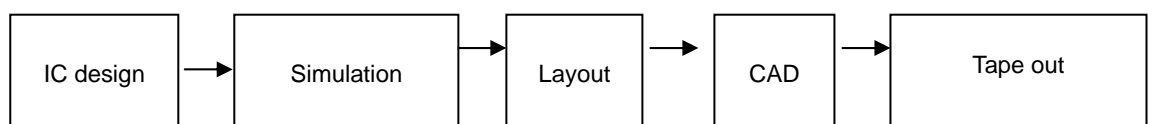
The flowchart of developing a chip from design to finished product is shown below.



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:

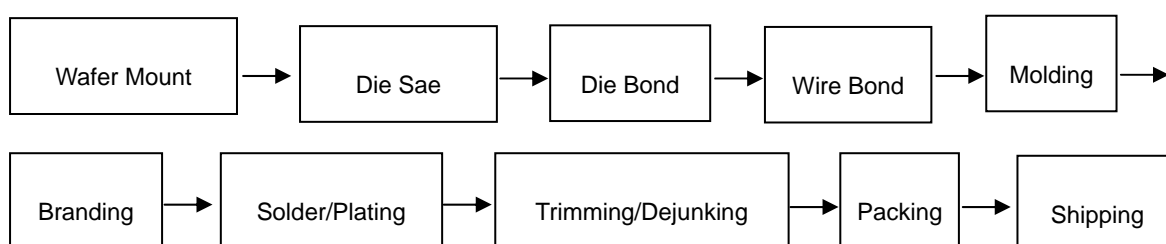
Wafer fabrication is outsourced to the foundry. The wafer process begins by entering a module, going through etching, photo, thin film and diffusion with mask . The finished wafer must be tested electrically before it can be shipped.

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 , which is elaborated as follows:



2.3 Supply of Primary Raw Materials:

Wafers are our primary product materials and come mainly from United Microelectronics Corporation (UMC), Taiwan Semiconductor Manufacturing Limited Company (TSMC) , Dongbu Electronics (DBE), Chartered (CSM) and Silterra. Those suppliers maintain quite a high level in quality and process, satisfying MediaTek's requirements 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 Accounting 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:

Names of Suppliers Each Accounting for More Than 10% of The Total Purchase in Any of the Previous Two Years:

Unit: NTD1,000

2006			2007		
Supplier Name	Amount Purchased	Proportion of Total Purchases for the Year (%)	Supplier Name	Amount Purchased	Proportion of Total Purchases for the Year (%)
Supplier A	8,140,385	63.39	Supplier A	15,827,855	67.85
Supplier B	2,622,704	20.42	Supplier B	3,317,507	14.22
Supplier C	1,209,471	9.42	Supplier C	3,201,029	13.72

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

2006			2007		
Customer Name	Amount Sold	Proportion of Total Sales for the Year (%)	Customer Name	Amount Sold	Proportion of Total Sales for the Year (%)
Customer A	6,262,884	11.83	Customer A	17,471,224	23.36
Customer B	5,034,218	9.51	Customer B	8,705,957	11.64
Customer C	7,037,408	13.29	Customer C	6,851,780	9.16

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

Production Volume and Value over the Last Two Years:

Unit: 1,000pcs/NTD1,000

Production Volume & Value Key Product	Year	2006			2007		
		Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value
	Multimedia IC Chipsets	N/A	480,487	23,126,405	N/A	979,085	37,301,715

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

Sales Volume & Value Key Product	Year	2006				2007			
		Domestic Sales		Export Sales		Domestic Sales		Export Sales	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Multimedia IC Chipsets		28,870	4,323,789	430,637	48,173,328	45,911	6,939,905	784,865	67,253,632
Others		N/A	264,188	N/A	180,300	N/A	229,846	N/A	355,196
Total		28,870	4,587,977	430,637	48,353,628	45,911	7,169,751	784,865	67,608,828

3. Employees

Year		2006	2007	Until March 31 2008
Number of Employees	Management	79	102	110
	R&D	1,259	1,600	1,716
	Marketing	44	57	65
	Manufacturing	47	58	63
	Total	1,429	1,817	1,954
Average Age		31.35	31.6	31.6
Average Years of Service		2.74	3.1	3.1
Education	Doctoral	5.38%	5.56%	5.79%
	Master	84.41%	85.24%	85.61%
	University & College	10.07%	9.09%	8.50%
	High School	0.14%	0.11%	0.10%
	Total	100.00%	100.00%	100.00%

4. Environmental Protection Expenditure

4.1 In the last year and this fiscal year from Jan.1 to the day this report is put in printing MediaTek has incurred no losses (including compensation) or penalties related to environmental pollution.

4.2 Future Strategies (Including Improvements) and Potential Expenditure :

MediaTek is an IC design house with no manufacturing facilities or treatment plants for effluent and emissions. We are therefore in a low-pollution and low-risk industry. We also have a longstanding commitment to environmental protection, safety and health. In order to balance business growth, ecological preservation and environmental safety and sustainability. All necessary resources are provided to ensure a comfortable working environment. MediaTek also realizes that safeguarding the safety and health of employees is a key component in business operations.

We are committed to achieving the following goals:

A. Compliance:

We 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 movements.

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. We have also stepped up efforts in green purchasing and green partner management to ensure that our products, services, and contractors all comply with the international trend towards green products.

C. Enhanced Employee Training & Development:

We offer education & training designed to boost all employee's environmental awareness and industrial safety. Through resource recycling and waste reduction efforts, we encourage employees to accept 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:

We publicize our above commitments and take part in real-world activities to demonstrate our company's commitment to protecting the environment and safety of our 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 Benefits:

A. Group Insurance:

To provide employees with more comprehensive insurance protection, MediaTek has set up an employees' group insurance scheme that offers life insurance, accident insurance, hospitalization insurance and cancer care. This insurance scheme not only covers individual employees but also their spouses, parents and children—ensuring complete coverage for employee families.

B. Club Activities:

To provide employees with an incentive for engaging in appropriate recreational activities, the Employee Benefits Committee provides funding to clubs which are set up by employees for regular gatherings and recreational events.

C. Others:

As employees' welfare being a high priority, MediaTek offers health check-ups for

new recruits, annual check-ups for current employees, parental subsidies, emergency assistance, as well as grants for weddings and funerals. Scholarships for employees' children, meal subsidies, gift vouchers on annual festivals, birthday gift vouchers, discounts at designated stores, annual domestic/overseas holidays and in-service education & training programs help to boost employee loyalty.

For occupational health and safety, MediaTek ensures a safe working environment and carries out safety management activities by compliance with the OHS regulations issued by the Council of Labor Affairs. MediaTek has continued to refine our OHS management system and was successfully certified to OHSAS-18001 occupational health and safety management system standards after it was introduced in January 2007. We have now implemented this through employee safety education, workplace safety inspections, testing & servicing of safety equipment, safety management of contractors and smoking bans. These efforts help to ensure a safe working place and create an office environment that is hazard free, accident free and comfortable.

5.2 Continuing Education and Training Schemes and Their Implementation:

MediaTek offers a comprehensive education & training program/system that implements our company philosophy of: "A human-centric approach to provide a challenging and learning environment where employees can realize their potential to help the Company continue to grow." Company education & training can be divided into four major categories depending on the grade and type of position:

A. Executive Training Program:

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

B. Engineer Training Program:

Provide a personalized development roadmap based on the professional competencies required by engineers at each level to carry out their duties and their level of development at time of entry.

C. Professional Competency Training Program:

Provide a series of training programs for professional competencies other than engineering skills. Sub-categories include basic management, legal affairs & intellectual property, computer IT, human resources, finance, accounting, sales & marketing and language training.

D. New Hire Orientation:

The training programs developed for new hires include training for new staff and engineers.

Education and training spending in the last fiscal year and as of the date of publication were NT\$24,221 thousand and NT\$3,757 thousand respectively.

5.3 Pension Scheme:

MediaTek manages retirement system in accordance with 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) under the same statute, with the years of service accumulated before the new Act went into effect being recognized (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:

In MediaTek, a "human-centric" philosophy guides everything we do and we are committed to promoting harmony between employer and employee with the goal of achieving a mutually beneficial outcome.

Current state of Labor-Management Negotiations and the Protection of Employee Rights :

A. Working Regulations:

MediaTek has defined employee working regulations that conform to the Company's policy and help build consensus between the management and the labor sites.

B. Employee Communication Meeting:

MediaTek regularly convenes employee communication meetings where all employees can discuss any issues face-to-face with high-level management, including company strategy & development, industry environment and trends, department targets, and direction. These sessions help employees to understand the Company's operation and build consensus.

C. Human Resources Committee:

The human resources committee convened each month regularly where high-level management exchange their opinions, resolve decisions on key issues and reach consensus.

D. E-mail:

All employees are provided with an e-mail account so they can receive the company's latest information as soon as possible. Employees can also use e-mail to report any issues at work to the responsible personnel.

E. Public Announcement Bulletins:

Any important announcements are communicated to all employees through MediaTek's intranet.

5.5 Losses Incurred Due to Labor Disputes in the Last Fiscal year and as of the Date of Publication :

MediaTek takes a human-centric and proactive approach to ensure positive labor relations. By handling all matters in accordance with the principles of Labor Standards Act (in some aspects our methods are superior), labor relations have been harmonious in our company and there has been no serious disputes in recent years.

5.6 Estimated Costs of Current and Potential Future Disputes and Response: None.

6. Social Responsibility

In 2000 MediaTek established the "MediaTek Education Foundation" to sponsor the promotion of technology knowledge in schools, development of technology education for students, promote academic exchanges, support the development of technology and to care social trends. It is hoped that MediaTek can make a contribution to society by extending our core values. This represents not only a long-term social commitment for the Company but also a way for MediaTek to make a direct contribution. The Foundation therefore emphasizes technology education and talent development in its social contribution activities. After all, it was the people cultivated by Taiwan's technology education system that helped MediaTek achieve its rapid growth. By providing our own resources and expertise to the education system in Taiwan, we can 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 activities, and organizing education related arts & culture. In keeping with the Foundation's spirit of technology education, MediaTek Education Foundation continued to organize and support technology education related activities in 2007.

6.1 Technology Education Scholarships :

Apart from continuing to offer scholarships for domestic doctoral programs and international exchanges, the Foundation also sponsored "Wu Ta-You's Cross-Strait Student Exchange Scholarship" and IC broadcast hosted by Mr. Liu Chung-Lang, the former president of Tsing Hua University. Hopefully, through the broadcast media , public awareness of technology and humanities among general public can be enhanced.

6.2 Sponsorship for University Laboratories and Discussion Panels:

MediaTek Education Foundation continued to sponsor NTU-MTK Lab, NCTU R&D Center, ITRI's VLSI technology, VLSI Design/CAD event and A-SSCC. Through these technology education activities and scholarships, we hope to cultivate and develop Taiwan's high technology expertise.

6.3 Sole Sponsor of Lung, Yingtai Cultural Foundation's "International Lecture" Series:

Lung Yingtai Cultural Foundation aims to cultivate young people's international perspective, boost their reasoning and thinking skills, encourage interest in global issues, build their international understanding, which may lead them to care about development of Taiwan and the world . After a year of careful planning, the "International Lecture Series" finally became a reality with the support of MediaTek Education Foundation which is famous for technology R&D.

6.4 Support for Community Building:

6.4.1 "Caring for the Disadvantaged- 2007 Adopt a Student" Campaign:

Recognizing the importance of education and the need to help disadvantaged groups in society, MediaTek launched the "Adopt a CCF Student" campaign in 2003. The annual event held at the beginning of each year has now become an important tradition in MediaTek. In 2007, MediaTek employees adopted a total of 204 local and overseas students.

6.4.2 "Let Me Read to You –MediaTek Audio Book Recording for the Visually Handicapped" Volunteer Campaign:

To sustain and expand the spirit of the MediaTek Volunteer Day, in 2006 ,the Company started more long-term and sustained volunteer services. By drawing upon MediaTek engineering expertise of MediaTek employees, we worked with NTHU Blind Association. Volunteers were recruited to help record audio text books for visually handicapped students. We hope that this activity can help visually handicapped students with their education. In 2007, a total of 196 hours of audio books were recorded for the visually handicapped students, lighting their roads to education.

6.4.3 "Donate a Bag, Save a Life" – 2007 September Blood Drive:

Media reports and information provided by the Hsinchu Blood Donation Center indicated that the summer and winter holidays were the periods where the blood banks ran particularly low. MediaTek therefore partnered with the Hsinchu Blood Donation Center for the first time to host a blood drive in September 2007. This year, MediaTek employees rolled up their sleeves and donated 39,000cc of their own blood. In the future, MediaTek plans to host blood drives during the summer and winter holidays each year as well.

6.4.4 2007 MediaTek Volunteer Day – Happy Reading:

Apart from general donations, MediaTek feels that putting words into action is far more meaningful to society. Therefore MediaTek held the first Volunteer Day at the end of 2003. Since then, employees of MediaTek were inspired to join volunteer activities. In keeping with the spirit of contribution and participation, there were around 120 employees and their families participating in the 2007 MediaTek Volunteer Day event, "Happy Reading." We cooperated with over 100 students from Hsin-Le Elementary School to organize their library, make illustrated books signs for the school environment and paint DIY curtains. For MediaTek, the MediaTek Volunteer Day is our way of encouraging employees to volunteer and give back to society in tangible ways.

6.4.4.1 Volunteer Day – Partner: Hsin-Le Elementary School:

Activity: Enhance teaching resources and improve school environment.

In the summer of 2007 the Taiwan Fund for Children and Families introduced MediaTek to Hsin-Le Elementary School. After numerous discussions and understanding the school's requirements, the MediaTek Education Foundation enriched the school's teaching resources by donating projector equipment. This

offered the following benefits:

A. Resources are more accessible:

In the past, teachers would take their entire class to the computer classroom to look up information online, or everyone would have to crowd around the only computer monitor in the classroom. By equipping the class computer with a projector, teachers can now use the Internet for teaching purposes at any time.

B. Encourage independent learning among students:

Through teachers' guidance, students can learn about the correct way to look up information. Students can also look up information in their classroom outside of class.

C. Enrich teaching content:

The projector and disc player provide the classroom with audio-visual equipment. With this equipment, teaching videos can now be played in class which would enrich the class of art appreciation and be the supplemental instruction of science class.

6.4.4.2 "Moving Story Castle" Fundraising Drive:

MediaTek realized the limited resources and difficulty of raising funds for schools in aboriginal areas. A "Moving Story Castle" fundraising drive was therefore held among employees as part of activities of the Volunteer Day to purchase mobile library. This was donated to the Taitung family support center to provide library resources to aboriginal schools in Taitung's Dawu region. Through the "Moving Story Castle", we hope to achieve the following:

- A. Encourage children in reading and reduce problems of low learning achievement.
- B. Provide a space for diversified learning and inspire more creative thinking in children through diversified learning contents.
- C. Increase parent and children's interaction.

7. Important Contracts

Agreement Type	Contracting Parties	Term of Agreement	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 NuCORE	None
Purchasing of assets	Analog Devices, Inc.	2007.9.10	Purchased Analog Devices' cellular radio and baseband chipset operations	None

VI. Financial Status , Operating Results, and Status of Risk Management

1. Financial Status

Currency: NTD 1,000

Account title \ Year	2006	2007	Change	Proportion of change (%)
Current assets	\$47,496,552	\$62,612,568	\$15,116,016	31.83
Funds and investments	21,151,006	27,579,761	6,428,755	30.39
Fixed assets	4,814,984	5,221,845	406,861	8.45
Intangible assets	2,081,243	1,478,649	(602,594)	(28.95)
Other assets	1,122,400	397,515	(724,885)	(64.58)
Total assets	76,666,185	97,290,338	20,624,153	26.90
Current liabilities	9,079,678	11,285,891	2,206,213	24.30
Long-term debts	-	-	-	-
Other liabilities	60,977	67,390	6,413	10.52
Total liabilities	9,140,655	11,353,281	2,212,626	24.21
Capital stock	9,683,127	10,408,538	725,411	7.49
Capital reserve	404,409	2,539,843	2,135,434	528.04
Retained earnings (including statutory reserve and special reserve)	55,297,498	72,636,319	17,338,821	31.36
Accumulated conversion adjustments	(483,510)	(400,047)	83,463	(17.26)
Unrealized gain from financial instruments	2,679,976	808,374	(1,871,602)	(69.84)
Treasury Stocks	(55,970)	(55,970)	-	-
Total Shareholders' Equity	67,525,530	85,937,057	18,411,527	27.27

Analysis of deviation over 20% and the amount exceeded NT\$10 million between two periods :

- (1) Increase in current assets: Sales grew significantly and this resulted net profit which increased cash inflow. Inventory levels were increased in response to the market demand.
- (2) Increase in funds and investments : Participate in capital raise of invested companies and increase in net profit and available-for-sale financial assets(non current) of invested companies recognized by equity method.
- (3) Decrease in intangible assets :Decrease in the amortization of special technologies and patents.
- (4) Decrease in other assets : Decrease in deferred tax assets.
- (5) Increase in total assets : Increase in current assets and funds and investments.
- (6) Increase in current liabilities and total liabilities: Increase of sales leads to the increase of accounts payable to suppliers.
- (7) Increase in capital reserve : Capital surplus from share swap with NuCORE Technology, Inc.
- (8) Increase in retained earnings: Increase in net profits.
- (9) Decrease in unrealized gain from financial instruments: Decrease in unrealized gain from financial instruments of invested companies recognized by equity method.
- (10) Increase in total shareholders' equity : Increase in capital reserve and retained earnings.

2. Operation Results

2.1 Analysis of MediaTek's Financial Information:

Currency: NTD 1,000

Account title	Year	2006	2007	Change	
		Amount	Amount	Amount	Proportion (%)
Revenue		55,212,125	76,054,533	20,842,408	37.35
Less: sales returns & discounts		(2,270,520)	(1,275,954)	994,566	(43.80)
Net sales		52,941,605	74,778,579	21,836,974	41.25
Cost of goods sold		(22,287,387)	(32,552,182)	(10,264,795)	46.06
Gross profit		30,654,218	42,226,397	11,572,179	37.75
Operating expenses		(6,838,649)	(10,799,637)	(3,960,988)	57.92
Income from operation		23,815,569	31,426,760	7,611,191	31.96
Non-operating incomes		891,660	3,573,546	2,681,886	300.75
Non-operating expenses		(341,043)	(167,376)	173,667	(50.92)
EBT from continuing operations		24,366,186	34,822,930	10,466,744	42.96
Corporate Income tax		(1,794,242)	(1,240,228)	554,014	(30.88)
Earnings from continuing operations		22,571,944	33,592,702	11,020,758	48.83
Cumulative effect of changes in accounting principles		7,638	-	(7,638)	(100.00)
Net income		22,579,582	33,592,702	11,013,120	48.77

Analysis of deviation over 20% and the amount exceeded NT\$10 million between two periods :

- (1) Increase in revenue, net sales, cost of goods sold and gross profit: Sales grew significantly this period and most product lines increased their market share as well. Though competition in certain markets led to a drop in sell price, generally speaking, overall revenue still increased dramatically, with the cost of goods sold increasing in line. Though the product margin dropped slightly compared to the previous period, product mix changes and increased shipments , overall gross profit still increased.
- (2) Decrease in sales returns and discounts: A reduction in sales discounts to customers.
- (3) Increase in operating expenses: The increased personnel costs from expanded organization as well as increases in labor, licensing and royalty expenses.
- (4) Increase in operating income: The increase in gross profit in this period. Though operating expenses increased as well, there was still an increase in operating income.
- (5) Increase in non-operating income: The sound performance of the Company's subsidiaries in this period. This has resulted in an increase in investment income recognized under equity method .
- (6) Decrease in non-operating expenses and losses: Though we increased the inventory levels for some products in response to market demand, strong demand has resulted in an overall shortening of inventory turnover days reducing the amount of inventory loss provision.
- (7) Decrease in income tax expenses: Over-evaluation of company's income tax by the taxation authorities in the previous period. MediaTek is now engaged in an administrative appeal of the relevant cases.
- (8) Increase in net profit of this period: Based on the above factors, the net profit of this period increased significantly over the previous period.

2.2 Analysis of Consolidated Financial Information:

- Consolidated revenue for this year was NT\$80.672 billion, an increase of 43% over NT\$56.397 billion of the previous year. This was mainly due to a significant sales increase over the previous period.
- Consolidated gross margin was 56.19%, a decline of 0.58% over 56.52% from the previous year. This was mainly due to a slight drop in sales price given by intense competition of the market .
- Net profit for this year was NT\$33.593 billion, an increase of 49% over NT\$22.58 Billion from the previous year. This was mainly due to an increase of operating profit from higher sales.
- The earnings per share this year was NT\$32.59, an increase of 49% over NT\$21.93 of the previous year. This was mainly due to an increase of net profit.

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 state 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 Inventory Loss Provision:

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

Days of inventory	Proportion for inventory loss provision (%)
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, 2007 and the total assets as of December 31, 2007 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
\$36,655,169	\$27,158,641	(23,448,228)	40,365,582	-	-

Analysis of the Change in Cash Flow in Current Period :

- Operation: Net cash inflow amounted to NT\$27,158,641 thousand from operating incomes.
- Investments: Net cash outflow amounted to NT\$8,627,108 thousand primarily due to the increase in fixed assets, available-for-sale securities and intangible assets.
- Financing: Net cash outflow amounted to NT\$14,821,120 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 : Not applicable.

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:

Mar. 31, 2008; 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
Constructions and buildings	Equity Capital	\$4,390,003	\$941,232	\$1,768,554	\$1,366,958	\$313,259
Hardware and software for R&D	Equity Capital	\$1,513,667	\$195,861	\$227,642	\$463,885	\$626,279
Intangible assets-special technologies and patents	Equity Capital	\$4,732,980	\$1,465,783	\$1,861,743	\$706,197	\$699,257

6.2 Expected Results from Expending

6.2.1 Expected Increase in Volume and Value of Production and Sales:

Currency: NTD 1,000

Year	Item	Production volume (kpcs)	Sales volume (kpcs)	Sales value	Other benefits
2007	Multimedia IC	371,269	371,269	21,696,420	Please refer to 6.2.2

6.2.2 Other Benefits Are Explained as Follows:

(1) Buildings:

To provide employees with comfortable workplaces to help us recruit talent in order to develop new products to assure a sustainable business operation.

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

These are the essential aids and tools for our R&D and new product design. The 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: None

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:

As US economic growth slows down, 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.

The foreign currency held in the Company's assets and liabilities is primarily U.S. Dollars, and any exchange rate volatility would cause adverse 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 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 has not dealt with high risk and high leverage investment and derivative trade. Relevant loan to a third party, endorsement in favor of a third party and derivative trade policy are governed by the Company's internal control procedures. MediaTek has not loaned 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 is offset by the derivative contracts purchased for such purpose.

The 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 and highly integrated DVD-Rewritable chips	200
Blu-ray player chipsets	600
High sensitivity and low power consumption GPS receiver chips	150
High performance DVD-Player chips	150
Highly integrated DTV chips	900
Mobile TV chips	200
2.75G and 3G mobile phone chipsets	1,000
High quality Digital Camera chipsets	120
Digital image processing chips	30
Subtotal	3,350

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 Date of 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 expenses starting from Jan. 1, 2008 and this increases the operation cost of the Company. The Company has decided to distribute 25% of after-tax earnings as employee bonus. 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 Date of 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 type optical storage drive. Our key customers both at home and abroad have successfully entered into this market and are believed to boost our slim type optical drive sales. Besides, DVD-Rewritable and COMBI are virtually replacing CD-RW drives. We shall, therefore, persist by developing 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 next-generation Blu-ray technology, the Company has already committed substantial resources with the expectation that this will be a driving force for another wave of growth.

B. The demand for low-cost GPS in the mobile phone and PND markets as well as the entry of major vendors into the GPS application market have led to intensive competition. MediaTek will not only continue to develop high performance GPS receiver chips but also invest in the development of low-cost GPS products and highly integrated chips to enhance the competitiveness of MediaTek's products.

C. Rapid advances in digital home technologies have seen a constant stream of new

standards launched for AV players and digital flat panel TVs. In response to the development, MediaTek will join the various standard-setting organizations to acquire first-hand industry information and the latest technological developments that serve as a reference for future product R&D.

- D. Increasingly intense competition in the mobile phone industry as well as the consolidation and reshuffling of the entire supply chain has all led to changing customers and competition. Apart from closely monitoring these developments, we must also respond more proactively. The launch of the single baseband/RF chip will not only impact on the low-end market segment but also see competitors develop mid-end or even high-end SoC products that integrate other peripheral features. We must accelerate our development for SoC technology and launch competing products. The strong interest in low-price 3G mobile phones from operators indicates that the market will soon enter a growth phase. There is also talk in the industry of 3.9G or 4G development. Apart from TD-SCDMA for the Chinese market, we must also develop WCDMA products in response to the demand for 3G in the rest of the world.

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 potential. 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 date of 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 office buildings in August, 2004 and completed the construction in Mar. 2006. The expected 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 towards 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 date 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 date 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, 2005.

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, 2005, 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. Pat. 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. Pat. 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.

On June 6, 2007, the Company resolved the dispute with Sanyo and entered into an agreement to settle all pending patent litigations and to dismiss all proceeding pending against each other including the above referenced litigations.

- 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 alleged that the Company infringed U.S. Pat. No. 5548249, 5970238 and 6728475. The Complaint sought both damages and an injunction prohibiting the sale of the Company's products that infringe upon the aforementioned MEI patents. The Company 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. 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 sought monetary damages and an injunction. On February 2, 2006, Matsushita and Panasonic filed their answer to this complaint, included in the answer are counterclaims for patent infringement of Matsushita's U.S. Pat. No. 5347232 and 6828865. Further, on May 25, 2007, the Company filed a complaint for patent infringement against MEI and Panasonic in the Northern District of California, asserting that additional products of MEI and Panasonic infringe upon the Company's U.S. Pat. No. 5970031 seeking damages and injunctive relief against any and all of MEI and Panasonic's infringing products. The Company also filed a declaratory judgment action to confirm MEI's Pat. No. 6728475, 5970238 and 5548249) are invalid and Company's new products do not infringe.

The Company and MEI entered into an agreement to settle all of the foregoing litigations in July of 2007.

8.13 Other Major Risks: None.

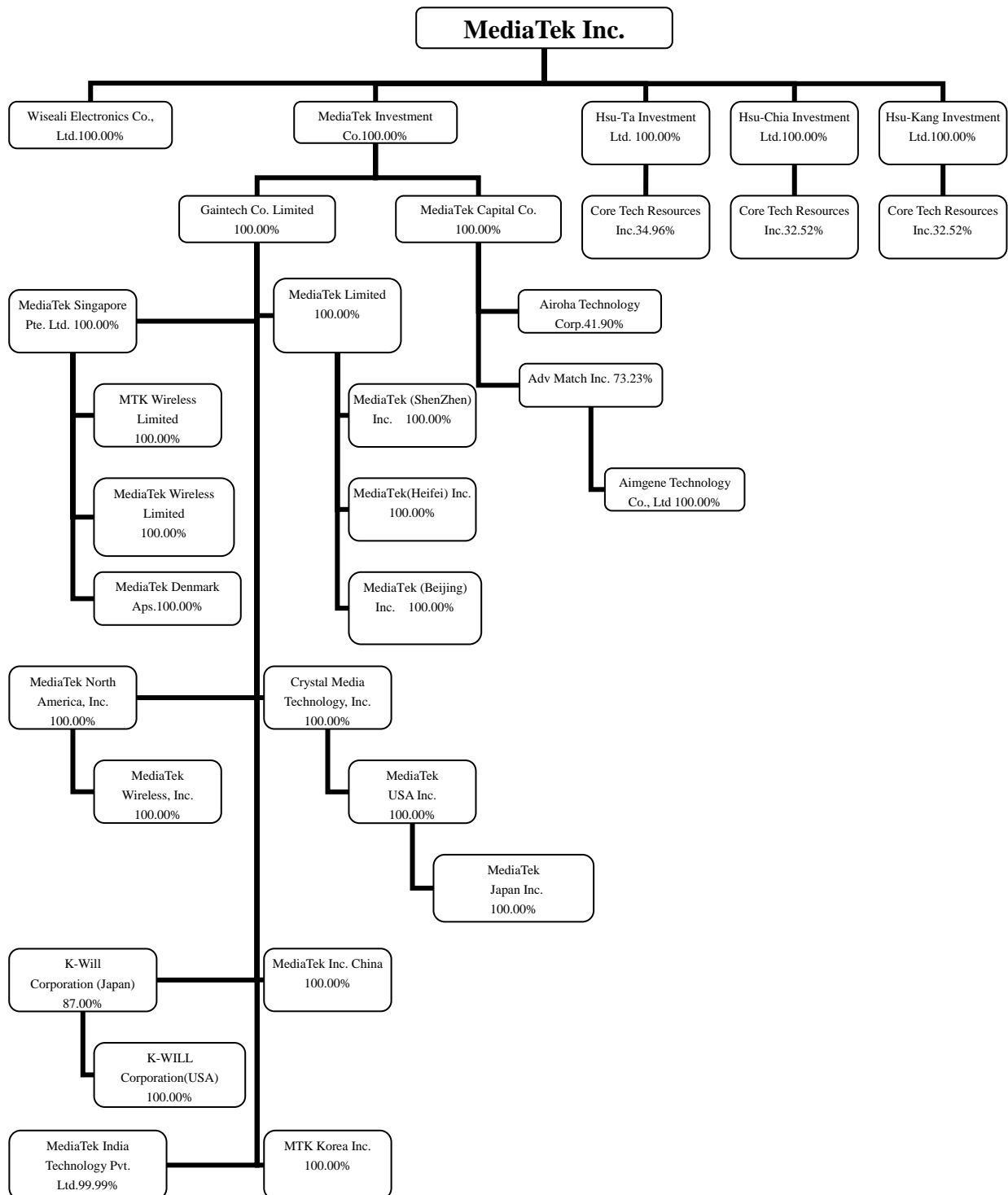
7. Other Important Notices: None

VII. Special Notes

1. Profiles of Affiliates and Subsidiaries

1.1 Organizational Chart of Affiliates (Note):

December 31, 2007



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 9,600,000	Investment
MediaTek Capital Co.	2000/09	Taiwan	NTD 2,081,163	Investment
Hsu-Ta Investment Ltd.	2002/09	Taiwan	NTD 3,755,277	Investment
Hsu-Kang Investment Ltd.	2002/09	Taiwan	NTD 3,487,265	Investment
Hsu-Chia Investment Ltd.	2002/09	Taiwan	NTD 3,486,985	Investment
Gaintech Co. Limited	2000/08	Cayman Islands	USD 239,975	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
CrystalMedia Technology, Inc.	2003/06	U.S.A.	USD 100	IC design
MediaTek Singapore Pte. Ltd.	2004/06	Singapore	SGD 46,550	R&D
MediaTek India Technology Private Ltd.	2004/05	India	INR 55,000	R&D
MediaTek(Heifei) Inc.	2003/08	Mainland China	USD 2,500	Technological services for customers
MediaTek (ShenZhen) Inc.	2003/10	Mainland China	USD 2,000	Technological services for customers
MediaTek (Beijing) Inc.	2006/11	Mainland China	USD 1,000	Technological services for customers
Wiseali Electronics Co., Ltd.	2004/03	Taiwan	NTD 2,000	IC design
Airoha Technology Corp.	2001/08	Taiwan	NTD 329,385	IC design, sales
Adv Match Inc.	2007/02	Taiwan	NTD 207,430	IC design,
Aimgene Technology Co., Ltd	2000/04	Taiwan	NTD 105,000	Module design and sales
MTK Wireless Limited	2007/12	U.K	-(Note)	Technological services
MediaTek Wireless Limited	2007/12	Ireland	-(Note)	Technological services
MediaTek Denmark Aps.	2007/12	Denmark	DKK 125	Technological services
MediaTek USA Inc.	1997/05	U.S.A	USD 83,196	Technological services
MediaTek Japan Inc.	1997/06	Japan	JPY 55,000	Technological services
MediaTek North America, Inc.	2007/12	U.S.A	USD 17,000	Investment
MediaTek Wireless, Inc.	2007/12	U.S.A	-(Note)	Technological services
MediaTek Inc. China	2007/12	Hong Kong	HKD 136,535	Investment
K-Will Corporation	1999/08	Japan	JPY 142,300	Equipment design and sales
K-WILL Corporation	2003/08	U.S.A	USD 448	Sale of equipment
MTK Korea Inc.	2007/02	Korea	KRW1,000,000	IC sales

Note : These companies have been set up since Dec. 31, 2007; however , at that time, no capital injection has been made.

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:

Businesses run by the entire MediaTek and its affiliates include optical storage products, high-end consumer oriented digital products, wireless communication product chipsets and digital TV chips for R&D, marketing, after-sales service as well as general investment. Through sound division of labor, affiliates obtain advanced know-how in

order 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, 2007 Unit: Share/%				
Company Name	Title	Name or Representative	Status of shareholding	
			Quantity	Proportion
MediaTek Investment Co.	Director/Chairman	MediaTek Inc. (Statutory representative: Ming-Kai Tsai)	1,091,474,200	100.00
	Director/General manager	MediaTek Inc.(Statutory representative: Ching-Jiang Hsieh)	1,091,474,200	100.00
	Director	MediaTek Inc. (Statutory representative: Ming-ToYu)	1,091,474,200	100.00
	Supervisor	MediaTek Inc. (Statutory representative: Hui-Ling Lin)	1,091,474,200	100.00
MediaTek Capital Co.	Director/Chairman	MediaTek Investment Co. (Statutory representative: Ming-Kai Tsai)	208,116,346	100.00
	Director/General manager	MediaTek Investment Co. (Statutory representative: Ching-Jiang Hsieh)	208,116,346	100.00
	Director	MediaTek Investment Co. (Statutory representative: Ming-ToYu)	208,116,346	100.00
	Supervisor	MediaTek Investment Co. (Statutory representative: Hui-Ling Lin)	208,116,346	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)	239,975,440	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
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	-	-
MediaTek Singapore Pte.Ltd.	Director	Gaintech Co. Limited (Statutory representative: Ming-Kai Tsai)	46,550,000	100.00
	Director	Gaintech Co. Limited (Statutory representative: Ming-ToYu)	46,550,000	100.00

Company Name	Title	Name or Representative	Status of shareholding	
			Quantity	Proportion
MediaTek India Technology Private Ltd.	Director	Gaintech Co. Limited (Statutory representative: Ming-Kai Tsai)	5,499,999	99.99
	Director	Gaintech Co. Limited (Statutory Representative: Ji-Chang Hsu)	5,499,999	99.99
	Director	Gaintech Co. Limited (Statutory representative: Ming-ToYu)	5,499,999	99.99
MediaTek(Heifei) 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 (ShenZhen) Inc.	Director/Chairman	MediaTek Limited (Statutory representative: Hsi-Yuan Hsu)	N/A	100.00
	Director	MediaTek Limited (Statutory representative:Ching-Chiang 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: Ji-Chang Hsu)	N/A	100.00
	Director	MediaTek Limited (Statutory representative: Wen-Hsin Wang)	N/A	100.00
Wiseli 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
Airoha Technology Corp.	Director/Chairman	MediaTek Capital Co. (Statutory representative: Ming-Kai Tsai)	13,801,734	41.90
	Director	MediaTek Capital Co. (Statutory representative: Michael Lu)	13,801,734	41.90
	Director	MediaTek Capital Co. (Statutory representative: Kou-Hung Loh)	13,801,734	41.90
	Director	Chorng-Kuang Wang	-	-

Company Name	Title	Name or Representative	Status of shareholding	
			Quantity	Proportion
	Supervisor	MediaTek Capital Co. (Statutory representative: Hui-Ling Lin)	13,801,734	41.90
	Supervisor	MediaTek Capital Co. (Statutory representative: Tzu-Hisung Lin)	13,801,734	41.90
	Supervisor	May Wang	-	-
Adv Match Inc.	Director/Chairman	MediaTek Capital Co. (Statutory representative: Ping-Hsing Lu)	15,190,491	73.23
	Director	MediaTek Capital Co. (Statutory representative: Ying-Tzung Wang)	15,190,491	73.23
	Director	MediaTek Capital Co. (Statutory representative: Chun-Kun Chen)	15,190,491	73.23
	Director	MediaTek Capital Co. (Statutory representative: Eric Chen)	15,190,491	73.23
	Director	China Industrial Development Bank (Statutory representative: Susan Wei)	565,561	2.73
	Supervisor	MediaTek Capital Co. (Statutory representative: David Ku)	15,190,491	73.23
	Supervisor	MediaTek Capital Co. (Statutory representative: Hui-Ling Lin)	15,190,491	73.23
Aimgene Technology Co., Ltd	Director/Chairman	Adv Match Inc. (Statutory representative: Ping—Hsing Lu)	10,500,000	100.00
	Director	Adv Match Inc. (Statutory representative: Ying-Tzung Wang)	10,500,000	100.00
	Director	Adv Match Inc. (Statutory representative: Eric Chen)	10,500,000	100.00
	Supervisor	Adv Match Inc. (Statutory representative: David Ku)	10,500,000	100.00
MTK Wireless Limited(UK)	Director	MediaTek Singapore Pte.Ltd. (Statutory representative: Ming-ToYu)	-(Note)	100.00
MediaTek Wireless Limited(Ireland)	Director	MediaTek Singapore Pte.Ltd. (Statutory representative: Ming-ToYu)	-(Note)	100.00
MediaTek Denmark Aps.	Director	MediaTek Singapore Pte.Ltd. (Statutory representative: Ming-ToYu)	125,000	100.00
MediaTek USA Inc.	Director	CrystalMedia Technology, Inc. (Statutory representative: Ming-Kai Tsai)	95,940,156	100.00
	Director	CrystalMedia Technology, Inc. (Statutory representative: Ching-Jiang Hsieh)	95,940,156	100.00
	Director	CrystalMedia Technology, Inc. (Statutory representative: Ming-ToYu)	95,940,156	100.00

Company Name	Title	Name or Representative	Status of shareholding	
			Quantity	Proportion
MediaTek Japan Inc.	Director/Chairman	MediaTek USA Inc. (Statutory representative:Ching-Chiang Hsieh)	1,100	100.00
	Director	MediaTek USA Inc. (Statutory representative:Jeffrey Ju)	1,100	100.00
	Director	MediaTek USA Inc. (Statutory representative: Ming-ToYu)	1,100	100.00
MediaTek North America, Inc.	Director	Gaintech Co. Limited (Statutory representative: Ming-ToYu)	17,000,000	100.00
MediaTek Wireless, Inc.(USA)	Director	MediaTek North America, Inc. (Statutory representative: Ming-ToYu)	-(Note)	100.00
MediaTek Inc. China(Hong Kong)	Director	Gaintech Co. Limited (Statutory representative: Ming-Kai Tsai)	136,535,000	100.00
K-Will Corporation(Japan)	Director/Chairman	Gaintech Co. Limited (Statutory representative: Jacob Yu)	1,940	87.00
	Director	Gaintech Co. Limited (Statutory representative: Takahiro Harmada)	1,940	87.00
	Director	Gaintech Co. Limited (Statutory representative: Seiichiro Watanabe)	1,940	87.00
	Director	Gaintech Co. Limited (Statutory representative: Shingo Kokudo)	1,940	87.00
	Director	Gaintech Co. Limited (Statutory representative: Chung -Chieh Kuo)	1,940	87.00
	Supervisor	Gaintech Co. Limited (Statutory representative: Hui-Ling Lin)	1,940	87.00
K-WILL Corporation(USA)	Director/Chairman	K-Will Corporation(Japan) (Statutory representative: Jacob Yu)	280	100.00
		K-Will Corporation(Japan) (Statutory representative: Seiichiro Watanabe)	280	100.00
		Gaintech Co. Limited (Statutory representative: Takahiro Harmada)	280	100.00
MTK Korea Inc.	Director	Gaintech Co. Limited (Statutory representative: Ching-Chiang Hsieh)	100,000	100.00
	Director	Gaintech Co. Limited (Statutory representative: Ping-Hsing Lu)	100,000	100.00
	Director	Gaintech Co. Limited (Statutory representative: Ming-To Yu)	100,000	100.00

Note : These companies have been set up since Dec. 31, 2007; however , at that time, no capital injection has been made.

1.6 Operation of the Subsidiaries:

December 31, 2007; Currency: NTD 1,000

Company name	Paid-in capital	Total assets	Total liabilities	Net value	Revenue	Income/loss from operation	Net Income/Loss	EPS (\$) after tax
MediaTek Investment Co.	9,600,000	16,196,789	6,770,286	16,190,018	1,888,293	1,873,327	1,873,438	1.72
MediaTek Capital Co.	2,081,163	7,989,713	189,664	7,800,049	1,927,271	1,583,868	1,381,191	6.64
Hsu-Ta Investment Ltd.	3,755,277	3,752,895	832	3,752,062	177,009	176,864	176,147	N/A
Hsu-Kang Investment Ltd.	3,487,265	3,488,950	773	3,488,176	164,621	164,476	163,818	N/A
Hsu-Chia Investment Ltd.	3,486,985	3,488,484	585	3,487,899	164,430	164,286	163,816	N/A
Gaintech Co. Limited	7,785,523	8,111,462	1,159,734	6,951,728	1,399,759	503,083	503,083	2.10
MediaTek Limited	859,740	326,298	352,686	(26,388)	92,097	(517,471)	(517,471)	(19.53)
Core Tech Resources Inc.	92,787	10,582,976	102	10,582,874	517,038	502,980	502,980	175.87
CrystalMedia Technology, Inc.	3,244	2,571,323	95,051	2,476,272	355,256	47,754	(157,502)	(1,575.02)
MediaTek Singapore Pte. Ltd.	998,980	4,251,694	982,655	3,269,039	5,059,050	2,029,960	1,988,540	42.72
MediaTek India Technology Private Ltd.	40,974	138,040	22,330	115,710	107,839	1,470	2,347	0.43
MediaTek(Heifei) Inc.	81,108	177,963	77,167	100,795	140,574	10,279	10,413	N/A
MediaTek (ShenZhen) Inc.	64,886	188,103	62,181	125,921	395,569	62,600	50,977	N/A
MediaTek (Beijing) Inc.	32,443	152,442	91,167	61,276	200,457	29,208	28,353	N/A
Wiseali Electronics Co., Ltd.	2,000	3,971	1,030	2,942	-	(96)	(186)	(0.93)
Airoha Technology Corp.	329,385	315,859	76,821	239,038	544,937	493	905	0.03
Adv Match Inc.	207,430	179,656	10,572	169,085	-	(23,721)	(38,360)	(2.28)
Aimgene Technology Co., Ltd	105,000	44,649	43,704	945	49,640	(9,219)	(20,374)	(1.94)
MTK Wireless Limited (UK)(Note)	-	-	-	-	-	-	-	-
MediaTek Wireless Limited(Ireland)(Note)	-	-	-	-	-	-	-	-
MediaTek Denmark Aps.	794	3,524	-	3,524	-	-	-	-
MediaTek USA Inc.	2,699,122	524,909	125,870	399,039	745,603	(139,127)	(261,107)	(2.45)
MediaTek Japan Inc.	16,000	56,929	38,763	18,166	133,320	7,753	3,432	3,120.14
MediaTek North America, Inc.	551,531	551,531	-	551,531	-	-	-	-
MediaTek Wireless, Inc.(USA) (Note)	-	-	-	-	-	-	-	-
MediaTek Inc. China (Hong Kong)	567,753	567,753	-	567,753	-	-	-	-

K-Will Corporation (Japan)	41,397	66,030	38,502	27,528	68,049	(23,887)	95,285	42,728.64
K-WILL Corporation (USA)	14,534	27,435	24,169	3,266	34,478	(12,845)	(16,253)	(58,046.97)
MTK Korea Inc.	34,824	33,883	16,585	17,298	-	(18,604)	(18,581)	(185.81)

Note : These companies have been set up since Dec. 31, 2007; however , at that time, no capital injection has been made.

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.	2,081,163	None	100.00%	2007.07.31	366,006 shares; NTD 0 (note)	-	-	7,686,143 shares; NTD 55,970 thousand	-	-	-

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 Information

1. Condensed Balance Sheet

Currency: NTD 1,000

Account Title		Financial Information in the last five years				
		2003	2004	2005	2006	2007
Current assets		29,198,230	31,452,294	40,636,546	47,496,552	62,612,568
Funds and investments		11,459,763	12,051,928	14,387,476	21,151,006	27,579,761
Fixed assets		1,048,591	2,026,699	3,841,696	4,814,984	5,221,845
Intangible assets		275,229	1,397,248	2,493,732	2,081,243	1,478,649
Other assets		5,490	621,343	1,359,805	1,122,400	397,515
Total assets		41,987,303	47,549,512	62,719,255	76,666,185	97,290,338
Current liabilities	Cum-dividend	5,887,267	4,837,168	9,917,489	9,079,678	11,285,891
	Ex-dividend	12,044,121	13,435,341	20,444,881	24,642,566	Note 1
Long-term liabilities		10,643	-	-	-	-
Other liabilities		54,319	74,064	57,516	60,977	67,390
Total liabilities	Cum-dividend	5,952,229	4,911,232	9,975,005	9,140,655	11,353,281
	Ex-dividend	12,109,083	13,509,405	20,502,397	24,703,543	Note 1
Capital stock		6,415,473	7,693,359	8,640,506	9,683,127	10,408,538
Capital reserve		115,906	155,924	263,536	404,409	2,539,843
Retained earnings (including statutory reserve and special reserve)	Cum-dividend	29,608,736	35,559,616	44,287,929	55,297,498	72,636,319
	Ex-dividend	22,139,626	26,014,296	32,717,916	39,043,617	Note 1
Unrealized gain from financial instruments		-	-	-	2,679,976	808,374
Accumulated conversion adjustment		(49,071)	(714,649)	(391,751)	(483,510)	(400,047)
Treasury stock		(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
Total shareholders' equity	Cum-Dividend	36,035,074	42,638,280	52,744,250	67,525,530	85,937,057
	Ex-Dividend	29,878,220	34,040,107	42,216,858	51,962,642	Note 1

Note 1: Pending on approval of shareholders at Shareholders General Meeting.

2. Condensed Income Statement

Currency: NTD 1,000

Subject	Financial information over the last five years					
	2003	2004	2005	2006	2007	
Revenue	38,064,419	40,054,302	46,491,209	52,941,605	74,778,579	
Gross profit	19,654,973	19,615,448	25,383,784	30,654,218	42,226,397	
Incomes from operation	15,080,780	14,751,591	17,254,611	23,815,569	31,426,760	
Non-operating incomes	1,903,858	244,631	1,181,605	906,246	3,573,546	
Non-operating expenses	(375,594)	(654,945)	(37,357)	(355,629)	(167,376)	
EBT from continuing operations	16,609,044	14,341,277	18,398,859	24,366,186	34,832,930	
Earnings from continuing operations	16,522,089	14,322,985	18,273,633	22,571,944	33,592,702	
Accumulated adjustment by change in accounting principle	-	-	-	7,638	-	
Net income	16,522,089	14,322,985	18,273,633	22,579,582	33,592,702	
EPS (\$)	Before adjustment	25.96	18.73	21.31	23.50	32.59
	After adjustment	15.99	13.89	17.75	21.93	(Note 1)

Note 1: Pending on the approval of shareholders at Shareholders General Meeting.

3. Information on CPAs and Audit Opinions

Year	CPA firm	Names of auditors (CPA)	Audit opinion
2003	Ernst & Young	Chien-Kuo Yang, Hwei-Hsin Yeh	Unqualified opinions
2004	Ernst & Young	Hwei-Hsin Yeh, Ting-Ming Chang	Unqualified opinions
2005	Ernst & Young	Hwei-Hsin Yeh, Ting-Ming Chang	Unqualified opinions
2006	Ernst & Young	Hwei-Hsin Yeh, Ting-Ming Chang	Revised unqualified opinions
2007	Ernst & Young	Chien-Kuo Yang, Hsin-Ming Hsu	Unqualified opinions

4. Financial Analysis Covering the Period from 2003 to 2007

Subject of analysis		Financial information from 2003 to 2007					
		2003	2004	2005	2006	2007	
Capital structure (%)	Debt ratio	14.18	10.33	15.90	11.92	11.67	
	Long-term capital to fixed assets ratio	3,437.54	2,103.83	1,372.94	1,402.40	1,645.72	
Ability to repay debts (%)	Current ratio	495.96	650.22	409.75	523.11	554.79	
	Quick ratio	458.56	572.93	376.61	483.82	468.90	
	Times Interest Earned(Times)	377,480.27	N/A	N/A	N/A	N/A	
Utility	A/C turnover (times)	9.59	10.52	11.67	12.72	15.21	
	A/C turnover in days (days)	38	35	31	29	24	
	Inventory turnover (times)	9.53	6.94	5.92	6.11	4.72	
	A/P turnover (times)	4.87	6.01	5.57	4.83	5.96	
	Days' sales in inventory	38	53	62	60	77	
	Fixed assets turnover (times)	39.17	26.05	15.84	12.23	14.90	
	Total assets turnover (times)	1.05	0.89	0.84	0.76	0.86	
Profitability	Return on assets (%)	45.65	31.99	33.14	32.40	38.62	
	Return to shareholders' equity (%)	55.18	36.41	38.32	37.55	43.78	
	Proportion to paid-in capital (%)	Income from operation	235.07	191.74	199.69	245.95	301.93
		EBT	258.89	186.41	212.94	251.71	334.66
	Net profit margin (%)	43.41	35.76	39.30	42.65	44.92	
	EPS (\$)	Before adjustment	25.96	18.73	21.31	23.50	32.59
		After adjustment	15.99	13.89	17.75	21.93	N/A
Cash flow	Cash flow ratio (%)	270.8	244.99	232.53	257.00	240.64	
	Cash flow adequacy ratio (%)	347.59	256.89	254.70	215.68	169.76	
	Cash flow reinvestment ratio (%)	33.47	13.76	28.53	19.75	13.66	
Leverage	Operation leverage	1.08	1.11	1.16	1.16	1.71	
	Financial leverage	1.00	1.00	1.00	1.00	1.00	

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

- (1) Inventory turnover(times) decreased by 23% and days' sales in inventory increased by 30% : Inventory levels were increased in response to the market demand.
- (2) A/P turnover times increased by 24%: Increase of sales leads to the increase of cost of goods sold.
- (3) Fixed assets turnover (times) increased by 22%: Sales grew dramatically over the previous period.
- (4) Income from operation and EBT proportion to paid in capital increased by 23% and 33% respectively, EPS increased by 49% : Increases of income from operation , EBT, EAT were driven by MediaTek's sound operating performance.
- (5) Cash flow adequacy ratio decreased by 46% : Prepare inventory in response to the market demand.
- (6) 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. Capital Structure
 - (1) Debt ratio = 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) Times interest earned (times) = 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 flow adequacy 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 flow 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 2007 have been duly audited by 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. 2008 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, 2008

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**AS OF DECEMBER 31, 2007 AND 2006
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, 2007 and 2006, 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the financial statements, effective from 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, 2007 and 2006 and for the years then ended. We have expressed an unqualified and a modified unqualified opinion on those consolidated financial statements, respectively.

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
March 17, 2008
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.

MEDIATEK INC.

BALANCE SHEETS

As of December 31, 2007 and 2006

(Amounts in thousand New Taiwan Dollars)

ASSETS	Notes	2007	2006	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2007	2006
Current assets				Current liabilities			
Cash and cash equivalents	2, 4(1)	\$ 40,365,582	\$ 36,655,169	Financial liability at fair value through profit or loss-current	2, 4(2)	\$ 33,076	\$ 14,586
Financial assets at fair value through profit or loss-current	2, 4(2)	2,389,876	2,704,102	Accounts payable		6,132,307	4,079,674
Available for sale financial assets-current	2, 4(3)	2,460,927	-	Payables to related parties	5	507,395	201,052
Held-to-maturity financial assets-current	2, 4(4)	501,574	-	Income tax payable	2, 4(19)	2,392,981	2,341,449
Accounts receivable, net	2, 4(5)	5,334,044	3,856,794	Accrued expenses		1,683,398	1,971,445
Receivables from related parties, net	5	138,557	207	Payables to contractors and equipment suppliers		195,338	160,161
Other receivables	4(6)	702,220	238,142	Other current liabilities		341,396	311,311
Inventories, net	2, 4(7)	9,504,676	3,494,063	Total current liabilities		11,285,891	9,079,678
Prepayments and other current assets		625,530	205,490				
Deferred income tax assets-current	2, 4(19)	589,582	342,585				
Total current assets		62,612,568	47,496,552				
Funds and investments	2, 4(8), 5			Other liabilities			
Available-for-sale financial assets-noncurrent		1,358,655	628,110	Accrued pension liabilities	2, 4(11)	66,368	60,977
Held-to-maturity financial assets-nocurrent		350,000	-	Deposits received		1,022	-
Financial assets carried at cost-noncurrent		-	3,000	Total other liabilities		67,390	60,977
Bond portfolios with no active market-noncurrent		1,000,000	1,000,000				
Investments accounted for using equity method		24,871,106	19,519,896	Total liabilities		11,353,281	9,140,655
Total funds and investments		27,579,761	21,151,006				
Property, plant and equipment	2, 4(9)			Shareholders' equity			
Buildings and facilities		4,217,486	4,113,175	Capital			
Machinery and equipment		116,374	116,374	Common stock	4(12)	10,408,538	9,683,127
Research and development equipment		1,650,064	1,095,679	Capital reserve			
Miscellaneous equipment		159,541	107,391	Additional paid-in capital	4(14)	2,090,759	69,689
Total cost		6,143,465	5,432,619	Treasury stock transaction	4(14)	328,475	218,673
Less : Accumulated depreciation		(1,202,639)	(689,706)	Donated assets	4(14)	1,260	1,260
Add : Construction in progress		172,284	-	Long-term investment transaction	4(14)	119,349	114,787
Prepayments for equipment		108,735	72,071	Total capital reserve		2,539,843	404,409
Property, plant and equipment, net		5,221,845	4,814,984	Retained earnings			
Intangible assets	2, 4(10)			Legal reserve	4(13)	9,665,144	7,407,185
Software		683,544	278,270	Special reserve	4(15)	-	714,649
Patents, IPs and others		795,105	1,802,973	Undistributed earnings	4(15)	62,971,175	47,175,664
Total intangible assets		1,478,649	2,081,243	Other adjustments			
Other assets				Cumulative translation adjustments	2, 4(8)	(400,047)	(483,510)
Refundable deposits		17,420	13,888	Unrealized gain on financial instruments	2, 4(8)	808,374	2,679,976
Deferred income tax assets-noncurrent	2, 4(19)	380,095	1,108,512	Treasury stock	2, 4(16)	(55,970)	(55,970)
Total other assets		397,515	1,122,400	Total shareholders' equity		85,937,057	67,525,530
Total assets		\$ 97,290,338	\$ 76,666,185	Total liabilities and shareholders' equity		\$ 97,290,338	\$ 76,666,185

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

MEDIATEK INC.

STATEMENTS OF INCOME

For the years ended December 31, 2007 and 2006

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

Description	Notes	2007	2006
Gross sales		\$ 76,054,533	\$ 55,212,125
Less : Sales returns and discounts		(1,275,954)	(2,270,520)
Net sales	2, 4(17), 5	74,778,579	52,941,605
Cost of goods sold	4(18), 5	(32,552,182)	(22,287,387)
Gross profits		42,226,397	30,654,218
Operating expenses	2, 4(18)		
Selling expenses		(1,453,268)	(967,116)
Administrative expenses		(2,159,341)	(1,462,771)
Research and development expenses		(7,187,028)	(4,408,762)
Total operating expenses		(10,799,637)	(6,838,649)
Operating income		31,426,760	23,815,569
Non-operating income and gains			
Interest income		983,203	637,726
Gain on equity investments, net	2, 4(8)	2,439,953	-
Gain on disposal of property, plant and equipment	2	153	35,476
Foreign exchange gain, net	2	58,510	115,926
Reversal of bad debts	2	-	56,139
Valuation gain on financial assets	2, 4(2)	-	27,064
Others		91,727	33,915
Total non-operating income and gains		3,573,546	906,246
Non-operating expenses and losses			
Loss on equity investments, net	2, 4(8)	-	(28,589)
Loss on disposal of property, plant and equipment	2	-	(18,691)
Loss on disposal of investments	2	(1,803)	(2,202)
Inventory loss provision	2	(53,799)	(276,213)
Impairment loss	2, 4(8)	(3,000)	(12,000)
Valuation loss on financial assets	2, 4(2)	(40,246)	-
Valuation loss on financial liabilities	2, 4(2)	(33,076)	(14,586)
Others		(35,452)	(3,348)
Total non-operating expenses and losses		(167,376)	(355,629)
Income from continuing operations before income taxes		34,832,930	24,366,186
Income tax expense	2, 4(19)	(1,240,228)	(1,794,242)
Income from continuing operations		33,592,702	22,571,944
Cumulative effect of changes in accounting principles (net of tax benefit of NT\$12)	3	-	7,638
Net income		\$ 33,592,702	\$ 22,579,582
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(20)	Before tax After tax	Before tax After tax
Income from continuing operations		\$ 33.79 \$ 32.59	\$ 23.66 \$ 21.92
Cumulative effect of changes in accounting principles		- -	0.01 0.01
Net income		\$ 33.79 \$ 32.59	\$ 23.67 \$ 21.93
Pro-forma data: (Assuming that the Company's shares owned by its subsidiary were not treated as treasury stock)	2, 4(20)		
Basic Earnings Per Share (in New Taiwan Dollars)		Before tax After tax	Before tax After tax
Income from continuing operations		\$ 33.65 \$ 32.45	\$ 23.56 \$ 21.83
Cumulative effect of changes in accounting principles		- -	0.01 0.01
Net income		\$ 33.65 \$ 32.45	\$ 23.57 \$ 21.84

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIATEK INC.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2007 and 2006

(Amounts in thousand New Taiwan Dollars)

Description	Common stock	Capital reserve	Retained earnings			Cumulative translation adjustments	Unrealized gain on financial instruments	Treasury stock	Total
			Legal reserve	Special reserve	Undistributed earnings				
Balance as of January 1, 2006	\$ 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 the 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
Appropriation and distribution of 2006 earnings:									
Legal reserve	-	-	2,257,959	-	(2,257,959)	-	-	-	-
Reversal of special reserve	-	-	-	(714,649)	714,649	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(63,109)	-	-	-	(63,109)
Employees' bonuses	206,837	-	-	-	(1,181,926)	-	-	-	(975,089)
Shareholders' dividends	484,156	-	-	-	(15,008,846)	-	-	-	(14,524,690)
Share swap in investee by new issuance	34,418	2,021,070	-	-	-	-	-	-	2,055,488
Net income for the year ended December 31, 2007	-	-	-	-	33,592,702	-	-	-	33,592,702
Unrealized gain on financial instruments	-	-	-	-	-	-	(1,871,602)	-	(1,871,602)
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	109,802	-	-	-	-	-	-	109,802
Adjustment arising from changes in the percentage of ownership in investees	-	4,562	-	-	-	-	-	-	4,562
Cumulative translation adjustments	-	-	-	-	-	83,463	-	-	83,463
Balance as of December 31, 2007	\$ 10,408,538	\$ 2,539,843	\$ 9,665,144	\$ -	\$ 62,971,175	\$ (400,047)	\$ 808,374	\$ (55,970)	\$ 85,937,057

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingo Yu

MEDIATEK INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2007 and 2006

(Amounts in thousand New Taiwan Dollars)

Description	2007	2006
Cash flows from operating activities :		
Net income	\$ 33,592,702	\$ 22,579,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of changes in accounting principles	-	(7,638)
Depreciation	528,564	353,930
Amortization	1,301,851	1,118,686
Amortization of financial assets discount or premium	(10,402)	-
Bad debt loss provision (reversal)	129,252	(56,139)
Cash dividends from the equity investees	58,830	22,769
Inventory loss provision	53,799	276,213
Net (gain) loss on equity investments	(2,439,953)	28,589
Loss on disposal of investments	1,803	2,202
Net gain on disposal of property, plant and equipment	(153)	(16,785)
Impairment loss	3,000	12,000
Adjustment of Valuation on financial assets and liabilities	(6,627)	(71,553)
(Increase) decrease in accounts receivable	(1,606,502)	183,655
(Increase) decrease in receivables from related parties	(138,350)	50,215
(Increase) decrease in other receivables	(464,078)	21,104
Increase in inventories	(6,064,412)	(534,383)
(Increase) decrease in prepayments and other current assets	(420,040)	69,839
Decrease (increase) in deferred income tax assets	481,420	(4,308)
Increase in accounts payable	2,052,633	1,260,644
Increase (decrease) in payables to related parties	306,343	(1,937,279)
Increase in income taxes payable	51,532	1,431,802
Decrease in accrued expenses	(288,047)	(1,480,729)
Increase in other current liabilities	30,085	29,189
Increase in accrued pension liabilities	5,391	3,461
Net cash provided by operating activities	<u>27,158,641</u>	<u>23,335,066</u>
Cash flows from investing activities :		
Decrease in restricted deposits	-	24,000
Purchase of property, plant and equipment	(1,126,590)	(1,986,867)
Proceeds from disposal of property, plant and equipment	4,266	520,410
Decrease (increase) in financial assets at fair value through profit or loss	339,343	(1,368,531)
Increase in available-for-sale financial assets	(3,310,631)	(550,000)
Proceeds from disposal of available-for-sale financial assets	1,940	-
Increase in held-to-maturity financial assets	(854,876)	-
Increase in investments accounted for using equity method	(3,200,000)	(3,550,000)
Increase in intangible assets	(477,028)	(706,197)
Decrease (increase) in refundable deposits	(3,532)	58,819
Net cash used in investing activities	<u>(8,627,108)</u>	<u>(7,558,366)</u>
Cash flows from financing activities :		
Contingent consideration based on securities price	740,746	-
Increase in deposits received	1,022	-
Cash dividends	(14,524,690)	(9,504,556)
Directors' and supervisors' remuneration	(63,109)	(49,339)
Employees' bonuses	(975,089)	(973,497)
Net cash used in financing activities	<u>(14,821,120)</u>	<u>(10,527,392)</u>
Net increase in cash and cash equivalents	3,710,413	5,249,308
Cash and cash equivalents at the beginning of the year	36,655,169	31,405,861
Cash and cash equivalents at the end of the year	<u>\$ 40,365,582</u>	<u>\$ 36,655,169</u>
Supplemental disclosures of cash flow information :		
Income tax paid during the year	<u>\$ 707,276</u>	<u>\$ 366,736</u>
Activities partially effected cash flows :		
Purchase of property, plant and equipment	\$ 1,161,767	\$ 1,830,843
Add: (increase) decrease in payables to contractors and equipment suppliers	(35,177)	156,024
Cash paid for the purchase of property, plant and equipment	<u>\$ 1,126,590</u>	<u>\$ 1,986,867</u>
Non-cash activities :		
Stock dividends and employees' bonuses capitalized	\$ 690,993	\$ 1,042,621
Adjustment arising from changes in percentage of ownership in investees	\$ 4,562	\$ 67,672
Cumulative translation adjustments	\$ 83,463	\$ (91,759)
Change in unrealized gain on financial instruments	\$ (1,871,602)	\$ 2,679,976
Adjustment of cash dividends distributed to subsidiaries holding the Company's stock	\$ 109,802	\$ 73,201
Share swap in investee by new issuance	\$ 1,314,742	\$ -

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Minto Yu

MEDIATEK INC.

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, import and export trades for the aforementioned products, sale and delegation of patents and circuit layout rights for the aforementioned products.

As of December 31, 2007 and 2006, the Company's employees totaled to 1,817 and 1,429, respectively.

2. Summary of Significant Accounting Policies

The Company's financial statements are prepared in accordance with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China. 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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

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

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Company has both the positive intention and ability to hold the financial assets to maturity. Investments intended to be held to maturity are measured at amortized cost. The Company recognizes an impairment loss if objective evidence of impairment loss exists. However, the impairment loss may be reversed if the value of asset recovers subsequently and the Company concludes the recovery is related to improvements in events or factors that originally caused the impairment loss. The new cost basis as a result of the reversal cannot exceed the amortized cost prior to the impairment.

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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

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 Under 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 from 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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

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 that 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.

C. 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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

- 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

- A. 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

The Company will reassess the useful lives and the amortization method of its recognized intangible assets at the end of each reporting period. If there is any change occurred, it will be treated as changes of accounting estimations.

- B. Expenditures related to research activities as well as those expenditures, did not meet the criteria for capitalization, related to development activities are expensed when incurred.

Asset Impairment

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; (2) intangible assets which have no definitely useful lives and not available for use; and (3) 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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

Capital Expenditures vs. Operating Expenditures

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

Revenue Recognition

The Company recognizes revenue when an evidence of an arrangement exists, the rewards of ownership and the significant risk of the goods have been transferred to the buyer, price is fixed or determinable, and collectibility is reasonably assured. Provisions for estimated sales returns and others are generally recorded in the period the related revenue is recognized, based on any known factors that would significantly affect the allowance.

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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

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 lower than 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 is computed by dividing net income by the weighted-average number of common share outstanding during the reporting period. Earnings per common share is adjusted retroactively by stock dividends appropriated from retained earnings or capital surplus. Furthermore, if the record 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 on the assumption that the Company’s shares owned by its subsidiary were not treated as treasury stock.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

Treasury Stock

- A. The Company's shares owned by its subsidiaries were accounted 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 that the capital reserve account is reduced 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, 2007, the Company adopted the newly released Statements of Financial Accounting Standards No. 37, "Accounting for Intangible assets" (SFAS No. 37). The accounting change had no material effect on total assets as of December 31, 2007 and on net income and earning per share for the year ended December 31, 2007.
- B. 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 the adoption of the new principles are remarked as follows:

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(continued)**

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 adjusted items of shareholders' equity.

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

<i>In thousand NTD</i>	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.

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 and basic earnings per share increased by NT\$0.05 for the year ended December 31, 2006. As of December 31, 2006, the Company's total assets increased by NT\$56,328 thousand accordingly.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(continued)****4. Contents of Significant Accounts**

(1) Cash and Cash Equivalents

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Savings and checking accounts	\$3,048,250	\$629,696
Time deposits	30,160,720	30,959,187
Cash equivalents- bonds-Repo	7,156,612	5,066,286
Total	<u>\$40,365,582</u>	<u>\$36,655,169</u>

As of December 31, 2007, the Company has committed to sell the bonds-Repo back to the brokers during the one-month period ended January 31, 2008.

Cash and cash equivalents were not pledged as of December 31, 2007 and 2006.

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

a.

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Held-for-trading financial assets		
Mutual fund	\$1,000,590	\$2,068,460
Corporate bonds	150,000	150,000
Forward exchange contracts	-	-
Subtotal	<u>1,150,590</u>	<u>2,218,460</u>
Adjustment for change in value of held for trading financial assets	47,327	84,698
Financial assets designated as at fair value through profit or loss		
Credit-linked deposit	940,000	400,000
Exchange rate-linked deposit	250,000	-
Adjustment for change in value of financial assets designated as at fair value through profit or loss	<u>1,959</u>	<u>944</u>
Total	<u>\$2,389,876</u>	<u>\$2,704,102</u>

Credit-linked deposit and exchange rate-linked are compound financial instruments. 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 those financial instruments.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(continued)**

b.	<i>In thousand NTD</i>	As of December 31,	
		2007	2006
	Held-for-trading financial liabilities-current		
	Adjustment for change in value of trading		
	financial liabilities -Forward exchange contracts	\$33,076	\$14,586

The Company entered into derivative contracts during the years ended December 31, 2007 and 2006 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting prescribed by SFAS No. 34. Therefore, they were recorded as the financial assets or liabilities at fair value through profit and loss-current. Please refer to Note 10 to the financial statements for the disclosure of relative risks information.

As of December 31, 2007 and 2006, outstanding forward exchange contracts were as follows:

(a) As of December 31, 2007:

Held-for-trading financial assets:

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange	Sell USD	January 2008	USD20,000

Held-for-trading financial liabilities:

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange	Sell USD	January 2008~February 2008	USD151,000

(b) As of December 31, 2006:

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

For the years ended December 31, 2007 and 2006, the losses arising from the forward exchange contracts were NT\$97,856 thousand and NT\$72,764 thousand, respectively.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(continued)**

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

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Funds	\$2,511,218	\$-
Adjustment for change in value of available for sale	(50,291)	-
Net	<u>\$2,460,927</u>	<u>\$-</u>

(4) Held-to-maturity financial assets-current

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Corporate bond of Farmers bank of china(Note)	<u>\$501,574</u>	<u>\$-</u>

Note: Taiwan Cooperative Bank merged with the Farmers Bank of China on May 1, 2006.

The Company's investment in the principal of the corporate bond was NT\$500,000 thousand. The contract period is from October 21, 2002 to April 21, 2008. The interest paid to the Company annually is at a coupon interest fixed rate of 3.30% and redeemable 100.00% of par value at maturity date.

(5) Accounts Receivable-Net

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Accounts receivable	\$5,650,733	\$4,044,231
Less: Allowance for doubtful accounts	(316,689)	(187,437)
Net	<u>\$5,334,044</u>	<u>\$3,856,794</u>

(6) Other Receivables

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Interest receivable	\$115,576	\$86,000
VAT refundable	506,512	140,127
Others	80,132	12,015
Total	<u>\$702,220</u>	<u>\$238,142</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(continued)**

(7) Inventories-Net

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Raw materials	\$104	\$-
Work in process	4,666,586	2,189,033
Finished goods	5,246,905	1,707,095
Subtotal	9,913,595	3,896,128
Less: Allowance for inventory obsolescence	(408,919)	(402,065)
Net	\$9,504,676	\$3,494,063

Inventories were not pledged.

(8) Funds and Investments

Investee Companies	Types	Shares/units	As of December 31, 2007	
			Amounts (NT\$'000)	Ownership
<u>Available-for-sale financial assets-noncurrent</u>				
IIT Private Equity Real Estate Fund	Mutual fund	4,810,274	\$48,103	-
Cathay No. 2 Real Estate Investment Trust	Mutual fund	50,000,000	500,000	-
Chinatrust 2006-1 Collateralized Loan Obligation-D	Securities	608	567,117	-
Chinatrust 2006-1 Collateralized Loan Obligation-E	Securities	246	246,000	-
Subtotal			1,361,220	
Adjustment for change in value of available-for-sale financial asset			(2,565)	
Subtotal			1,358,655	
<u>Held-to-maturity financial assets- noncurrent</u>				
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	100,000	-
Chinatrust 96-2 second corporate bond with no mortgage	Securities	25	250,000	-
Subtotal			350,000	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd	Series B Preferred Stock	25,000,000	1,000,000	-

(To be continued)

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(continued)**

(Continued)

As of December 31, 2007				
Investee Companies	Types	Shares/units	Amounts (NT\$'000)	Ownership
<u>Accounted for using equity method</u>				
MediaTek Investment Corp.	Common share	1,091,474,200	12,954,152	100.00%
Hsu-Ta Investment Limited	Capital	-	3,752,064	100.00%
Hsu-Chia Investment Limited	Capital	-	3,487,900	100.00%
Hsu-Kang Investment Limited	Capital	-	3,488,178	100.00%
ALi Corporation	Common share	62,169,271	1,177,707	21.48%
Wiseli Technology Inc.	Common share	200,000	5,429	100.00%
Subtotal			24,865,430	
Add : Unrealized loss on disposal of long-term equity investments			5,676	
Subtotal			24,871,106	
Total			<u>\$27,579,761</u>	

As of December 31, 2006				
Investee Companies	Types	Shares/units	Amounts (NT\$'000)	Ownership
<u>Available-for-sale financial assets-noncurrent</u>				
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	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	3,000	3.75%
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd	Series B Preferred Stock	25,000,000	1,000,000	-
<u>Accounted for using equity method</u>				
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%

(To be continued)

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(continued)**

(Continued)

Investee Companies	As of December 31, 2006			
	Types	Shares/units	Amounts (NT\$'000)	Ownership
Hsu-Kang Investment Limited	Capital	-	3,421,574	100.00%
ALi Corporation	Common share	59,227,790	1,056,954	22.68%
Wiseli 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			<u>\$21,151,006</u>	

- b. For the years ended December 31, 2007 and 2006, the Company recognized investment loss and gain accounted for under the equity method amounted to NT\$2,439,953 thousand and (NT\$28,589) 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, for the years ended December 31, 2007 and 2006, the Company has recognized a capital reserve of NT\$8,159 thousand and NT\$75,020 thousand, respectively.
- d. The Company had increased its investment in MediaTek Investment Corp. for NT\$3,200,000 thousand and NT\$3,550,000 thousand, for the years ended December 31, 2007 and 2006, respectively.
- e. A subsidiary of MediaTek Investment Corp. resolved a right offering for cash. MediaTek Investment Corp.'s interest in the subsidiary changed since it forgave its preemptive right and subscribed none to this new issuance or due to no participation in its' subsidiary exercise of employees' stock options. As a result, for the years ended December 31, 2007 and 2006, the Company has recognized a reduction in capital reserve of NT\$3,597 thousand and NT\$7,348 thousand, respectively.
- f. In light that Yuantonix, Inc. redeemed its common shares to compensate accumulated deficits during May 2006, the Company assessed its investment in Yuantonix, Inc. has been impaired and, therefore, recognized impairment loss in amount of NT\$12,000 thousand. In 2007, the Company has provided the investment loss of NT\$3,000 thousand in full to reflect the permanent diminution of investment in this investee.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

- g. For the years ended December 31, 2007 and 2006, the Company recognized an unrealized gain (loss) of (NT\$1,740,636) thousand and 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, respectively.
- h. In September 2007, the Company issued 3,441,733 new shares for the purpose of share swap in exchange for 69% of NuCORE Technology, Inc. ("NuCORE"). One common share of the Company was used to exchange for NuCORE's preferred shares that can be converted into 21.36 common shares of NuCORE. After the share swap, NuCORE has renamed for MediaTek USA Inc. The Company traded out its holding of preferred stocks in MediaTek USA in a price of NT\$1,314,742 thousand for the holding of common stocks of MediaTek Investment Corp. This exchange of shares was accounted for as a capital re-structuring.
- i. In December 2005, our investment in series B preferred stocks ("Preferred B") of Chinatrust Financial Holding Company increased by NT\$1,000,000 thousand. Terms and conditions of the stock are listed as follows:
- (a) Duration : 7 years.
 - (b) Par value : \$10 per share.
 - (c) Issuing price : \$40 per share.
 - (d) Dividends:
 - Dividend is at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.
 - (e) Redemption at maturity:
 - Redemption price at maturity is at 100% of the issuing price, i.e. NT\$40 per share.
 - Preferred stock issued under provision 1 of section 6 in the issuer's Articles of Incorporations is guaranteed the highest priority to the issuer's property in the event of liquidation. Preferred B stockholders are next in line followed by common stockholders. Stockholders of Preferred B are 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 do not apply to Preferred B stockholders. In a capital raising event Preferred B stockholders enjoy a privilege to participate as same as the 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 accounted for as bond portfolio with no active market.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(continued)**

- j. In June 2007, the Company invested in Cathay Real Estate Investment Trust -Tun Nan C which was issued by Mega International Commercial Bank. The face value of the securities amounted to NT\$100,000 thousand. The contract period is from June 25, 2007 to June 25, 2012. The coupon interest rate is 2.9588%. The interest is calculated by the trustee according to the portion and the sequence of payable amount twice a year. The final payment is allocated by the trustee in compliance with the sequence according to the disposal procedure of real estate investment trust.
- k. In December 2007, the Company invested in Chinatrust 96-2 second corporate bond with no mortgage. The face value of the corporate bonds amounted to NT\$250,000 thousand. The contract period is from December 11, 2007 to June 11, 2011. The interest is paid semi-annually with flexible interest rate. On June 11, 2011, the five-year bonds shall be fully redeemed. Under the terms of the contract, the holders of the corporate bonds have no right to ask Chinatrust to redeem the bonds prior to the maturity unless the approval is obtained from government.
- l. Funds and investments mentioned above were not pledged as of December 31, 2007 and 2006.

(9) Property, Plant and Equipment

- a. No interest was capitalized for the years ended December 31, 2007 and 2006, respectively.
- b. Property, plant and equipment were not pledged as of December 31, 2007 and 2006.

(10) Intangible Assets

<i>In thousand NTD</i>	For the year ended December 31, 2007		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$618,215	\$3,581,392	\$4,199,607
Increase - acquisition	681,085	18,172	699,257
Balance at end of period	1,299,300	3,599,564	4,898,864
Accumulated amortization			
Balance at beginning of period	(339,945)	(1,778,419)	(2,118,364)
Increase - amortization	(275,811)	(1,026,040)	(1,301,851)
Balance at end of period	(615,756)	(2,804,459)	(3,420,215)
Net	\$683,544	\$795,105	\$1,478,649

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(continued)**

<i>In thousand NTD</i>	For the year ended December 31, 2006		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$518,913	\$3,046,015	\$3,564,928
Increase - acquisition	170,820	535,377	706,197
Decrease-elimination and others	(71,518)	-	(71,518)
Balance at end of period	618,215	3,581,392	4,199,607
Accumulated amortization			
Balance at beginning of period	(231,160)	(840,036)	(1,071,196)
Increase - amortization	(180,303)	(938,383)	(1,118,686)
Decrease-elimination and others	71,518	-	71,518
Balance at end of period	(339,945)	(1,778,419)	(2,118,364)
Net	\$278,270	\$1,802,973	\$2,081,243

(11) Accrued Pension Liabilities

a. The Company's pension fund contributed to a fiduciary account in China Trust Bank (acquired by the Bank of Taiwan on July 1, 2007) amounted to NT\$42,281 thousand and NT\$40,978 thousand as of December 31, 2007 and 2006, respectively. The total pension expenses, including net pension cost under the Standard Labor Law and the pension expenses under the Labor Pension Act, amounted to NT\$94,846 thousand and NT\$62,848 thousand for the years ended December 31, 2007 and 2006, respectively. The pension expenses under the Labor Pension Act amounted to NT\$89,184 thousand and NT\$59,119 thousand, respectively.

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

<i>In thousand NTD</i>	For the year ended December 31,	
	2007	2006
Service cost	\$1,191	\$1,235
Interest cost	3,812	3,714
Expected return on plan assets	(1,127)	(1,399)
Amortization	1,786	88
Over-accrual	-	91
Net pension cost	\$5,662	\$3,729

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(continued)**

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

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Benefit obligations		
Vested benefit obligation	\$-	\$-
Non-vested benefit obligation	(80,309)	(54,118)
Accumulated benefit obligation	(80,309)	(54,118)
Effect of projected future salary increase	(174,388)	(84,503)
Projected benefit obligation	(254,697)	(138,621)
Fair value of plan assets	42,281	40,978
Funded status of pension plan	(212,416)	(97,643)
Unrecognized net transitional obligation	883	971
Unrecognized loss	145,392	35,934
Over-accrual	(227)	(239)
Accrued pension liabilities	<u>\$(66,368)</u>	<u>\$(60,977)</u>

d. The vested benefit was nil as of December 31, 2007 and 2006.

e. The underlying actuarial assumptions:

	For the year ended December 31,	
	2007	2006
Discount rate	3.00%	2.75%
Rate of increase in future compensation levels	5.00%	4.00%
Expected long-term rate of return on plan assets	3.00%	2.75%

(12) Common Stock

As of January 1, 2006, the authorized and issued common shares of the Company amounted to NT\$8,960,000 thousand and NT\$8,640,506 thousand, divided into 896,000,000 shares and 864,050,580 shares, respectively, each share at par value of NT\$10.

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 options granted 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 record date was set on August 8, 2006 and the government approval has been successfully obtained.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(continued)**

On June 11, 2006, the shareholders' resolved to issue 69,099,346 new shares at per value of NT\$10 for stock dividend of NT\$484,156 thousand and capitalization of employees' bonus of NT\$206,837 thousand. The record date was set on July 31, 2007 and the government approval has been successfully obtained.

On March 21 and April 19, 2007, the Board of Directors resolved to issue new shares, each at par value of NT\$10, for the purpose of share swap in exchange for 69% of NuCORE. The record date was on September 4, 2007 and the governmental approval has been successfully obtained.

As of December 31, 2007, the authorized and issued common shares of the Company amounted to NT\$12,000,000 thousand and NT\$10,408,538 thousand, divided into 1,200,000,000 (including 20,000,000 shares reserved for exercise of employee stock options) shares and 1,040,853,762 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 prior 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

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Additional paid-in capital	\$2,090,759	\$69,689
Treasury stock transaction	328,475	218,673
Donated assets	1,260	1,260
Long-term investment transaction	119,349	114,787
Total	<u>\$2,539,843</u>	<u>\$404,409</u>

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 the amount of NT\$109,802 thousand and NT\$73,201 thousand to certain subsidiaries who owned the Company's common shares for the years ended December 31, 2007 and 2006, respectively. Since the Company's shares held

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

by its subsidiaries are treated as treasury stocks, the cash dividend paid to the Company's subsidiaries are accounted for as an adjustment to capital reserve - treasury stock transactions accordingly.

In September 2007, additional paid-in capital was increased by NT\$1,280,324 thousand due to a share swap in exchange for 69% ownership of NuCORE. Compensating consideration received by the Company with respect to the securities transaction amounted to NT\$740,746 thousand, which were accounted for as an adjustment to additional paid-in capital. Please refer to note 4(8) and 4(12) to the financial statements.

(15) Earnings Distribution

According to the Company's Articles of Incorporation, Current year's earnings, if any, shall be distributed in the following order :

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income;
- (d) 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 undistributed 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 might not be less than 1% of total earnings resolved to distribute for shareholders' dividends and employees' bonuses. Employees' bonuses may be distributed in the form of shares or cash, or the combination of 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 may be distributed in the form of shares or cash, or the combination of both, and cash dividends to be distributed might not be less than 10% of total dividends to be distributed.

According to the regulations of Taiwan SFC, 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 financial instruments and negative cumulative translation adjustment, at every year-end. Such special reserve is prohibited from distribution. 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.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(continued)**

(16) Treasury Stock

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

Owner	January 1, 2007		Additions		December 31, 2007		
	Shares	Amount (NT\$'000)	Shares	Amount (NT\$'000)	Shares	Amount (NT\$'000)	Market Value (NT\$'000)
MediaTek Capital Corp.	7,320,137	\$55,970	366,006 (Note)	\$-	7,686,143	\$55,970	\$3,235,866

Owner	January 1, 2006		Additions		December 31, 2006		
	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

Note : Stock dividends received.

(17) Sales Revenues-Net

<i>In thousand NTD</i>	For the year ended December 31,	
	2007	2006
Revenues from sales of chipsets	\$75,469,492	\$54,729,722
Others	585,041	482,403
Subtotal	76,054,533	55,212,125
Less: Sales returns and sales discounts	(1,275,954)	(2,270,520)
Net sales	\$74,778,579	\$52,941,605

(18) Personnel, Deprecation and Amortization Expenses

<i>In thousand NTD</i>	For the year ended December 31,					
	2007			2006		
	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 & wage	\$95,117	\$3,327,904	\$3,423,021	\$64,742	\$2,040,257	\$2,104,999
Insurance	3,614	105,752	109,366	2,616	70,750	73,366
Pension	3,164	91,682	94,846	2,037	60,811	62,848
Others	933	42,470	43,403	484	25,631	26,115
Total	\$102,828	\$3,567,808	\$3,670,636	\$69,879	\$2,197,449	\$2,267,328
Depreciation	\$4,783	\$523,781	\$528,564	\$5,654	\$348,276	\$353,930
Amortization	\$2,320	\$1,299,531	\$1,301,851	\$833	\$1,117,853	\$1,118,686

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(continued)**

(19) Income Tax

- a. Pursuant to Article 9-2 of the “Statute for Upgrading Industries”, the Company is qualified as a technical service industry and 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 from January 1, 2003 through December 31, 2007, January 1, 2004 through December 31, 2008, January 1, 2005 through December 31, 2009, and January 1, 2007 through December 31, 2011.
- b. The Company’s income tax returns for the years from 1998 to 2004 have been assessed by the tax authorities and NT\$2,485,340 thousand of additional income tax payable was imposed. 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. Though, the Company has vigorously filed several administrative appeals to tax authority and Courts. The Company has fully accrued the additional tax liability after assessing the possible outcome. 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 rechecked the Company’s income tax returns for the Year 2003 and decreased an income tax of NT\$116,005 thousand in December 2007.
- c. The Company’s available investment tax credits as of December 31, 2007 were as follows:

Year incurred	Nature of Expenditures	Total credit amount (NT\$’000)	Unused amount (NT\$’000)	Year expired
2006	R&D	\$1,311,650	\$1,123,833	2010
	Human development	1,327	1,327	2010
2007	R&D	2,169,028	2,169,028	2011
(Estimate)	Human development	1,509	1,509	2011
		<u>\$3,483,514</u>	<u>\$3,295,697</u>	

The foregoing available investment tax credits are included in deferred income tax assets.

d.

(a) Deferred income tax assets and liabilities

<i>In thousand NTD</i>	<u>As of December 31, 2007</u>
Total deferred income tax liabilities	<u>\$592</u>
Total deferred income tax assets	<u>\$3,336,484</u>
Valuation allowance for deferred income tax assets	<u>\$2,366,215</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(continued)**

(b) Temporary differences generated from deferred income tax assets (liabilities)	As of December 31, 2007	
	<i>In thousand NTD</i>	
	Amount	Tax effect
Deductible temporary difference-Recognition of unrealized allowance for inventory obsolescence	\$408,919	\$15,683
Deductible temporary difference-Unrealized allowance for doubtful accounts recognition	\$258,597	\$9,918
Deductible temporary difference-Unrealized technology license fee	\$361,350	\$13,859
Taxable temporary difference-Unrealized foreign exchange gain	\$(15,428)	\$(592)
Deductible temporary difference-Unrealized loss on valuation of financial assets	\$31,596	\$1,212
Unrealized loss on asset impairment	\$3,000	\$115
Investment tax credits		\$3,295,697
(c)	<i>In thousand NTD</i>	As of December 31, 2007
Deferred income tax assets-current		\$590,174
Valuation allowance for deferred income tax assets-current		-
Net deferred income tax assets-current		590,174
Deferred income tax liabilities-current		(592)
Net deferred income tax assets and liabilities-current		\$589,582
(d)	<i>In thousand NTD</i>	As of December 31, 2007
Deferred income tax assets-noncurrent		\$2,746,310
Valuation allowance for deferred income tax assets-noncurrent		(2,366,215)
Net deferred income tax assets-noncurrent		380,095
Deferred income tax liabilities-noncurrent		-
Net deferred income tax assets and liabilities-noncurrent		\$380,095

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(continued)**

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

<i>In thousand NTD</i>	<u>For the year ended December 31, 2007</u>
Income tax payable	\$1,218,822
10% surtax on undistributed earnings	406,774
Investment tax credit	(812,798)
Deferred income tax effects	
Investment tax credits	29,077
Valuation allowance	477,715
Others	(25,372)
Prior year income tax adjustment	(58,005)
Others	4,015
Income tax expense from continuing operations	<u><u>\$1,240,228</u></u>

(f) Integrated income tax information

<i>In thousand NTD</i>	<u>As of December 31, 2007</u>
Balance of the imputation credit account (ICA)	<u><u>\$972,323</u></u>
Expected creditable ratio	<u><u>2.71%(Note)</u></u>

Note: The ratio was computed based on the amount of actual available shareholders' tax credits plus estimated income tax payable as of December 31, 2007.

(g) Information related to undistributed retained earnings

<i>In thousand NTD</i>	<u>As of December 31, 2007</u>
Prior to 1998	\$-
After 1997	62,971,175
Total	<u><u>\$62,971,175</u></u>

e.

(a) Deferred income tax assets and liabilities

<i>In thousand NTD</i>	<u>As of December 31, 2006</u>
Total deferred income tax liabilities	<u><u>\$1,047</u></u>
Total deferred income tax assets	<u><u>\$3,340,644</u></u>
Valuation allowance for deferred income tax assets	<u><u>\$1,888,500</u></u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(continued)**

(b) Temporary differences generated from deferred income tax assets (liabilities)	<u>As of December 31, 2006</u>	
<i>In thousand NTD</i>	<u>Amount</u>	<u>Tax effect</u>
Deductible temporary difference-Recognition of unrealized allowance for inventory obsolescence	<u>\$402,065</u>	<u>\$3,875</u>
Deductible temporary difference-Unrealized allowance for doubtful accounts recognition	<u>\$146,975</u>	<u>\$1,416</u>
Deductible temporary difference-Unrealized technology license fee	<u>\$1,084,050</u>	<u>\$10,447</u>
Taxable temporary difference-Unrealized foreign exchange gain	<u>\$(108,616)</u>	<u>\$(1,047)</u>
Deductible temporary difference-Unrealized loss on valuation of financial assets	<u>\$13,689</u>	<u>\$132</u>
Investment tax credits		<u>\$3,324,774</u>
(c) <i>In thousand NTD</i>	<u>As of December 31, 2006</u>	
Deferred income tax assets-current	<u>\$343,632</u>	
Valuation allowance for deferred income tax assets-current	<u>-</u>	
Net deferred income tax assets-current	<u>343,632</u>	
Deferred income tax liabilities-current	<u>(1,047)</u>	
Net deferred income tax assets and liabilities-current	<u>\$342,585</u>	
(d) <i>In thousand NTD</i>	<u>As of December 31, 2006</u>	
Deferred income tax assets-noncurrent	<u>\$2,997,012</u>	
Valuation allowance for deferred income tax assets-noncurrent	<u>(1,888,500)</u>	
Net deferred income tax assets-noncurrent	<u>1,108,512</u>	
Deferred income tax liabilities-noncurrent	<u>-</u>	
Net deferred income tax assets and liabilities-noncurrent	<u>\$1,108,512</u>	

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(continued)**

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

<i>In thousand NTD</i>	<u>For the year ended December 31, 2006</u>
Income tax payable	\$228,949
10% surtax on undistributed earnings	487,626
Investment tax credit	(358,287)
Deferred income tax effects	
Investment tax credits	(598,539)
Valuation allowance	601,350
Others	(7,119)
Accruals for additional prior year income tax	1,331,000
Prior year income tax adjustment	112,331
Others	(3,081)
Income tax expense	<u>\$1,794,230</u>
Tax benefit from cumulative effect of changes in accounting principles	<u>12</u>
Income tax expense from continuing operations	<u><u>\$1,794,242</u></u>

(f) Integrated income tax information

As of December 31, 2006

<i>In thousand NTD</i>	
Balance of the imputation credit account (ICA)	<u>\$712,526</u>
Actual creditable ratio	<u>2.13%</u>

(g) Information related to undistributed retained earnings

In thousand NTD

As of December 31, 2006

Prior to 1998	\$-
After 1997	<u>47,175,664</u>
Total	<u><u>\$47,175,664</u></u>

(20) Basic Earnings Per Share

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

<u>Contents</u>	<u>For the year ended December 31,</u>	
	2007	2006
Common shares outstanding, beginning	968,312,683	864,050,580
Stock issuance for stockholder' bonus, August 8, 2006	-	86,405,058
Stock issuance for employees' bonus, August 8, 2006	-	17,857,045
Stock issuance for stockholder' bonus, July 31, 2007	48,415,634	48,415,634
Stock issuance for employees' bonus, July 31, 2007	20,683,712	20,683,712
Weighted average shares outstanding of new issuance, September 4, 2007	<u>1,122,099</u>	-
Subtotal	<u>1,038,534,128</u>	<u>1,037,412,029</u>
Less: the Company's shares owned by its subsidiary	<u>(7,686,143)</u>	<u>(7,686,143)</u>
Weighted average shares outstanding, period	<u><u>1,030,847,985</u></u>	<u><u>1,029,725,886</u></u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(continued)**

	<u>Amount (Numerator)</u>		<u>Shares (Denominator)</u>	<u>Earning per share</u>	
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2007:</u>					
Basic EPS					
Income before cumulative effect of changes in accounting principles	\$34,832,930	\$33,592,702	<u>1,030,847,985</u>	\$33.79	\$32.59
Cumulative effect of changes in accounting principles	-	-		-	-
Net income	<u>\$34,832,930</u>	<u>\$33,592,702</u>		<u>\$33.79</u>	<u>\$32.59</u>

	<u>Amount (Numerator)</u>		<u>Shares (Denominator)</u>	<u>Earning per share</u>	
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2006:</u>					
Basic EPS					
Income before cumulative effect of changes in accounting principles	\$24,366,186	\$22,571,944	<u>1,029,725,886</u>	\$23.66	\$21.92
Cumulative effect of changes in accounting principles	7,626	7,638		0.01	0.01
Net income	<u>\$24,373,812</u>	<u>\$22,579,582</u>		<u>\$23.67</u>	<u>\$21.93</u>

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:

	<u>Amount (Numerator)</u>		<u>Shares (Denominator)</u>	<u>Earning per share</u>	
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2007:</u>					
Pro-Forma EPS					
Income before cumulative effect of changes in accounting principles	\$34,832,930	\$33,592,702	1,030,847,985		
The effect of the Company's shares owned by its subsidiary were not treated as treasury stock	109,802	109,802	<u>7,686,143</u>		
Subtotal	34,942,732	33,702,504	<u>1,038,534,128</u>	\$33.65	\$32.45
Cumulative effect of changes in accounting principles	-	-		-	-
Net income	<u>\$34,942,732</u>	<u>\$33,702,504</u>		<u>\$33.65</u>	<u>\$32.45</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(continued)**

	Amount (Numerator)		Shares (Denominator)	Earning per share	
	Before tax	After tax		Before tax	After tax
	<u>For the year ended December 31, 2006:</u>				
Pro-Forma EPS					
Income before cumulative effect of changes in accounting principles	\$24,366,186	\$22,571,944	1,029,725,886		
The effect of the Company's shares owned by its subsidiary were not treated as treasury stock	73,201	73,201	7,686,143		
Subtotal	24,439,387	22,645,145	<u>1,037,412,029</u>	\$23.56	\$21.83
Cumulative effect of changes in accounting principles	7,626	7,638		0.01	0.01
Net income	<u>\$24,447,013</u>	<u>\$22,652,783</u>		<u>\$23.57</u>	<u>\$21.84</u>

5. Related Party Transactions

(1) Related Parties and Relations

Related parties	Relations
United Microelectronics Corp. ("UMC")	The supervisor of the Company(Note 1)
King Yuan Electronics Co., Ltd. ("KING YUAN")	The chairmen 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")	The Company's chairman doubles as Alpha's chairman(Note 2)
MediaTek Limited ("MTL")	Affiliated company
MediaTek Singapore Pte. Ltd. ("MSL")	Affiliated company
Airoha Technology, Inc. ("Airoha")	Affiliated company
JMicron Technology Corporation ("JMicon")	The Company's chairman doubles as JMicon's chairman
MTK Wireless Limited-UK ("MUK")	Affiliated company
MediaTek Wireless Limited-Ireland ("MIR")	Affiliated company
MediaTek Wireless, Inc.-USA ("MWS")	Affiliated company

Note 1: Since April 18, 2006, UMC quitted from supervisor of the Company, UMC and its affiliate companies were no longer the related parties of the Company. The following relative information was disclosed for three months ended March 31, 2006 only.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(continued)**

Note 2: Due to that part of the Company's indirect holdings in AIT were sold to third parties on January 2007, the Company did not account AIT under equity method since then.

(2) Major transactions with related parties

a. Purchases

<i>In thousand NTD</i>	For the year ended December 31,			
	2007		2006	
	Amount	% of total purchase	Amount	% of total purchase
UMC	\$-	-	\$2,546,083	19.87

Prices for purchase from the above related parties were not comparable because the manufacturing process and product specification were significantly different. Payment terms to UMC were end-of-month 45 to 60 days, which were similar to the terms to other third-party suppliers for the year ended December 31, 2006.

b. Sales

<i>In thousand NTD</i>	For the year ended December 31,			
	2007		2006	
	Amount	% of net sales	Amount	% of net sales
MSL	\$134,460	0.18	\$-	-
ALi	18,994	0.03	12,883	0.02
Alpha	10,993	0.01	46,486	0.09
MTL	-	-	149,699	0.28
Total	\$164,447	0.22	\$209,068	0.39

Sales prices to the above related parties were similar to those to third-party customers while trade credit terms were end-of-month 45 to 60 days. Trade credit terms for third-party customers are the same or in advanced receipts for the years ended December 31, 2007 and 2006, respectively.

c. IC testing, experimental services and manufacturing technology services

<i>In thousand NTD</i>		For the year ended December 31,	
		2007	2006
KING YUAN	IC testing and experimental services	\$1,918,307	\$1,159,672

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(continued)**

d. Rental Revenue

<i>In thousand NTD</i>	For the year ended December 31,	
	2007	2006
JMicron	\$6,014	\$2,781
Others	568	-
	<u>\$6,582</u>	<u>\$2,781</u>

NT\$876 thousand were received from JMicron, which were accounted for as deposits received due to a lease of office space.

e. The Company accounted NT\$969 thousand, NT\$290 thousand, and NT\$61,100 thousand for other receivables due to that the Company disbursed set-up expenses and operating expenditures for MIR, MUK and MWS respectively in December 2007.

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 successfully passed to PII in November 2006 and the Company incurred a loss from disposal of assets in amount of NT\$18,691 thousand accordingly. The selling price has been fully collected at the end of Year 2006.

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

a. Receivables from related parties

<i>In thousand NTD</i>	As of December 31,			
	2007		2006	
	Amount	%	Amount	%
MSL	\$134,183	2.45	\$-	-
Alpha	4,374	0.08	164	-
ALi	-	-	43	-
Subtotal	<u>\$138,557</u>	<u>2.53</u>	<u>207</u>	<u>-</u>

b. Payables to related parties

<i>In thousand NTD</i>	As of December 31,			
	2007		2006	
	Amount	%	Amount	%
KING YUAN	\$502,819	7.57	\$196,472	4.59
Others	4,576	0.07	4,580	0.11
Total	<u>\$507,395</u>	<u>7.64</u>	<u>\$201,052</u>	<u>4.70</u>

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

6. Assets Pledged As Collateral

None

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, 2005.

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, 2005, 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. Pat. 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. Pat. 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.

On June 6, 2007, the Company resolved the dispute with Sanyo and entered into an agreement to settle all pending patent litigations and to dismiss all proceeding pending against each other including the above referenced litigations.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

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 alleged that the Company infringed U.S. Pat. No. 5548249, 5970238 and 6728475. The Complaint sought both damages and an injunction prohibiting the sale of the Company’s products that infringe upon the aforementioned MEI patents. The Company 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. 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 sought monetary damages and an injunction. On February 2, 2006, Matsushita and Panasonic filed their answer to this complaint, included in the answer are counterclaims for patent infringement of Matsushita’s U.S. Pat. No. 5347232 and 6828865. Further, on May 25, 2007, the Company filed a complaint for patent infringement against MEI and Panasonic in the Northern District of California, asserting that additional products of MEI and Panasonic infringe upon the Company’s U.S. Pat. No. 5970031 seeking damages and injunctive relief against any and all of MEI and Panasonic’s infringing products. The Company also filed a declaratory judgment action to confirm MEI’s Pat. No. 6728475, 5970238 and 5548249) are invalid and Company’s new products do not infringe.

The Company and MEI entered into an agreement to settle all of the foregoing litigations in July of 2007.

(2) Commitments

- a. The Company entered into a patent license agreement with Zoran Corporation and its 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.
- b. As of December 31, 2007, totaled US\$811 thousand of the Company’s other significant contracts remained unpaid.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(continued)**

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

Lease Period	Amount (In thousand NTD)
2008.01.01~2008.12.31	\$24,090
2009.01.01~2009.12.31	23,501
2010.01.01~2010.12.31	23,501
2011.01.01~2011.12.31	23,501
2012.01.01~2012.12.31	23,501
2013.01.01~2023.12.31	258,513
Total	<u>\$376,607</u>

8. Significant Casualty Loss

None

9. Significant Subsequent Events

On September 10, 2007, the Company entered into an agreement with Analog Devices, Inc. ("ADI") to purchase the tangible and intangible assets of Cellular handset radio and baseband chipset operations in the amount of US\$350,000 thousand with payment due in January 2008.

10. Others**(1) Financial Instruments****a. Fair value of financial instruments**

<i>In thousand NTD</i>	As of December 31,			
	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
Assets				
Cash and cash equivalents	\$40,365,582	\$40,365,582	\$36,655,169	\$36,655,169
Held-for-Trading financial assets-current (excluding derivatives)	\$1,196,437	\$1,196,437	\$2,302,261	\$2,302,261
Financial assets designated as at fair value through profit or loss	\$1,191,959	\$1,191,959	\$400,944	\$400,944
Receivables (including receivables from related parties)	\$5,472,601	\$5,472,601	\$3,857,001	\$3,857,001
Other receivables	\$702,220	\$702,220	\$238,142	\$238,142
Available-for-sale financial assets	\$3,819,582	\$3,819,582	\$628,110	\$628,110
Held-to-maturity financial assets	\$851,574	\$851,574	\$-	\$-
Financial assets carried at cost	\$-	\$-	\$3,000	\$-
Bond portfolios with no active market	\$1,000,000	\$-	\$1,000,000	\$-

(To be continued)

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(continued)**

(Continued)

<i>In thousand NTD</i>	As of December 31,			
	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
Investment accounted for using equity method				
-Those with market value	\$1,177,707	\$3,866,929	\$1,056,954	\$3,512,208
-Those without market value	\$23,693,399	\$-	\$18,462,942	\$-
Refundable deposits	\$17,420	\$17,420	\$13,888	\$13,888
Liabilities				
Payables				
(including due to related parties)	\$6,639,702	\$6,639,702	\$4,280,726	\$4,280,726
Income taxes payables	\$2,392,981	\$2,392,981	\$2,341,449	\$2,341,449
Accrued expenses	\$1,683,398	\$1,683,398	\$1,971,445	\$1,971,445
Payables to contractors and equipment suppliers	\$195,338	\$195,338	\$160,161	\$160,161
Deposits received	\$1,022	\$1,022	\$-	\$-

<i>In thousand NTD</i>	As of December 31,			
	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
<u>Derivatives</u>				
Assets				
Held-for-trading financial assets-current				
Forward exchange contracts	\$1,480	\$1,480	\$897	\$897
Held-for-trading financial liabilities-current				
Forward exchange contracts	\$33,076	\$33,076	\$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, 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 deposits received were based on the book value because the Company predicts the future cash inflow or outflow is similar with the book value.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

- (iii) The fair values of held-for-trading financial assets and available-for-sale financial assets were based on their quoted market price, if available, at the reporting date. If market prices were impractical and not available, the Company provides the fair values based on valuation techniques.
 - (iv) The fair values of held-to-maturity financial assets were based on their quoted market price, if available, at the reporting date. If market prices were impractical and not available, the Company provided the fair values based on valuation techniques. The Company used return rates from similar financial instruments as discount rates for the valuation techniques.
 - (v) 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.
 - (vi) The bond portfolios with no active market have no quoted price from active market and its return value can be fixed or determined. If available, the cost of bond portfolios should use the value after amortization.
 - (vii) 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 the quoted prices were impractical and not available, the Company did not provide the information of fair values.
 - (viii) The fair values of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market price, if available, at the reporting date. If market prices were impractical and not available, the Company provides the fair values based on valuation techniques.
- (b) Losses recognized for the changes in fair value of financial assets estimated using valuation techniques were NT\$30,581 thousand and NT\$12,745 thousand for the years ended December 31, 2007 and 2006, respectively.
- (c) As of December 31, 2007 and 2006, financial assets exposed to fair value interest rate risk were NT\$32,794,752 thousand and NT\$34,641,577 thousand, respectively, and financial assets exposed to cash flow interest rate risk were NT\$10,578,250 thousand and NT\$3,564,536 thousand, respectively.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS--(continued)

- (d) Interest income recognized from financial assets and financial liabilities that are not at fair value through profit or loss amounted to NT\$900,771 thousand and NT\$597,295 thousand for the years ended December 31, 2007 and 2006, respectively. The Company recognized an unrealized gain (loss) of NT\$(131,009) thousand and NT\$78,110 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2007 and 2006, respectively, and the amounts that were removed from equity and recognized in profit or loss were NT\$43 thousand and NT\$0 for the years ended December 31, 2007 and 2006, respectively. The Company also recognized an unrealized gain (loss) of NT\$(1,740,636) thousand and 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 years ended December 31, 2007 and 2006, respectively. Please refer to Note 4.(8)g to the financial statements for details.
- (e) The impairment loss on financial assets amounted to NT\$3,000 thousand and NT\$12,000 thousand for the years ended December 31, 2007 and 2006, 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, available-for-sale financial assets, 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 also held other financial instruments such as receivables, other receivables, payables, financial assets designated as at fair value through profit or loss, held-to maturity 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:

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

Market risk

Market risk mainly 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. When currency exchange rate USD/NTD increases 1 cent, the fair value would decrease NT\$1,710 thousand and NT\$1,000 thousand as of December 31, 2007 and 2006, respectively. 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 exchange rate-linked deposits is affected by market interest and the fluctuation to the underlying. 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 breaches 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\$316,689 thousand and NT\$187,437 thousand as of December 31, 2007 and 2006, 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 and exchange rate-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.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(continued)**

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 can be sold promptly at the prices close to its fair values. Since the Company intends and is able to hold financial bonds and real estate investment trust to maturity, the liquid risk is low. Since the exchange rates of forward exchange contracts are fixed at the time the contracts are entered into and the Company does hold and anticipate to hold sufficient position of financial asset determinates in USD, no significant additional cash requirement is anticipated.

The liquidity risk for structured 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's main financial instruments exposed to cash flow interest rate risk are 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 therefore.

(2) Others

Certain accounts in the financial statements of the Company as of December 31, 2006 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:

<i>In thousand NTD</i>	For the year ended December 31,			
	2007		2006	
Customers	Amounts	%	Amounts	%
A	\$17,471,224	23.36	\$6,262,884	11.83
B	8,705,957	11.64	5,034,218	9.51
C	6,851,780	9.16	7,037,408	13.29
	<u>\$33,028,961</u>	<u>44.16</u>	<u>\$18,334,510</u>	<u>34.63</u>

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(continued)

(2) Export Sales

The Company's export sales totaled NT\$67,608,828 thousand and NT\$48,353,628 thousand for the years ended December 31, 2007 and 2006, respectively, representing 90.41% and 91.33% 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.

English Translation of a Report and Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

AS OF DECEMBER 31, 2007 AND 2006
AND FOR THE YEARS THEN ENDED

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.

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2007 and for the year then ended prepared under the 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

March 17, 2008

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2007 and 2006

(Amounts in thousand New Taiwan Dollars)

ASSETS	Notes	2007	2006	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2007	2006
Current assets				Current liabilities			
Cash and cash equivalents	2, 4(1)	\$ 50,588,024	\$ 46,838,240	Short-term loans	4(11)	\$ 25,000	\$ -
Financial assets at fair value through profit or loss-current	2, 4(2)	3,144,085	2,927,925	Financial liability at fair value through profit or loss-current	2, 4(2)	44,704	14,586
Available for sale financial assets-current	2, 4(3)	6,276,611	3,097,254	Accounts payable		6,891,874	4,088,743
Held-to-maturity financial assets-current	2, 4(4)	501,574	-	Payables to related parties	5	644,658	196,472
Accounts receivable, net	2, 4(5)	7,077,379	3,856,794	Income tax payable	2, 4(23)	2,591,244	2,341,571
Receivables from related parties, net	5	4,374	207	Accrued expenses		1,996,335	2,037,920
Other receivables	2, 4(6)	731,389	336,449	Payables to contractors and equipment suppliers		198,852	162,559
Inventories, net	2, 4(7)	10,540,372	3,494,063	Current portion of long-term liabilities	4(12)	2,223	-
Prepayments and other current assets		702,189	210,352	Leased payable-current	4(13)	4,933	-
Deferred income tax assets-current	2, 4(23)	594,462	335,144	Other current liabilities		321,057	315,974
Restricted deposits-current	6	1,563	-	Total current liabilities		12,720,880	9,157,825
Total current assets		80,162,022	61,096,428				
Funds and investments	2, 4(8)			Long-term liabilities			
Financial assets designated as at fair value through profit or loss-noncurrent		433,893	64,189	Long-term loans	4(12)	7,712	-
Available-for-sale financial assets-noncurrent		3,779,870	3,329,893	Leased payable-noncurrent	4(13)	1,304	-
Held-to-maturity financial assets-noncurrent		641,987	162,980	Total long-term liabilities		9,016	-
Financial assets carried at cost-noncurrent		547,843	698,942				
Bond portfolios with no active market-noncurrent		1,000,000	1,000,000	Other liabilities			
Investments accounted for using equity method		1,243,367	2,091,768	Accrued pension liabilities	2, 4(14)	66,368	60,977
Total funds and investments		7,646,960	7,347,772	Deposit received		1,022	-
Property, plant and equipment	2, 4(9), 6			Total other liabilities		67,390	60,977
Land		12,041	-	Total liabilities		12,797,286	9,218,802
Buildings and facilities		4,301,500	4,113,175	Shareholders' equity			
Machinery and equipment		688,934	170,062	Capital			
Research and development equipment		1,769,967	1,243,879	Common stock	4(15)	10,408,538	9,683,127
Miscellaneous equipment		438,518	147,762	Capital reserve			
Total cost		7,210,960	5,674,878	Additional paid-in capital	4(17)	2,090,759	69,689
Less : Accumulated depreciation		(1,628,117)	(744,832)	Treasury stock transaction	4(17)	328,475	218,673
Add : Construction in progress		172,284	-	Donated assets	4(17)	1,260	1,260
Prepayments for equipment		166,402	125,479	Long-term investment transaction	4(8),4(17)	119,349	114,787
Property, plant and equipment, net		5,921,529	5,055,525	Total capital reserve		2,539,843	404,409
Intangible assets				Retained earnings			
Software	2, 4(10)	708,953	295,425	Legal reserve	4(16)	9,665,144	7,407,185
Goodwill	2	758,698	1,044	Special reserve	4(19)	-	714,649
Patents, IPs and others	2, 4(10)	2,884,206	1,810,670	Undistributed earnings	4(19)	62,971,175	47,175,664
Total intangible assets		4,351,857	2,107,139	Other adjustments			
Other assets				Cumulative translation adjustments	2	(400,047)	(483,510)
Refundable deposits		368,577	25,351	Unrealized gain on financial instruments	2	808,374	2,679,976
Deferred assets	2	43,349	3,605	Treasury stock	2, 4(20)	(55,970)	(55,970)
Deferred income tax assets-noncurrent	2, 4(23)	369,137	1,108,512	Total shareholders' equity attributable to shareholders of parent company		85,937,057	67,525,530
Restricted deposits-noncurrent	6	3,103	-	Minority interests in subsidiaries		132,191	-
Total other assets		784,166	1,137,468	Total shareholders' equity		86,069,248	67,525,530
Total assets		\$ 98,866,534	\$ 76,744,332	Total liabilities and shareholders' equity		\$ 98,866,534	\$ 76,744,332

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIATEK INC.AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2007 and 2006

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

Description	Notes	2007	2006		
Gross sales		\$ 82,139,126	\$ 58,690,081		
Less : Sales returns and discounts		(1,467,357)	(2,292,796)		
Net sales	2, 4(21), 5	80,671,769	56,397,285		
Cost of goods sold	4(22), 5	(35,340,888)	(24,518,804)		
Gross profits		45,330,881	31,878,481		
Operating expenses	2, 4(22)				
Selling expenses		(1,647,098)	(1,047,741)		
Administrative expenses		(2,640,562)	(1,660,768)		
Research and development expenses		(9,154,041)	(5,904,793)		
Total operating expenses		(13,441,701)	(8,613,302)		
Operating income		31,889,180	23,265,179		
Non-operating income and gains					
Interest income		1,555,191	1,161,541		
Gain on equity investments, net	2, 4(8)	168,721	97,156		
Gain on disposal of property, plant and equipment	2	219	36,126		
Gain on disposal of investments	2	1,757,267	441,595		
Foreign exchange gain, net	2	-	115,234		
Reversal of bad debts	2	-	56,139		
Valuation gain on financial instruments	2	-	99,262		
Others	5	272,414	115,348		
Total non-operating income and gains		3,753,812	2,122,401		
Non-operating expenses and losses					
Interest expense		(65,426)	(6,826)		
Loss on disposal of property, plant and equipment	2	(2,858)	(21,066)		
Foreign exchange loss, net	2	(18,242)	-		
Inventory loss provision	2	(95,290)	(267,567)		
Impairment loss	2, 4(8)	(375,312)	(12,000)		
Valuation loss on financial assets	2, 4(2)	(5,026)	-		
Valuation loss on financial liabilities	2, 4(2)	(44,704)	(14,586)		
Others		(183,849)	(80,863)		
Total non-operating expenses and losses		(790,707)	(402,908)		
Income from continuing operations before income taxes		34,852,285	24,984,672		
Income tax expense	2, 4(23)	(1,462,151)	(1,838,776)		
Income from continuing operations		33,390,134	23,145,896		
Cumulative effect of changes in accounting principles (net of tax benefit)	3	-	9,314		
Consolidated net income		\$ 33,390,134	\$ 23,155,210		
Income Attributable to :					
Shareholders of the parent		\$ 33,592,702	\$ 22,579,582		
Minority interests		(202,568)	575,628		
Consolidated net income		\$ 33,390,134	\$ 23,155,210		
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(24)	Before tax	After tax	Before tax	After tax
Income from continuing operations		\$ 33.81	\$ 32.39	\$ 24.26	\$ 22.48
Cumulative effect of changes in accounting principles		-	-	0.01	0.01
Consolidated Net income		33.81	32.39	24.27	22.49
Net income(loss) attributable to minority interests		0.20	0.20	(0.58)	(0.56)
		\$ 34.01	\$ 32.59	\$ 23.69	\$ 21.93

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIATEK INC.AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2007 and 2006

(Amounts in thousand New Taiwan Dollars)

Description	Common stock	Capital reserve	Retained Earnings			Cumulative translation adjustments	Unrealized gain on financial instruments	Treasury stock	Total shareholder's equity attributable to shareholders of parent company	Minority interests in subsidiaries	Total shareholder's equity
			Legal reserve	Special reserve	Undistributed earnings						
Balance as of January 1, 2006	\$ 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 the percentage of ownership in investees	-	67,672	-	-	-	-	-	-	67,672	-	67,672
Cumulative translation adjustments	-	-	-	-	-	(91,759)	-	-	(91,759)	-	(91,759)
Decrease in minority interest	-	-	-	-	-	-	-	-	-	(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
Appropriation and distribution of 2006 earnings:											
Legal reserve	-	-	2,257,959	-	(2,257,959)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(714,649)	714,649	-	-	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(63,109)	-	-	-	(63,109)	-	(63,109)
Employees' bonuses	206,837	-	-	-	(1,181,926)	-	-	-	(975,089)	-	(975,089)
Shareholders' dividends	484,156	-	-	-	(15,008,846)	-	-	-	(14,524,690)	-	(14,524,690)
Share swap in investee by new issuance	34,418	2,021,070	-	-	-	-	-	-	2,055,488	-	2,055,488
Net income attributable to parent company's shareholders for the year ended December 31, 2007	-	-	-	-	33,592,702	-	-	-	33,592,702	-	33,592,702
Unrealized gain on financial instruments	-	-	-	-	-	-	(1,871,602)	-	(1,871,602)	-	(1,871,602)
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	109,802	-	-	-	-	-	-	109,802	-	109,802
Adjustment arising from changes in the percentage of ownership in investees	-	4,562	-	-	-	-	-	-	4,562	-	4,562
Cumulative translation adjustments	-	-	-	-	-	83,463	-	-	83,463	-	83,463
Increase in minority interest	-	-	-	-	-	-	-	-	-	132,191	132,191
Balance as of December 31, 2007	<u>\$ 10,408,538</u>	<u>\$ 2,539,843</u>	<u>\$ 9,665,144</u>	<u>\$ -</u>	<u>\$ 62,971,175</u>	<u>\$ (400,047)</u>	<u>\$ 808,374</u>	<u>\$ (55,970)</u>	<u>\$ 85,937,057</u>	<u>\$ 132,191</u>	<u>\$ 86,069,248</u>

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

Chairman :Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2007 and 2006
(Amounts in thousand New Taiwan Dollars)

Description	2007	2006
Cash flows from operating activities :		
Consolidated net income	\$ 33,390,134	\$ 23,155,210
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of changes in accounting principles	-	(9,314)
Depreciation	647,241	421,053
Amortization	1,458,916	1,180,911
Amortization of financial assets discount or premium	(10,402)	-
Bad debt loss provision (reversal)	129,646	(56,139)
Inventory loss provision	95,290	267,567
Cash dividends from the equity investees	58,830	22,716
Net gain on equity investments	(168,721)	(97,156)
Loss on valuation of financial assets and liabilities	(28,634)	(143,751)
Impairment loss	375,312	12,000
Gain on disposal of investment(include interest income)	(1,765,821)	(441,595)
Net loss (gain) on disposal of property, plant and equipment	2,639	(15,060)
(Increase) decrease in accounts receivable	(3,350,231)	815,021
(Increase) decrease in receivables from related parties	(4,167)	13,318
Increase in other receivables	(385,107)	(18,843)
Increase in inventories	(7,141,599)	(98,864)
Decrease in deferred income tax assets	480,057	150,237
(Increase) decrease in prepayments and other current assets	(491,837)	104,158
Increase in accounts payable	2,803,131	686,676
Increase (decrease) in payables to related parties	448,186	(2,056,587)
Increase in income taxes payable	249,673	1,428,319
Decrease in accrued expenses	(41,585)	(1,591,297)
Increase (decrease) in other current liabilities	5,083	(157,181)
Increase in accrued pension liabilities	5,391	37,344
Net cash provided by operating activities	<u>26,761,425</u>	<u>23,608,743</u>
Cash flows from investing activities :		
(Increase) decrease in restricted deposits	(4,666)	59,080
Purchase of property, plant and equipment	(1,696,126)	(612,880)
Proceeds from disposal of property, plant and equipment	5,987	521,003
Proceeds from disposal of group as held for sale	-	590,860
Increase in financial assets at fair value through profit or loss-current	(145,591)	(593,547)
Increase in financial assets designated as at fair value through profit or loss	(657,444)	(65,700)
Increase in available-for-sale financial asset-noncurrent	282,660	-
Increase in available-for-sale financial assets	(5,576,788)	(4,339,473)
Increase in available-for-sale financial asset refundable	14	-
Proceeds from disposal of available-for-sale financial assets	626,016	755,590
Increase in held-to-maturity financial assets	(984,648)	(162,980)
Disinvestment of financial assets carried at cost refundable	22,155	10,500
Increase in financial assets carried at cost	(105,265)	(9,674)
Proceeds from disposal of financial assets carried at cost	39,880	-
Increase in investments accounted for using equity method	1,844,705	(1,894,726)
Proceeds from disposal of investments accounted for using equity method	1,452,250	-
Increase in intangible assets and deferred assets	(3,520,633)	(450,513)
(Increase) decrease in refundable deposits	(343,226)	56,554
Net cash used in investing activities	<u>(8,760,720)</u>	<u>(6,135,906)</u>
Cash flows from financing activities :		
Increase in lease payable	6,237	-
Increase in short-term debts	25,000	-
Increase in long-term debts	9,935	-
Decrease in bonds payable	-	(921,672)
Decrease in deferred credits	-	(183,851)
Contingent consideration based on securities price	740,746	-
Increase (decrease) in deposits received	1,022	(7,437)
Cash dividends	(14,524,690)	(9,504,556)
Directors' and supervisors' remuneration	(63,109)	(49,339)
Employees' bonuses	(975,089)	(973,497)
Cash dividends distributed to subsidiaries holding the Company's stock	109,802	73,201
Increase (decrease) in minority interest	331,162	(2,620,977)
Net cash used in financing activities	<u>(14,338,984)</u>	<u>(14,188,128)</u>
Effect of exchange rate	88,063	(92,065)
Net increase in cash and cash equivalents	3,749,784	3,192,644
Cash and cash equivalents at the beginning of the year	46,838,240	43,645,596
Cash and cash equivalents at the end of the year	<u>\$ 50,588,024</u>	<u>\$ 46,838,240</u>
Supplemental disclosures of cash flow information :		
Interest paid during the year	\$ 64,050	\$ 1,442
Income tax paid during the year	\$ 732,421	\$ 375,740
Activities partially effected cash flows :		
Purchase of property, plant and equipment	\$ 1,732,419	\$ 458,857
Add: (increase) decrease in payables to contractors and equipment suppliers	(36,293)	154,023
Cash paid for the purchase of property, plant and equipment	<u>\$ 1,696,126</u>	<u>\$ 612,880</u>
Non-cash activities :		
Stock dividends and employees' bonuses capitalized	\$ 690,993	\$ 1,042,621
Change in unrealized gain on financial instruments	<u>\$ (1,871,602)</u>	<u>\$ 2,679,976</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIATEK INC.**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, import and export trades for the aforementioned products, sale and delegation of patents and circuit layout rights for the aforementioned products.

As of December 31, 2007 and 2006, the number of Company and subsidiaries' employees totaled to 3,031 and 2,117, respectively.

2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements are prepared in accordance with the requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China. Significant accounting policies are summarized as follows.

General Descriptions of the Consolidated Entities

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:

Company	Main Business	Percentage of Ownership		Note
		As of December 31,		
		2007	2006	
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%	-
Airoha Technology, Inc.	IC design and sales	41.90%	31.55%	1
AdvMatch Technology, Inc.	IC design	73.23%	-	2
Aimgene Technology, Co. Ltd.	Mode manufacturing	100.00%	-	3
Gaintech Co. Limited	General investing	100.00%	100.00%	-

(To be continued)

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS**

(Continued)

Company	Main Business	Percentage of Ownership		Note
		As of December 31,		
		2007	2006	
MediaTek Limited	Trading and general investing	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%	100.00%	4
MediaTek Singapore Pte. Ltd.	Technology services and sales	100.00%	100.00%	-
MTK Wireless Limited (UK)	Technology services	100.00%	-	5
MediaTek Wireless Limited (Ireland)	Technology services	100.00%	-	5
MediaTek Denmark Aps.	Technology services	100.00%	-	6
CrystalMedia Technology, Inc.	Technology services	100.00%	100.00%	-
MediaTek USA Inc.	Technology services	100.00%	-	7
MediaTek Japan Inc.	Technology services	100.00%	-	7
MediaTek North America, Inc.	General investing	100.00%	-	8
MediaTek Wireless, Inc.(USA)	Technology services	100.00%	-	9
MediaTek Inc. (HK)	General investing	100.00%	-	10
K-Will Corporation (Japan)	Equipment manufacturing	87.00%	-	11
K-WILL Corporation (USA)	Equipment manufacturing and sales	100.00%	-	11
MTK Korea Inc.	Technology services	100.00%	-	12
MediaTek India Technology Pvt. Ltd.	Technology services	99.99%	99.99%	13
Wireless ICs, Inc.	Technology services	-	-	14
Alpha Imaging Technology Corporation	IC design and sales	17.32%	43.18%	15
ALi Corporation and its consolidated subsidiaries	IC design and sales	21.48%	22.68%	15

1. MediaTek Capital Corp., a subsidiary of the Company, invested in Airoha Technology, Inc. during December 2006 and did not hold, directly or indirectly, the majority of Airoha's voting rights then. Though, the Company included Airoha in its 2007's consolidated financial statements since the Board of Airoha has been controlled by MediaTek Capital Corp. starting January 2007.

2. AdvMatch Technology, Inc. was established by MediaTek Capital Corp. in February 2007.

MEDIATEK INC.

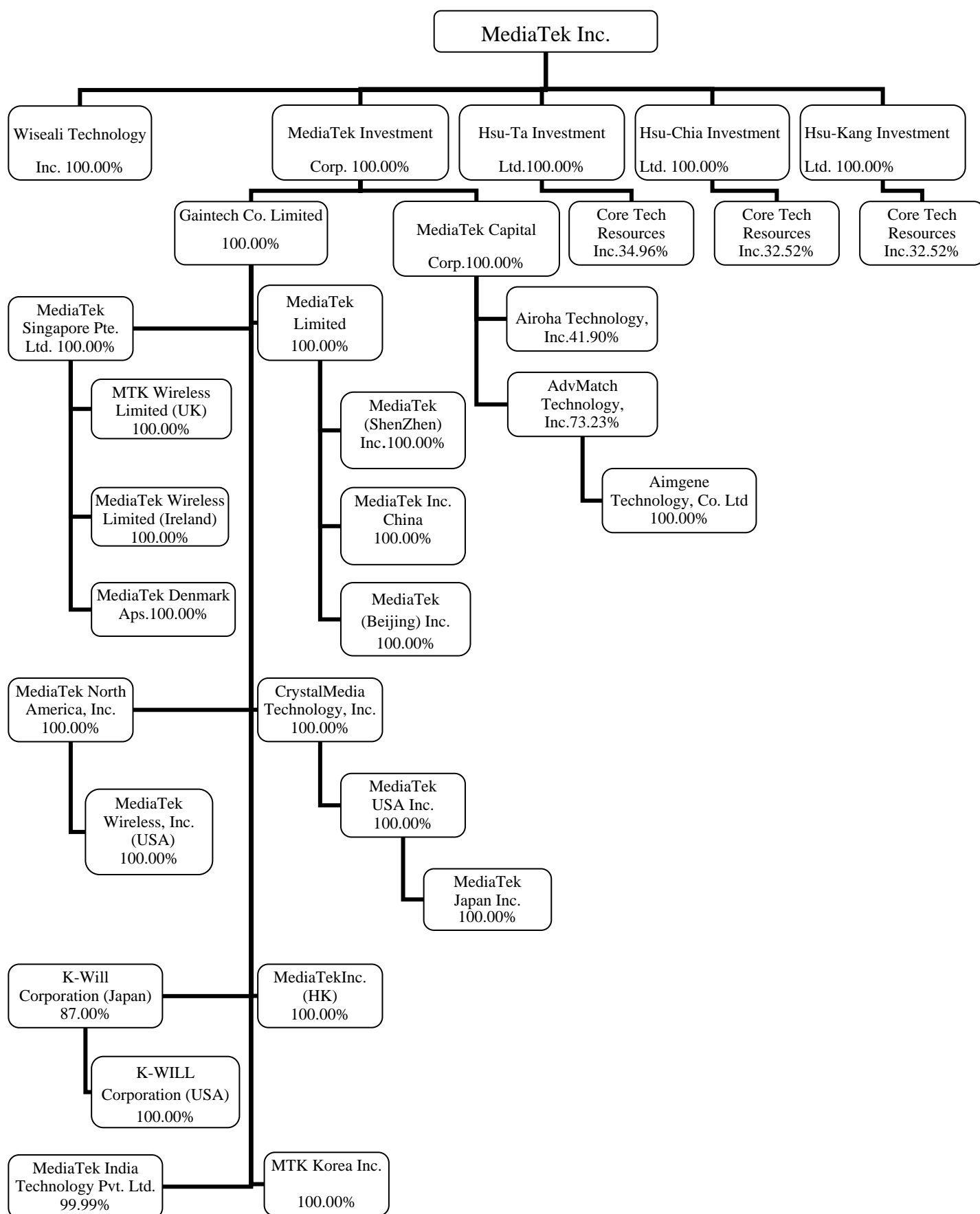
NOTES TO FINANCIAL STATEMENTS

3. Aimgene Technology, Co. Ltd was established by AdvMatch Technology, Inc. in September 2007.
4. MediaTek (Beijing) Inc. was established by MediaTek Limited in November 2006.
5. MTK Wireless Limited (UK) and MediaTek Wireless Limited (Ireland) were legally established by MediaTek Singapore Pte. Ltd. in December 2007. MediaTek Singapore Pte. Ltd. did not remit the capital yet as of December 31, 2007.
6. MediaTek Denmark Aps. was established by MediaTek Singapore Pte. Ltd. in December 2007.
7. The Company and Gaintech Co. Limited successfully conducted a share swap by issuing new shares in exchange for 69% and 31%, respectively, of NuCORE Technology Inc. in September 2007. Afterwards, NuCORE was renamed for Mediatek USA Inc. For a purpose of capital restructuring, the Company and Gaintech further transferred their ownership on Mediatek USA Inc. to CrystalMediaTechnology, Inc., a subsidiary of Gaintech Co. Limited, in October 2007. NuCORE Technology Co., Ltd., a Japan-based subsidiary of Mediatek USA Inc., was renamed for Mediatek Japan Inc. thereafter.
8. MediaTek North America, Inc. was established by Gaintech Co. Limited in December 2007.
9. MediaTek North America, Inc. set up MediaTek Wireless, Inc. (USA) in December 2007 while, as of December 31, 2007, the capital was not remitted yet.
10. MediaTek Inc. (HK) was established by Gaintech Co. Limited in December 2007.
11. K-Will Corporation (Japan) was acquired by Gaintech Co. Limited in September 2007. As a result, the ownership of K-WILL Corporation (USA), a subsidiary of K-Will Corporation (Japan), became a consolidated subsidiary of the Company since then.
12. MTK Korea Inc. was established by Gaintech Co. Limited in December 2007.
13. During June 2006, MediaTek Capital Corp. transferred all of its shares of Pixtel Media Technology Private Ltd. to Gaintech Co. Limited for purpose of capital re-structuring. Pixtel Media Technology Private Ltd. has been renamed for MediaTek India Technology Pvt. Ltd. since then.
14. Wireless ICs, Inc. was in liquidation since January 2006 and was not included in the Company's 2006 consolidated financial statements. The legal procedures for liquidation were completed in the year 2007.
15. The Company lost its controlling power over Alpha Imaging Technology Corporation and ALi Corporation and its subsidiaries since the fourth quarter of the Year 2006. As a result, the Company no longer included these companies in its consolidated financial statements as of December 31, 2006. The profit or loss prior to the Company's losing control was consolidated in the statement of incomes.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

The following diagram presented information regarding the relationship and ownership percentages among the Company and subsidiaries as of December 31, 2007.



MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

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. An entity shall also be consolidated 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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

- 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 from 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 non-current 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\$"), 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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

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 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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

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

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Company has both the positive intention and ability to hold the financial assets to maturity. Investments intended to be held to maturity are measured at amortized cost. The Company recognizes an impairment loss if objective evidence of impairment loss exists. However, the impairment loss may be reversed if the value of asset recovers subsequently and the Company concludes the recovery is related to improvements in events or factors that originally caused the impairment loss. The new cost basis as a result of the reversal cannot exceed the amortized cost prior to the impairment.

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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

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 Under 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 from 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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

- C. For equity investees in whom the Company does not possess control, the Company recognizes its investee's losses only to the extent that 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 to be sold within one year, a non-current asset (or disposal group) shall be classified as a current held-for-sale asset and measured at the lower of its carrying amount and fair value less costs to sell with changes in fair value recorded in earnings.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

Intangible Assets

A. 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)	2 to 5 Years
Patents, IPs and Others	3 to 10 Years

The Company will reassess the useful lives and the amortization method of its recognized intangible assets at the end of each reporting period. If there is any change occurred, it will be treated as changes of accounting estimations.

B. Expenditures related to research activities as well as those expenditures, did not meet the criteria for capitalization, related to development activities are expensed when incurred.

C. Rental asset is carried at the lower of market value or the discounted present value of guaranteed residual value and full expected rental payment (minus the cost shared by lesser). The expected useful life is used for amortization in a straight-line basis when the Company has granted an option bargain price at the end of lease term while the lease duration is used otherwise.

Deferred Assets

Deferred assets, including subsidy for electric wire etc , are amortized on a straight-line method over 2 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; (2) intangible assets which have no definitely useful lives and not available for use; and (3) 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. Operating Expenditures

Expenditure is capitalized if it generates future service potential and the lump sum price exceeds certain amount. Otherwise it is expensed as incurred.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

Revenue Recognition

The Company recognizes revenue when an evidence of an arrangement exists, the rewards of ownership and the significant risk of the goods have been transferred to the buyer, price is fixed or determinable, and collectibility is reasonably assured. Provisions for estimated sales returns and others are generally recorded in the period the related revenue is recognized, based on any known factors that would significantly affect the allowance.

Employee Retirement Benefits

- A. In accordance with the Labor Standards Law (the "Law") of the R.O.C., the Company makes 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. 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 with the pension mechanism under the Law or to change for 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. For employees under a defined benefit pension plan the Company and subsidiaries account for the pension liabilities under 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 15~23 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 under a defined contribution pension plan make monthly contributions to pension funds in accordance with the local related regulations and laws. The monthly contribution is recorded as an expense at the respective months when incurred.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

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 according to 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. 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 grant 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.

Earnings Per Share

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

Treasury Stock

- A. The Company's shares owned by its subsidiaries were accounted for 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 that the capital reserve account is reduced 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 while negative for a financial liability. The changes in fair value are recorded in earnings.

3. Reasons and Effects for Change in Accounting Principles

- A. On January 1, 2007, the Company adopted the newly released Statements of Financial Accounting Standards No. 37, "Accounting for Intangible assets" (SFAS No. 37). The accounting change had no material effect on total assets as of December 31, 2007 and on net income and earning per share for the year ended December 31, 2007.
- B. 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 the adoption of the new principles are remarked as follows:

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

The Company had categorized its financial assets and liabilities in accordance with these 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 adjusted items of shareholders' equity .

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

<i>In thousand NTD</i>	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	\$9,314	\$-
Long-term investments/Gain on equity investments	-	2,374
Long-term investments/Unrealized gain on financial instrument	-	3
Total	<u>\$9,314</u>	<u>\$2,377</u>

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 the 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.

C. Effective on January 1, 2006, the Company adopted 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". 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 attributable to shareholders of parent company increased by NT\$0.05. As of December 31, 2006, the Company's total assets was increased by NT\$56,328 thousand accordingly.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)****4. Contents of Significant Accounts**

(1) Cash and Cash Equivalents

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Petty cash	\$1,090	\$1,077
Saving and checking	6,974,020	4,750,020
Time deposits	34,172,572	34,471,929
Cash equivalents- bonds-REPO	9,440,342	7,615,214
Total	<u>\$50,588,024</u>	<u>\$46,838,240</u>

As of December 31, 2007, the Company and subsidiaries has committed to sell the bonds-REPO back to the brokers within 1~3 months.

Cash and cash equivalents were not pledged as of December 31, 2007 and 2006.

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

a.

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Held for trading financial assets		
Mutual fund	\$1,000,590	\$2,285,973
Corporate bonds	150,000	150,000
Forward exchange contracts	-	-
Subtotal	1,150,590	2,435,973
Adjustment for change in value of held for trading financial assets	89,977	91,008
Financial assets designated as at fair value through profit or loss		
Credit-linked deposit	1,653,746	400,000
Exchange rate-linked deposit	250,000	-
Adjustment for change in value of financial assets designated as at fair value through profit or loss	(228)	944
Total	<u>\$3,144,085</u>	<u>\$2,927,925</u>

Credit-linked deposit and exchange rate-linked are compound financial instruments. 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 those financial instruments.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

b.	<i>In thousand NTD</i>	As of December 31,	
		2007	2006
	Held for trading financial liabilities-current		
	Adjustment for change in value of trading financial liabilities -Forward exchange contracts	\$33,076	\$14,586
	Adjustment for change in value of trading financial liabilities –Cross currency swap contracts	6,764	-
	Adjustment for change in value of trading financial liabilities –Options	4,864	-
	Total	\$44,704	\$14,586

The Company and subsidiaries entered into derivative contracts during the years ended December 31, 2007 and 2006 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting prescribed by SFAS No. 34 and were accounted for as the financial assets or liabilities at fair value through profit and loss-current. Please refer to Note 10 to the financial statements for the disclosure of relative risks information.

As of December 31, 2007 and 2006, forward exchange contracts outstanding were as follows:

(a) As of December 31, 2007:

Held for trading financial assets:

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange	Sell USD	January 2008	\$60,259

Held for trading financial liabilities:

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange	Sell USD	January~February 2008	\$151,000

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(b) As of December 31, 2006:

Held for trading financial assets:

<u>Financial Instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>
Forward exchange	Sell USD	January 2007	\$25,000

Held for trading financial liabilities:

<u>Financial Instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>
Forward exchange	Sell USD	January~February 2007	\$75,000

For the years ended December 31, 2007 and 2006, the losses arising from the forward exchange contracts were NT\$65,360 thousand and NT\$72,764 thousand, respectively.

(c) As of December 31, 2007:

Held for trading financial assets:

<u>Financial Instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>
Options	Sell USD	January 2008	\$10,000

Held for trading financial liabilities:

<u>Financial Instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>
Options	Sell USD	January 2008	\$10,000

For the year ended December 31, 2007, the gain arising from the Options was NT\$13,847 thousand.

(d) As of December 31, 2007:

Held for trading financial liabilities:

<u>Financial Instruments</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>	<u>Range of Interest Rates paid</u>	<u>Range of Interest Rates Receive</u>
Cross currency swap contracts	January 2008	\$50,000	5.2%	1.7%

For the year ended December 31, 2007, the losses arising from the Cross currency swap contracts was NT\$6,764 thousand.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(3) Available for sale financial assets-current

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Mutual fund and bonds	\$6,398,653	\$3,072,361
Adjustment for change in value of available for sale	(122,042)	24,893
Net	<u>\$6,276,611</u>	<u>\$3,097,254</u>

(4) Held-to-maturity financial assets-current

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Corporate bond of Farmers Bank of China (Note)	<u>\$501,574</u>	<u>\$-</u>

Note:

Taiwan Cooperative Bank was merged with the Farmers Bank of China since May 1, 2006.

The Company's investment in the principal of the corporate bond was NT\$500,000 thousand. The contract period is from October 21, 2002 to April 21, 2008. The interest paid to the Company annually is at a coupon interest fixed rate of 3.30% and redeemable 100.00% of par value at maturity date.

(5) Accounts Receivable-Net

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Accounts receivable	\$7,395,293	\$4,044,231
Less: Allowance for doubtful accounts	(317,914)	(187,437)
Net	<u>\$7,077,379</u>	<u>\$3,856,794</u>

(6) Other Receivables

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Interest receivable	\$207,236	\$162,824
VAT refundable	516,941	142,386
Others	7,212	31,239
Total	<u>\$731,389</u>	<u>\$336,449</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS--(Continued)**

(7) Inventories-Net

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Raw materials	\$91,237	\$-
Work in process	5,273,777	2,189,033
Finished goods	5,637,236	1,707,095
Subtotal	11,002,250	3,896,128
Less: Allowance for inventory obsolescence	(461,878)	(402,065)
Net	<u>\$10,540,372</u>	<u>\$3,494,063</u>

Inventories were not pledged.

(8) Funds and Investments

Items	Types	As of December 31, 2007		
		Shares/ units	Amounts (NT\$ '000)	Ownership (%)
<u>Financial assets designated as at fair value through profit or loss</u>				
Dynamic Credit Protection Notes	Credit link note	-	\$51,948	-
Pimco USD Principal Protection Note	Bond	1,000	325,695	-
Open Design Microelectronics Corporation	Bond	-	40,028	-
Imera Sysyem INC. Note And Warrant	Bond	-	16,222	-
Total			<u>433,893</u>	
<u>Available-for-sale financial assets-noncurrent</u>				
Pixart Imaging Inc.(Note)	Common share	4,560,109	46,774	3.90%
Stocks	Common share	10,224	528	-
IIT Private Equity Real Estate Fund	Fund	4,810,274	48,103	-
Cathay No.2 Real Estate Investment Trust	Fund	50,000,000	500,000	-
Chinatrust 2006-1 Collateralized Loan Obligation-D	Securities	608	567,117	

(To be continued)

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(Continued)

Items	Types	As of December 31, 2007		
		Shares/ units	Amounts (NT\$ '000)	Ownership (%)
Chinatrust 2006-1 Collateralized Loan Obligation-E	Securities	246	246,000	-
Lehman Bros Cap Perp	Bond	-	162,516	-
ING Bnp Paribas Mjds Perp	Bond	-	97,232	-
15 Year 6.10% USD Callable Fixed Coupon Note	Bond	-	259,544	-
RBC Logan III	Bond	-	161,210	-
RBC 20Yrs NC 1Yr Zero Callable Note	Bond	-	162,215	-
RBC 30Yrs NC 3M Zero Callable Note	Bond	-	275,765	-
20Yrs NC 3M Zero Callable Note	Bond	-	162,215	-
15Yrs NC 3M Zero Callable Note	Bond	-	162,215	-
Subtotal			2,851,434	
Adjustment for change in value of available-for-sale financial asset			928,436	
Subtotal			<u>3,779,870</u>	
<u>Held-to-maturity financial assets- noncurrent</u>				
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	100,000	-
Chinatrust 96-2 Second Corporate Bond With No Mortgage	Securities	25	250,000	-
Gvec CBO Series 2006-B Bonds	Bond	-	162,215	-
Eonex Technologies, Inc. Bonds	Bond	372	129,772	-
Subtotal			<u>641,987</u>	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Browave Corporation	Common share	623,032	-	1.14%
Communication V.C. Corp. (Note)	Common share	8,000,000	(420)	14.41%
Legend Tech. V.C. Inc. Corp. (Note)	Common share	1,700,300	(2,620)	6.33%
Inprocomm Inc.	Common share	1,080,000	-	14.81%
Tenor Electronics Corporation	Common share	4,012,500	-	13.88%

(To be continued)

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(Continued)

Items	Types	As of December 31, 2007		
		Shares/ units	Amounts (NT\$ '000)	Ownership (%)
Alpha Imaging Technology Corp.	Common share	7,406,575	179,485	17.32%
VIA Optical Solution, Inc.	Common share	77	-	-
Andes Technologies, Inc.	Common share	8,000,000	-	12.70%
Integrated System Solution Corp.	Common share	2,087,746	-	3.21%
SINO Photonics	Common share	960,000	-	9.88%
V WEB Corp.	Preferred share	1,250,000	-	3.51%
Wi Harper Inc Fund Vi Ltd.	Preferred share and Common share	32,970	97,329	4.92%
Genesis Venture	Common share	4,000,000	129,772	18.03%
JAFCO	-	-	144,297	-
Subtotal			547,843	
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd	Series B Preferred Stock	25,000,000	1,000,000	-
<u>Accounted for using equity method</u>				
ALi Corporation	Common share	62,170,586	1,177,762	21.48%
Star semiconductor Corporation	Common share	7,650,000	65,605	36.89%
Subtotal			1,243,367	
Total			\$7,646,960	

Items	Types	As of December 31, 2006		
		Shares/ units	Amounts (NT\$ '000)	Ownership (%)
<u>Financial assets designated as at fair value through profit or loss</u>				
Dynamic Credit Protection Notes (Note)	Credit link note	-	\$64,189	-
<u>Available-for-sale financial assets-noncurrent</u>				
Pixart Imaging Inc.	Common share	5,350,531	49,119	5.12%

(To be continued)

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(Continued)

Items	Types	As of December 31, 2006		
		Shares/ units	Amounts (NT\$ '000)	Ownership (%)
Stocks	Common share	11,050	542	-
Callable Range Accrual Note	Bond	-	65,192	-
IIT Private Equity Real Estate Fund	Fund	4,938,331	50,000	-
Cathay No.2 Real Estate Investment Trust	Fund	50,000,000	500,000	-
Subtotal			664,853	
Adjustment for change in value of available-for-sale financial asset			2,665,040	
Subtotal			3,329,893	
<u>Held-to-maturity financial assets-noncurrent</u>				
GVEC CBO Series 2006-B Bonds	Bond	-	162,980	-
<u>Financial assets carried at cost-noncurrent</u>				
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	

(To be continued)

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(Continued)

Items	Types	As of December 31, 2006		
		Shares/ units	Amounts (NT\$ '000)	Ownership (%)
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd	Series B preferred stock	25,000,000	1,000,000	-
<u>Investment accounted for using equity method</u>				
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			<u>\$7,347,772</u>	

Note: Including the an adjustment of unrealized gains or losses arising from disposal of long-term investments.

- b. For the years ended December 31, 2007 and 2006, the Company recognized investment gain accounted for under equity method amounted to NT\$168,721 thousand and NT\$97,156 thousand, respectively, based on the audited financial statements of the investee companies.
- c. In light that Yuantonix, Inc. redeemed its common shares to compensate accumulated deficits during May 2006, the Company assessed that its investment in Yuantonix, Inc. was impaired and, therefore, recognized impairment loss in the amount of NT\$12,000 thousand. In the Year 2007, the Company further provided an investment loss NT\$3,000 thousand for fully permanent diminution of investment in this investee. The Company's subsidiaries, including MediaTek Investment Corp. and Gaintech Co. Limited, assessed its investments in Browave Corporation, Communication V.C. Corp., Legend Tech. V.C. Inc. Corp, Tenor Electronics Corporation, VIA Optical Solution, Inc., Andes Technologies, Inc., Integrated System Solution Corp., Yuantonix, Inc., ARAFTEK(liquidated), IPC(liquidated), SINO PHOTONICS, V WEB CORP., VENGLOBAL INTERNATIONAL FUND(liquidated) were impaired and, therefore, recognized impairment losses in the amount of NT\$372,312 thousand.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

- 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. For the years ended December 31, 2007 and 2006, the Company sold its shares of Pixart at the prices of NT\$558,055 thousand and NT\$103,670 thousand, respectively. Gains arising from disposal were NT\$546,993 thousand and NT\$98,691 thousand, respectively.
- e. For the year ended December 31, 2007, the Company's subsidiary, MediaTek Capital Corp., sold its shares of Alpha Imaging Technology Corp. and Taifatech Inc. at the prices of NT\$1,452,250 thousand and NT\$39,880 thousand respectively. Gains and losses arising from such disposal were NT\$1,206,302 thousand and NT\$120 thousand, respectively.
- f. 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, for the years ended December 31, 2007 and 2006, the Company recognized capital reserve of NT\$8,159 thousand and NT\$75,020 thousand, respectively.
- g. In December 2005, the Company increased its investment in series B preferred stocks ("Preferred B") of Chinatrust Financial Holding Company by NT\$1,000,000 thousand. Terms and conditions of the series B preferred stocks 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 at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.
 - (e) Redemption at maturity:
 - Redemption price at maturity is at 100% of the issuing price, i.e. NT\$40 per share.

Preferred stock issued under provision 1 of section 6 in the issuer's Articles of Incorporations is guaranteed the highest priority to the issuer's property in the event of liquidation. Preferred B stockholders are next in line followed by common stockholders. Stockholders of Preferred B are 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 do not apply to Preferred B stockholders. In a capital raising event Preferred B stockholders enjoy a privilege to participate as same as the stockholders of other classes of stocks issued.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

The preferred stock is a financial instrument with nature of bonds in substance and is classified as bond portfolios with no active market.

- h. In June 2007, the Company invested in Cathay Real Estate Investment Trust -Tun Nan C which was issued by Mega International Commercial Bank. The face value of the securities amounted to NT\$100,000 thousand. The contract period is from June 25, 2007 to June 25, 2012. The coupon interest rate is 2.9588%. The interest is calculated by the trustee according to the portion and the sequence of payable amount twice a year. The final payment is allocated by the trustee in compliance with the sequence according to the disposal procedure of real estate investment trust.
- i. In December 2007, the Company invested in Chinatrust 96-2 second corporate bond with no mortgage. The face value of the corporate bonds amounted to NT\$250,000 thousand. The contract period is from December 11, 2007 to June 11, 2011. The interest is paid semi-annually with flexible interest rate. On June 11, 2011, the five-year bonds shall be fully redeemed. Under the terms of the contract, the holders of the corporate bonds have no right to ask Chinatrust to redeem the bonds prior to the maturity unless the approval is obtained from government.
- j. Funds and investments were not pledged as of December 31, 2007 and 2006.

(9) Property, Plant and Equipment

- a. No interest was capitalized for the years ended December 31, 2007 and 2006, respectively.
- b. Please refer to the Note 6 to the financial statements for property, plant, equipment and leased assets pledged as collaterals.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(10) Intangible Assets

<i>In thousand NTD</i>	For the year ended December 31, 2007		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$635,512	\$3,224,661	\$3,860,173
Increase - acquisition	709,113	85,162	794,275
Increase - merged acquisition	-	2,137,420	2,137,420
Balance at end of period	1,344,625	5,447,243	6,791,868
Accumulated amortization			
Balance at beginning of period	(340,087)	(1,413,991)	(1,754,078)
Increase - amortization	(295,585)	(1,149,046)	(1,444,631)
Balance at end of period	(635,672)	(2,563,037)	(3,198,709)
Net	\$708,953	\$2,884,206	\$3,593,159

<i>In thousand NTD</i>	For the year ended December 31, 2006		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$1,189,012	\$2,752,711	\$3,941,723
Increase - acquisition	188,344	678,576	866,920
Decrease-elimination and others	(741,844)	(206,626)	(948,470)
Balance at end of period	635,512	3,224,661	3,860,173
Accumulated amortization			
Balance at beginning of period	(713,751)	(617,598)	(1,331,349)
Increase - amortization	(274,365)	(906,294)	(1,180,659)
Decrease-elimination and others	648,029	109,901	757,930
Balance at end of period	(340,087)	(1,413,991)	(1,754,078)
Net	\$295,425	\$1,810,670	\$2,106,095

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**(11) Short-term Debt

(1) As of December 31, 2007, the Company's subsidiary, Aimgene Technology, Co. Ltd., recorded its short-term debts as follows:

Item	As of December 31, 2007
Secured loan	\$5,000
Unsecured loan	20,000
Total	<u>\$25,000</u>

(2) Interest rates of the short-term debt were ranged from 5.55% to 6.08% for the year ended December 31, 2007.

(3) Please refer to Note 6 to the financial statements for assets pledged as collaterals.

(12) Long-term Debts

As of December 31, 2007, the Company's subsidiary, Aimgene Technology, Co. Ltd., recorded its long-term debts as follows:

Creditor	Item	Maturity	As of December 31, 2007		
			Interest rates	Amount	Repayment (Note)
First Bank	Secured loan	2003.12.03 ~ 2018.12.03	Floating rate of 2-year time deposit in Taiwanese post office plus 1.10%	\$8,339	1
Bank Sinopac	Unsecured loan	2005.06.13 ~ 2008.06.13	6.97%	721	2
Bank Sinopac	Unsecured loan	2006.05.10 ~ 2008.05.10	6.25%	875	3
Subtotal				<u>9,935</u>	
Less: current portion				<u>(2,223)</u>	
Total				<u>\$7,712</u>	

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note:

1. Total loan was NT\$10,760 thousand redeemed by monthly in 180 installments starting from December 3, 2003.
2. Total loan was NT\$4,000 thousand redeemed by monthly in 36 installments starting from June 13, 2005.
3. Total loan was NT\$4,000 thousand redeemed by monthly in 24 installments starting from May 10, 2006.

(2) Please refer to Note 6 to the financial statements for assets pledged as collaterals.

(13) Lease Payable

As of December 31, 2007, lease payable of the Company's subsidiary, MediaTek USA Inc., was shown as follows: (in Thousand NTD)

<u>Leaser</u>	<u>Lease term</u>	<u>Balance</u>
As of December 31, 2007		
Magma Design Automation, Inc.	95.07 ~98.06	\$8,854
Less: Un-amortization lease payable discount		(2,617)
Net		<u>6,237</u>
Less : current portion		<u>(4,933)</u>
Total		<u><u>\$1,304</u></u>

(14) Accrued Pension Liabilities

a. The Company's pension fund contributed to a fiduciary account in China Trust Bank (acquired by the Bank of Taiwan on July 1, 2007) amounted to NT\$43,032 thousand and NT\$40,978 thousand as of December 31, 2007 and 2006, 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\$6,376 thousand and NT\$5,457 thousand for the years then ended, respectively.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

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

<i>In thousand NTD</i>	For the year ended December 31,	
	2007	2006
Service cost	\$1,191	\$1,235
Interest cost	3,812	3,714
Expected return on plan assets	(1,127)	(1,399)
Amortization	1,786	88
Over-accrual	-	91
Other	714	1,728
Net pension cost	\$6,376	\$5,457

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

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Benefit obligations		
Vested benefit obligation	\$-	\$-
Non-vested benefit obligation	(80,309)	(54,118)
Accumulated benefit obligation	(80,309)	(54,118)
Effect of projected future salary increase	(174,388)	(84,503)
Projected benefit obligation	(254,697)	(138,621)
Fair value of plan assets	43,032	40,978
Funded status of pension plan	(211,665)	(97,643)
Unrecognized net transitional obligation	883	971
Unrecognized loss	145,392	35,934
Over-accrual	(978)	(239)
Accrued pension liabilities	\$(66,368)	\$(60,977)

d. The vested benefit was nil as of December 31, 2007 and 2006.

e. The underlying actuarial assumptions:

	For the year ended December 31,	
	2007	2006
Discount rate	3.00%	3.50%
Rate of increase in future compensation level	5.00%	4.00%
Expected long-term rate of return on plan assets	3.00%	2.75%

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

f. Defined Contribution Pension Plan

The Company and its subsidiaries adopted defined contribution pension plans and made periodically contributions to pension funds in accordance with related statutory regulations and laws. Pension expenses amounted to NT\$119,328 thousand and NT\$77,703 thousand for the years ended December 31, 2007 and 2006, respectively.

(15) Common Stock

As of January 1, 2006, the Company's authorized and issued common shares amounted to NT\$8,960,000 thousand and NT\$8,640,506 thousand, divided into 896,000,000 shares and 864,050,580 shares, respectively, each share at par value of NT\$10.

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 options granted 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 record date was set on August 8, 2006 and the government approval has been successfully obtained.

On June 11, 2007, the shareholders' resolved to issue 69,099,346 new shares at per value of NT\$10 for stock dividend of NT\$484,156 thousand and capitalization of employees' bonus of NT\$206,837 thousand. The record date was set on July 31, 2007 and the government approval has been successfully obtained.

On March 21 and April 19, 2007, the Board of Directors resolved to issue new shares at per value of NT\$10 for the purpose of share swap in exchange for 69% of NuCORE. The record date was set on September 4, 2007 and the government approval has been successfully obtained in September.

As of December 31, 2007, the authorized and issued common shares of the Company amounted to NT\$12,000,000 thousand and NT\$10,408,538 thousand, divided into 1,200,000,000 (including 20,000,000 shares reserved for exercise of employee stock options) shares and 1,040,853,762 shares, respectively, each share at par value of NT\$10.

(16) Legal Reserve

According to the R.O.C. Company Law, 10% of the Company's net income, after deducting prior 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.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(17) Capital Reserve

<i>In thousand NTD</i>	As of December 31,	
	2007	2006
Additional paid-in capital	\$2,090,759	\$69,689
Treasury stock transaction	328,475	218,673
Donated assets	1,260	1,260
Long-term investment transaction	119,349	114,787
Total	<u>\$2,539,843</u>	<u>\$404,409</u>

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 the amount of NT\$109,802 thousand and NT\$73,201 thousand to certain subsidiaries who owned the Company's common shares for the years ended December 31, 2007 and 2006, respectively. Since the Company's shares held by its subsidiaries are accounted for as treasury stocks, the cash dividend paid to the Company's subsidiaries are accounted as an adjustment to capital reserve - treasury stock transactions.

In September 2007, additional paid-in capital was increased by NT\$1,280,324 thousand due to a share swap in exchange for 69% ownership of NuCORE. Contingent consideration received by the Company with respect to the securities transaction was NT\$740,746 thousand accounted for as an adjustment to additional paid-in capital. Please refer to note 4(15) to the financial statements.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(18) Employee Stock Option Plans

The Company's subsidiaries have adopted certain employee stock option plans. Information with respect to each stock option plan was as follows:

Plan	Grant Dates	Units Granted (NT\$ '000)	Exercisable Period	Restrict Period	Exercise Price	Adjusted Exercise Price
As of December 31, 2007						
Airoha Technology Corp						
First Employee stock option plan in 2006	2006.06.02	4,660	2006.06.02~ 2011.06.02	(Note 1)	\$29.00	\$29.00
Second Employee stock option plan in 2006	2007.05.31	340	2007.05.31~ 2012.05.31	2007.05.31~ 2009.05.30	\$29.00	\$29.00
AdvMatch Technology, Inc.						
First Employee stock option plan in 2007	2007.12.30	215	2007.12.30~ 2011.12.30	(Note 2)	\$ 29.00	\$10.00

Note:

- 1,000 employee stock options of the plan may be exercisable starting from grant date while the rest of the plan may be exercisable starting 2 years from the date of grant.
- The plan may be exercisable starting 1 year from the date of grant.

Airoha Technology Corp. and AdvMatch Technology, Inc. adopted the intrinsic value method to recognize compensation costs for their employee stock options. Compensation expenses incurred were NT\$2,749 thousand and NT\$0 thousand for the year ended December 31, 2007. There was no employee stock option outstanding as of December 31, 2007 since all of them were executed. Pro forma information under fair value method using Black-Scholes Option Pricing Model is shown as follows:

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

Airoha Technology Corp.	First Employee stock option plan in 2006	Second Employee stock option plan in 2006
Dividend yield	-%	-%
Risk free interest rate	2.11%	2.215%
Expected life	5 years	5 years

AdvMatch Technology, Inc.	First Employee stock option plan in 2007
Dividend yield	-%
Risk free interest rate	2.73%
Expected life	2.5 years

The respective information of the units and weighted average exercise price for stock option plans of Airoha Technology Corp. is as follows:

Employee Stock Option Plans	For the year ended December 31, 2007	
	Units <i>(in thousands)</i>	Weighted average exercise price (NT\$)
Outstanding at beginning of year	4,630	\$29.00
Granted units	340	29.00
Exercised units	(370)	29.00
Outstanding at end of year	4,600	29.00
Exercisable at end of year	630	
Weighted average fair value of options granted during the year	\$38.86	

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

As of December 31, 2007, the respective information of the units and weighted average exercise price for stock option plans is as follows:

	Outstanding stock options			Exercisable stock options		
	Range of Exercise Price (NT\$)	Outstanding Units (<i>in thousand</i>)	Weighted-Average Expected Remaining Year	Weighted-Average Exercise Price (NT\$)	Exercisable Units (<i>in thousand</i>)	Weighted-Average Exercise Price (NT\$)
Stock option plan of 2006	\$29.00	4,600	3.49	\$29.00	630	\$29.00

The respective information of the units and weighted average exercise price for stock option plans of AdvMatch Technology, Inc. is as follows:

Employee Stock Option Plans	For the year ended December 31, 2007	
	Units (<i>in thousands</i>)	Weighted average exercise price (NT\$)
Outstanding at beginning of year	-	\$-
Granted units	215	10
Exercised units	-	-
Outstanding at end of year	215	10
Exercisable at end of year	-	-
Weighted average fair value of options granted during the year	\$-	-

As of December 31, 2007, the respective information of the units and weighted average exercise price for stock option plans is as follows:

	Outstanding stock options			Exercisable stock options		
	Range of Exercise Price (NT\$)	Outstanding Units (<i>in thousand</i>)	Weighted-Average Expected Remaining Year	Weighted-Average Exercise Price (NT\$)	Exercisable Units (<i>in thousand</i>)	Weighted-Average Exercise Price (NT\$)
Stock option plan of 2007	\$10	215	2.5	\$10	-	\$-

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

The Company's pro-forma information for the compensation expense recognized under fair value method of Airoha Technology Corp. and AdvMatch Technology, Inc. were as follows:

		<u>For the year ended December 31, 2006</u>
Consolidated net income		
attributable to parent company's	Net income	\$33,592,702
shareholders		
	Pro-forma net income	\$33,586,686
Basic EPS (in NT\$)	Earnings per share	32.59
	Pro-forma earnings per share	32.58
Consolidated net income		
attributable to minority interests	Net loss	\$(202,568)
	Pro-forma net loss	\$(213,910)
Basic EPS (in NT\$)	Earnings per share	(0.20)
	Pro-forma earnings per share	(0.20)

(19) Earnings Distribution

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following sequence:

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income;
- (d) 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 undistributed 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 might not be less than 1% of total earnings resolved to distribute for shareholders' dividends and employees' bonuses. Employees' bonuses may be distributed in the form of shares or cash, or the combination of both. The qualification of employees entitled to the bonuses is at the discretion of board meeting. Employees serving the Company's subsidiaries are inclusive.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

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

According to the regulations of Taiwan SFC, 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 financial instruments and negative cumulative translation adjustment, at every year-end. Such special reserve is prohibited from distribution. 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.

(20) 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:

Owner	January 1, 2007		Additions		December 31, 2007		
	Shares	Amount (NT\$'000)	Shares	Amount (NT\$'000)	Shares	Amount (NT\$'000)	Market Value (NT\$'000)
MediaTek Capital Corp.	7,320,137	\$55,970	366,006 (Note)	\$-	7,686,143	\$55,970	\$3,235,866

Owner	January 1, 2006		Additions		December 31, 2006		
	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

Note: Stock dividends received.

(21) Sales Revenue-Net

<i>In thousand NTD</i>	For the year ended December 31,	
	2007	2006
Revenues from sales of chipsets	\$81,577,413	\$58,190,110
Others	561,713	499,971
Subtotal	82,139,126	58,690,081
Less: Sales returns and sales discounts	(1,467,357)	(2,292,796)
Net sales	\$80,671,769	\$56,397,285

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(22) Personnel, Depreciation and Amortization

	For the year ended December 31,					
	2007			2006		
	Recorded under cost of goods sold	Recorded under operating expense	Total	Recorded under cost of goods sold	Recorded under operating expense	Total
<i>In thousand NTD</i>						
Personnel Expense						
Salary & wage	\$97,643	\$4,645,167	\$4,742,810	\$86,223	\$2,719,036	\$2,805,259
Insurance	3,833	176,649	180,482	4,012	95,194	99,206
Pension	3,327	122,377	125,704	3,051	80,109	83,160
Other	1,073	83,659	84,732	1,048	40,926	41,974
Total	<u>\$105,876</u>	<u>\$5,027,852</u>	<u>\$5,133,728</u>	<u>\$94,334</u>	<u>\$2,935,265</u>	<u>\$3,029,599</u>
Depreciation	<u>\$6,205</u>	<u>\$641,036</u>	<u>\$647,241</u>	<u>\$7,256</u>	<u>\$413,797</u>	<u>\$421,053</u>
Amortization	<u>\$2,611</u>	<u>\$1,456,305</u>	<u>\$1,458,916</u>	<u>\$1,302</u>	<u>\$1,179,609</u>	<u>\$1,180,911</u>

(23) Income Tax

- a. Pursuant to Article 9-2 of the “Statute for Upgrading Industries”, the Company is qualified as a technical service industry and 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 periods from January 1, 2003 through December 31, 2007, January 1, 2004 through December 31, 2008, January 1, 2005 through December 31, 2009, and January 1, 2007 through December 31, 2011, respectively.
- 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 2004 have been assessed by the tax authorities and NT\$2,485,340 thousand of additional income tax payable was imposed. 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 fully accrued the additional tax liability while it also has vigorously filed several administrative appeals to tax authority and Courts. 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. Tax authority has rechecked the Company’s income tax returns for the Year 2003 and decreased an income tax of NT\$116,005 thousand in December 2007.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

- d. The Company and domestic subsidiaries' available investment tax credits as of December 31, 2007 were as follows:

Year incurred	Nature of Expenditures	Total credit amount (NT\$'000)	Unused amount (NT\$'000)	Year expired
2004	R&D	\$29,804	\$29,804	2008
2005	R&D	24,474	24,474	2009
2006	R&D	1,336,681	1,148,864	2010
	Human development	1,327	1,327	2010
2007	R&D	2,214,099	2,214,099	2011
(Estimate)	Human development	1,509	1,509	2011
		<u>\$3,607,894</u>	<u>\$3,420,077</u>	

The available investment tax credits are included in deferred income tax assets.

- e. As of December 31, 2007, net operating loss (NOL) that can be carried forward to reduce the Company's domestic consolidated subsidiaries' taxable income is as follows:

Year incurred	NOL incurred	NOL Balance as of December 31, 2007	Expiry
2003	\$119,269	\$119,269	2008
2004	123,125	123,125	2009
2005	62,096	62,096	2010
2006	28,299	28,299	2011
2007(Estimate)	35,137	35,137	2012
Total	<u>\$367,926</u>	<u>\$367,926</u>	

The NOL was included in computation of deferred income tax asset.

- f.

- (a) Deferred income tax assets and liabilities

<i>In thousand NTD</i>	As of December 31, 2007
Total deferred income tax liabilities	<u>\$13,347</u>
Total deferred income tax assets	<u>\$4,489,056</u>
Valuation allowance for deferred income tax assets	<u>\$3,512,110</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(b) Temporary differences generated from deferred income tax assets (liabilities) (<i>In thousand NTD</i>)	<u>As of December 31, 2007</u>	
<u>The Company and domestic subsidiaries</u>	<u>Amount</u>	<u>Tax effect</u>
Deductible temporary difference-Recognition of unrealized allowance for inventory obsolescence	<u>\$428,440</u>	<u>\$20,563</u>
Deductible temporary difference-Unrealized allowance for doubtful accounts recognition	<u>\$263,472</u>	<u>\$11,137</u>
Deductible temporary difference-Unrealized technology license fee	<u>\$361,350</u>	<u>\$13,859</u>
Taxable temporary difference-Unrealized foreign exchange gain	<u>\$(15,608)</u>	<u>\$(637)</u>
Deductible temporary difference-Unrealized loss on valuation of financial assets	<u>\$38,360</u>	<u>\$2,903</u>
Unrealized loss on asset impairment	<u>\$329,308</u>	<u>\$81,692</u>
Deductible temporary difference-Unrealized long-term investment loss	<u>\$1,218,089</u>	<u>\$304,522</u>
Deductible temporary difference-others	<u>\$15,489</u>	<u>\$3,853</u>
Loss carryforwards	<u>\$367,926</u>	<u>\$91,981</u>
Investment tax credits		<u>\$3,420,077</u>
<u>The foreign subsidiaries</u>		
R&D investment tax credits		<u>\$190,406</u>
Loss carryforwards		<u>\$41,581</u>
Deductible temporary difference-others		<u>\$306,482</u>
Taxable temporary difference-others		<u>\$(12,710)</u>
(c) <i>In thousand NTD</i>	<u>As of December 31, 2007</u>	
Deferred income tax assets-current	<u>\$661,741</u>	
Valuation allowance for deferred income tax assets-current	<u>(66,642)</u>	
Net deferred income tax assets-current	<u>595,099</u>	
Deferred income tax liabilities-current	<u>(637)</u>	
Net deferred income tax assets and liabilities-current	<u>\$594,462</u>	

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(d)	<i>In thousand NTD</i>	<u>As of December 31, 2007</u>
	Deferred income tax assets-noncurrent	\$3,827,315
	Valuation allowance for deferred income tax assets- noncurrent	<u>(3,445,468)</u>
	Net deferred income tax assets-noncurrent	381,847
	Deferred income tax liabilities-noncurrent	<u>(12,710)</u>
	Net deferred income tax assets and liabilities-noncurrent	<u><u>\$369,137</u></u>

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

<i>In thousand NTD</i>	<u>For the year ended December 31, 2007</u>
Income tax payable	\$1,411,735
10% surtax on undistributed earnings	406,777
Investment tax credits	(812,798)
Deferred income tax effects	
Investment tax credits	(258,814)
Valuation allowance	1,177,755
Others	(438,884)
Prior year income tax adjustment	(46,414)
Others	<u>22,794</u>
Income tax expense from continuing operations	<u><u>\$1,462,151</u></u>

(f) Integrated income tax information	<u>As of December 31, 2007</u>
<i>In thousand NTD</i>	
Balance of the imputation credit account (ICA)	<u>\$972,323</u>
Expected creditable ratio	<u>2.71%(Note)</u>

Note: The ratio was computed based on the amount of actual available shareholders' tax credits plus estimated income tax payable as of December 31, 2007.

(g) Information related to undistributed retained earnings	<u>As of December 31, 2007</u>
<i>In thousand NTD</i>	
Prior to 1998	\$-
After 1997	<u>62,971,175</u>
Total	<u><u>\$62,971,175</u></u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

g.

(a) Deferred income tax assets and 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 long-term investment loss

\$1,702,351

\$425,588

Deductible temporary difference-Unrealized loss on valuation of financial assets

\$13,689

\$132

Deductible temporary difference-others

\$492

\$123

Investment tax credits

\$3,327,781

The foreign subsidiaries

Research and development tax credit

\$23,888

Deductible temporary difference-other

\$3,666

Taxable temporary difference-other

\$(17,858)

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(c)	<i>In thousand NTD</i>	<u>As of December 31, 2006</u>
	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	<u>\$335,144</u>

(d)	<i>In thousand NTD</i>	<u>As of December 31, 2006</u>
	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	<u>\$1,108,512</u>

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

<i>In thousand NTD</i>	<u>For the year ended December 31, 2006</u>
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	<u>1,838,764</u>
Tax benefit from cumulative effect of changes in accounting principles	12
Income tax expense from continuing operations	<u>\$1,838,776</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(f) Integrated income tax information	As of December 31, 2006
<i>In thousand NTD</i>	
Balance of the imputation credit account (ICA)	\$712,526
Actual creditable ratio	2.13%

(g) Information related to undistributed retained earnings	As of December 31, 2006
<i>In thousand NTD</i>	
Prior to 1998	\$-
After 1997	47,175,664
Total	\$47,175,664

(24) 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,	
	2007	2006
Weighted average shares outstanding, ending (Less the Company's share owned by its subsidiary)	1,030,847,985	1,029,725,886

	Amount(numerator)		Shares (Denominator)	Earning per share	
	Before tax	After tax		Before tax	After tax
<u>For the year ended December 31, 2007:</u>					
Basic EPS					
Income before cumulative effect of changes in accounting principles	\$35,054,853	\$33,592,702	1,030,847,985	\$34.01	\$32.59
Cumulative effect of changes in accounting principles	-	-		-	-
Net income	<u>\$35,054,853</u>	<u>\$33,592,702</u>		<u>\$34.01</u>	<u>\$32.59</u>
Consolidated net income attributable to minority interests					
Basic EPS					
Income before cumulative effect of changes in accounting principle	\$(202,568)	\$(202,568)	1,030,847,985	\$(0.20)	\$(0.20)
Cumulative effect of changes in accounting principles	-	-		-	-
Net income	<u>\$(202,568)</u>	<u>\$(202,568)</u>		<u>\$(0.20)</u>	<u>\$(0.20)</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

	<u>Amount(numerator)</u>		<u>Shares (Denominator)</u>	<u>Earning per share</u>	
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2006:</u>					
Basic EPS					
Income before cumulative effect of changes in accounting principles	\$24,383,678	\$22,571,526	<u>1,029,725,886</u>	\$23.68	\$21.92
Cumulative effect of changes in accounting principles	<u>8,044</u>	<u>8,056</u>		<u>0.01</u>	<u>0.01</u>
Net income	<u>\$24,391,722</u>	<u>\$22,579,582</u>		<u>\$23.69</u>	<u>\$21.93</u>
Consolidated net income attributable to minority interests					
Basic EPS					
Income before cumulative effect of changes in accounting principle	\$600,994	\$574,370	<u>1,029,725,886</u>	\$0.58	\$0.56
Cumulative effect of changes in accounting principles	<u>1,258</u>	<u>1,258</u>		<u>-</u>	<u>-</u>
Net income	<u>\$602,252</u>	<u>\$575,628</u>		<u>\$0.58</u>	<u>\$0.56</u>

5. Related Party Transactions

(1) Related Parties and Relations

<u>Related parties</u>	<u>Relations</u>
United Microelectronics Corp. (“UMC”)	The supervisor of the Company(Note 1)
King Yuan Electronics Co., Ltd. (“KING YUAN”)	The chairmen of the Company and KING YUAN are close relatives
PixArt Imaging Inc.(“PII”)	A subsidiary served as the Board
ALi Corporation (“ALi”)	Equity investee (Note 2)
Alpha Imaging Technology Corp. (“AIT”)	The Company’s chairman doubles as Alpha’s chairman (Note 2 and 3)
Richwave Technology Corp. (“Richwave”)	ALi is legal representative of Richwave (Note 4)
ULi Electronics Inc.(“ULi”)	Affiliated company of the Company (Note 5)
JMicron Technology Corp. (“Jmicron”)	The Company’s chairman doubles as Alpha’s chairman

Note 1: Due to UMC quitting from the supervisor of the Company on April 18, 2006, UMC and its affiliated company were no longer the related parties since December 31, 2006. The following relative information be disclosed for three months ended March 31, 2006.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note2: The following information related to Alpha and ALi and its subsidiaries were presented as related party transactions and accounts starting October 2006 when the Company lost its controlling power over them.

Note 3: Since the selling of part of indirect holdings in AIT to third parties in January 2007, the Company has ceased to account AIT for under equity method.

Note 4: Since ALi disposed its shares of Richwave during April and May 2006, Richwave was not accounted for as a related party of the Company. The following related party transactions and accounts regarding Richware were presented only up to May 31, 2006.

Note 5: With respect to a merger between ULi and NVIDIA, ULi and its subsidiaries were no longer the Company's related parties since February 20, 2006. The presented transactions between the Company and ULi were for the period from January 1 to February 20, 2006 only.

(2) Major Transactions with related parties

a. Purchases

<i>In thousand NTD</i>	For the year ended December 31,			
	2007		2006	
	Amount	% of total purchase	Amount	% of total purchase
UMC	\$-	-	\$2,783,853	19.36

Prices for purchase from the above related parties were not comparable because the manufacturing process and product specification was significantly different from other suppliers. Payment terms to UMC were end-of-month 45 to 60 days similar to other third-party suppliers for the year ended December 31, 2006.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

b. Sales

<i>In thousand NTD</i>	For the year ended December 31,			
	2007		2006	
	Amount	% of net sales	Amount	% of net sales
Richwave	\$-	-	\$298	-
Alpha	10,993	0.02	11,877	0.02
Ali	18,994	0.02	41	-
Total	\$29,987	0.04	\$12,216	0.02

Sales prices to related parties were similar to those to third-party customers. Trade credit terms were end-of-month 45 to 60 days for related parties while the same or in advanced receipts for third-party customers for the years ended December 31, 2007 and 2006, respectively.

c. IC testing, experimental services and manufacturing technology services

<i>In thousand NTD</i>		For the year ended December 31,	
		2007	2006
KING YUAN	IC testing and experimental services	\$2,529,825	\$1,162,614

d. The Company and subsidiary paid NT\$1,424 thousand to UMC for indirect materials and technology service for the year ended December 31, 2006

e. ALi earned NT\$521 thousand of revenue for the year ended December 31, 2006 by providing ULi with R&D and administrative services.

f. ALi leased out 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. ALi also earned rental income in the amount of NT\$6,014 thousand and NT\$2,781 thousand by leasing out part of its office to JMicon for the years ended 2007 and 2006, respectively. Deposit received amounted NT\$876 thousand was accounted for as a non-current liability.

g. ALi purchased materials in the amount of NT\$6,468 thousand from third-party suppliers on behalf of ULi for the year ended December 31, 2006.

h. The Company entered into a facility sales agreement with PII in the amount of NT\$82,220 thousand following a resolution by the Board of Directors in August 2006. The title of facility has been passed to PII in November 2006 and the Company incurred a loss on the disposal of assets amounted to NT\$18,691 thousand. The selling price has been fully collected as of the end of Year 2006.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

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

a. Receivables from related parties

<i>In thousand NTD</i>	As of December 31,			
	2007		2006	
	Amount	%	Amount	%
Ali	\$-	-	\$43	-
Alpha	4,374	0.06	164	-
Total	\$4,374	0.06	207	-

b. Payables to related parties

<i>In thousand NTD</i>	As of December 31,			
	2007		2006	
	Amount	%	Amount	%
KING YUAN	\$644,658	8.55	\$196,472	4.58

6. Assets Pledged As Collateral

(1) As of December 31, 2007:

<i>In thousand NTD</i>	Net book value	Secured financial institutions	Contents (Purpose)
Restricted deposits-current	\$1,563	First Bank	Short-term debt
Restricted deposits-non-current	3,062	Customs Office	Tariff execution deposits
Restricted deposits-current	41	Tax Authority	Income taxes execution deposits
Land	5,797	First Bank	Long-term debt
Building and facilities	7,273	First Bank	Long-term debt
Total	\$17,736		

(2) As of December 31, 2006: None

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

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, 2005.

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, 2005, 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. Pat. 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. Pat. 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.

On June 6, 2007, the Company resolved the dispute with Sanyo and entered into an agreement to settle all pending patent litigations and to dismiss all proceeding pending against each other including the above referenced litigations.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

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 alleged that the Company infringed U.S. Pat. No. 5548249, 5970238 and 6728475. The Complaint sought both damages and an injunction prohibiting the sale of the Company’s products that infringe upon the aforementioned MEI patents. The Company 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. 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 sought monetary damages and an injunction. On February 2, 2006, Matsushita and Panasonic filed their answer to this complaint, included in the answer are counterclaims for patent infringement of Matsushita’s U.S. Pat. No. 5347232 and 6828865. Further, on May 25, 2007, the Company filed a complaint for patent infringement against MEI and Panasonic in the Northern District of California, asserting that additional products of MEI and Panasonic infringe upon the Company’s U.S. Pat. No. 5970031 seeking damages and injunctive relief against any and all of MEI and Panasonic’s infringing products. The Company also filed a declaratory judgment action to confirm MEI’s Pat. No. 6728475, 5970238 and 5548249) are invalid and Company’s new products do not infringe.

The Company and MEI entered into an agreement to settle all of the foregoing litigations in July of 2007.

(2) Commitments

a. The Company entered into a patent license agreement with Zoran Corporation and its 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 royalty charge shall not exceed the ceiling of US\$30,000 thousand.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

b.As of December 31, 2007, totaled US\$811 thousand of other significant contracts remained unexecuted and unpaid.

c.The Company has entered certain lease agreements for land with the Administrative Bureau of HSIP for operation purpose. Related minimum lease payable in the future would be as follows:

Lease Period	Amount (In Thousand NTD)
2008.01.01~2008.12.31	\$24,090
2009.01.01~2009.12.31	23,501
2010.01.01~2010.12.31	23,501
2011.01.01~2011.12.31	23,501
2012.01.01~2012.12.31	23,501
2013.01.01~2023.12.31	258,513
Total	<u>\$376,607</u>

8. Significant Casualty Loss

None

9. Significant Subsequent Events

On September 10, 2007, the Company entered into an agreement with Analog Devices, Inc. (“ADI”) to purchase the tangible and intangible assets of Cellular handset radio and baseband chipset operations in the amount of US\$350,000 thousand with payment due in January 2008.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)****10. Others**

(1) Financial Instruments

a. Fair value of financial instruments

<i>In thousand NTD</i>	As of December 31,			
	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
Assets				
Cash and cash equivalent	\$50,588,024	\$50,588,024	\$46,838,240	\$46,838,240
Held for Trading financial assets-current (excluding derivatives)	\$1,196,437	\$1,196,437	\$2,526,084	\$2,526,084
Financial assets designated as at fair value through profit or loss	\$2,337,411	\$2,337,411	\$465,133	\$465,133
Receivables (including related party)	\$7,081,753	\$7,081,753	\$3,857,001	\$3,857,001
Other receivables	\$731,389	\$731,389	\$336,449	\$336,449
Available-for-sale financial assets	\$10,056,481	\$10,056,481	\$6,427,147	\$6,427,147
Held-to-maturity financial assets	\$1,143,561	\$1,151,287	\$162,980	\$162,980
Financial assets carried at cost	\$547,843	\$-	\$698,942	\$-
Bond portfolio with no active market	\$1,000,000	\$-	\$1,000,000	\$-
Investment accounted for under equity method				
-Those with market value	\$1,177,762	\$3,867,036	\$1,057,009	\$3,512,282
-Those without market value	\$65,605	\$-	\$1,034,759	\$-
Refundable deposit	\$368,577	\$368,577	\$25,351	\$25,351
Restricted deposit	\$4,666	\$4,666	\$-	\$-
Liabilities				
Short-term debt	\$25,000	\$25,000	\$-	\$-
Payable (including related party)	\$7,536,532	\$7,536,532	\$4,285,215	\$4,285,215
Income tax payable	\$2,591,244	\$2,591,244	\$2,341,571	\$2,341,571
Accrued expense	\$1,996,335	\$1,996,335	\$2,037,920	\$2,037,920
Payable to contractors and equipment suppliers	\$198,852	\$198,852	\$162,559	\$162,559
Long-term debt (including related party)	\$9,935	\$9,935	\$-	\$-
Leased Payable (including related party)	\$6,237	\$6,237	\$-	\$-
Deposit received	\$1,022	\$1,022	\$-	\$-

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

<i>In thousand NTD</i>	As of December 31,			
	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
<u>Derivatives</u>				
Assets				
Held for trading financial assets-current				
Forward exchange contracts	\$31,034	\$31,034	\$897	\$897
Options	\$13,096	\$13,096	\$-	\$-
Held for trading financial liabilities -current				
Forward exchange contracts	\$33,076	\$33,076	\$14,586	\$14,586
Cross currency swap contracts	\$6,764	\$6,764	\$-	\$-
Options	\$4,864	\$4,864	\$-	\$-

(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, 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 deposit and deposit received were based on the book value because the future cash inflow or outflow is similar to its book value.
- (iii) The fair value of held for trading financial assets and available-for-sale financial assets were based on their quoted market price, if available, at the reporting date. If market price was impractical and not available, the Company provides the fair value based on valuation techniques.
- (iv) The fair value of held-to-maturity financial assets was based on their quoted market price, if available, at the reporting date. If market price was impractical and not available, the Company provided the fair value based on valuation techniques. The Company used return rates from similar financial instruments as discount rates for the valuation techniques.
- (v) Financial assets carried at cost: Holdings in the following stocks that have no material influence, or derivatives linked to and settled in those stocks:

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

- I. Stocks not listed on the Taiwan Stock Exchange or the GreTai.
 - II. Emerging stocks.
- (vi) The fair value of bond portfolio with no active market was determined at its fixed or determinable amounts to be received. The carrying value of bond portfolio with no active market is stated at cost after amortization.
- (vii) The fair value of investment accounted for under equity method was based on quoted market price, if available, at the reporting date. If market price was impractical and not available, the Company did not provide the information of fair value.
- (viii) The fair value of derivative financial instruments and financial assets designated as at fair value through profit or loss was based on their quoted market price, if available, at the reporting date. If market price was impractical and not available, the Company provided the fair value based on valuation techniques.
- (b) Losses recognized due to change in fair value of financial assets estimated by using valuation techniques were NT\$12,416 thousand and NT\$12,252 thousand for the years ended December 31, 2007 and 2006, respectively.
- (c) As of December 31, 2007 and 2006, financial asset exposed to fair value interest rate risk was NT\$43,930,655 thousand and NT\$38,383,129 thousand, respectively, while financial liability was none. The financial asset exposed to cash flow interest rate risk were NT\$14,504,020 thousand and NT\$7,684,860 thousand, respectively, while financial liabilities NT\$34,935 and NT\$0 thousand, respectively.
- (d) Interest income recognized from financial assets and financial liabilities that were not at fair value through profit or loss amounted to NT\$1,136,372 thousand and NT\$944,614 thousand and the interest expense amounted to NT\$65,426 thousand and NT\$6,826 thousand for the years ended December 31, 2007 and 2006, respectively. The Company recognized an unrealized gain (loss) of NT\$(131,009) thousand and NT\$78,110 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2007 and 2006, respectively, and the amounts removed from equity and for profit or loss were NT\$43 Holding the following stock that the Company is unable to exercise significant influence on or holding derivatives linked to and settled in such stock was accounted for as financial assets carried at cost. No fair value information is thousand and NT\$0 for the years ended December 31, 2007 and 2006 respectively.
- (e) The impairment loss on financial assets amounted to NT\$375,312 thousand and NT\$12,000 thousand for the years ended December 31, 2007 and 2006, respectively.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

b.

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

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

The Company entered into forward exchange contracts with intent to hedge assets and liabilities denominated in foreign currency. However, the criteria for hedge accounting of the newly released SFAS No. 34 might not be met and these derivatives were initially recognized at financial assets/liabilities at fair value through profit or loss-current.

(b) Information of financial risks

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

Market risk

Market risk includes currency risk resulted from 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. When currency exchange rate USD/NTD increases 1 cent, the fair value would decrease NT\$2,113 thousand and NT\$1,000 thousand as of December 31, 2007 and 2006, respectively. 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. Exchange rate-linked deposits are affected by market interest and the fluctuation to the reference entities. The fair value of mutual fund, government bonds and corporate bonds will be fluctuated by other market factors as well as interest rates.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counter-party or third-party breaches the contracts. It affects significant concentrations of credit risk, components, the price of contract and other receivables of financial instruments. The accrual amounts of credit risk were NT\$317,914 thousand and NT\$187,437 thousand as of December 31, 2007 and 2006, 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 and exchange rate-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 liquid risk of the Company's financial instruments is low since the Company possesses sufficient operating capital to meet cash needs upon settlement.

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 can be sold promptly at the prices close to its fair values. The liquid risk of holding financial bonds and real estate investment trust is low since the Company intends to hold them to maturity. No significant additional cash requirement is anticipated for holding forward exchange contracts as the exchange rates of the contracts are fixed at the time when the contracts are entered into and the Company does hold or anticipate to hold sufficient financial asset position in USD. The liquidity risk for structured investment exists as the Company has no right to have the instrument redeemed or called prior to its maturity. The Company minimized such risk by prudentially evaluating over the underlying prior to entering into the investment agreement.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

Cash flow interest rate risk

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

(2) Others

Certain accounts in the financial statements of the Company as of December 31, 2006 have been reclassified to conform to the presentation of the current period.

MEDIA TEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(3) Inter-company relationships and significant inter-company transactions for the year ended December 31, 2007 are as follows: (For the Company's shares owned by subsidiaries, please refer to the Note 4.(20) to the consolidated financial statements.)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			Percentage of consolidated operating revenue or tota assets (note 3)
				Account	Amount	Terms	
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Account receivable-related party	\$134,183	By the contract	0.14%
				Sale Revenue	\$134,460		0.17%
		MediaTek Wireless Limited (Ireland)	1	Other receivable	\$969		-
		MTK Wireless Limited (UK)	1	Other receivable	\$290		-
		MediaTek Wireless, Inc. (USA)	1	Other receivable	\$61,100		0.06%
1	Gaintech Co. Limited	MediaTek India Technology Pvt. Ltd. (remark 4)	3	Account receivable-related party	\$54,303	By the contract	0.05%
			3	Administrative expenses	\$118,801		0.15%
		MediaTek Singapore Pte. Ltd.	3	Administrative expenses	\$112,387		0.14%
		CrystalMedia Technology, Inc.	3	Account receivable-related party	\$70,020		0.07%
			3	Administrative expenses	\$289,152		0.36%
		MediaTek USA Inc.	3	Administrative expenses	\$287,208		0.36%
2	MediaTek Limited	MediaTek Inc. China	3	Administrative expenses	\$109,303	By the contract	0.14%
		MediaTek (ShenZhen) Inc.	3	Administrative expenses	\$338,940		0.42%
		MediaTek (Beijing) Inc.	3	Administrative expenses	\$160,931		0.20%
3	MediaTek Singapore Pte. Ltd.	MediaTek USA Inc.	3	Advance receipts	\$25,702	By the contract	0.03%
			3	Research and development expenses	\$160,681		0.20%
		MediaTek Inc. China	3	Prepayments	\$65,888		0.07%
			3	Research and development expenses	\$31,497		0.04%
		MediaTek (Beijing) Inc.	3	Prepayments	\$52,046		0.05%
			3	Research and development expenses	\$38,498		0.05%
		CrystalMedia Technology, Inc.	3	Prepayments	\$13,133		0.01%
			3	Research and development expenses	\$18,786		0.02%
4	AdvMatch Technology, Inc.	Aimgene Technology, Co. Ltd	3	Account receivable-related party	\$261	By the contract	-

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS—(Continued)**

(4) Inter-company relationships and significant inter-company transactions for the year ended December 31, 2006 are as follows:

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			Percentage of consolidated operating revenue or total assets (Note 3)
				Account	Amount	Terms	
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	Note 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		0.20%
		MediaTek Sinagapore Pte. Ltd.	3	Prepayments	\$46,350		0.06%
			3	Administrative expenses	\$135,354		0.24%
		CrystalMedia Technology, Inc.	3	Payable to related parties	\$34,243		0.04%
			3	Administrative expenses	\$177,322		0.31%
3	MediaTek Limited	MediaTek Inc. China	3	Payable to related parties	\$12,224	By the contract	0.02%
			3	Administrative expenses	\$77,266		0.14%
		MedaiTek (ShenZhen) Inc.	3	Administrative expenses	\$175,678		0.31%
		MediaTek (Beijing) Inc.	3	Administrative expenses	\$22,773		0.04%
4	MedaiTek (ShenZhen) Inc.	MediaTek (Beijing) Inc.	3	Payable to related parties	\$551	-	-

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note 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.

Note 2: Transactions are categorized as follows:

1. The holding company to subsidiary.
2. Subsidiary to holding company.
3. Subsidiary to subsidiary.

Note 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.

Note 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.

8. The Effect of Insolvency of the Company and Affiliates on the Financial Status of the Company: None.



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