

MEDIATEK INC.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2004 AND 2003

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders of
MediaTek Inc.

We have audited the consolidated balance sheets of MediaTek Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company and subsidiaries' 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.). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MediaTek Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the R.O.C.

Diwan, Ernst & Young
Certified Public Accountants
February 2, 2005
Taipei, Taiwan
Republic of China

Notice to Readers

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2004 and 2003

(Amounts in thousand New Taiwan dollars)

ASSETS	Note	2004	2003	LIABILITIES AND SHAREHOLDERS' EQUITIES	Note	2004	2003
Current assets				Current liabilities			
Cash and cash equivalents	3, 5(1)	\$ 33,117,199	\$ 32,121,718	Notes and accounts payable		\$ 1,661,040	\$ 2,274,919
Short-term investments(net)	3, 5(2)	1,507,725	1,711,698	Payables to related parties	6(3)	1,005,529	1,928,778
Accounts receivable(net)	3, 5(3)	3,545,597	3,726,335	Income tax payable	3, 5(19)	568,704	325,524
Receivables from related parties	6(3)	36,882	-	Accrued expenses	8	1,425,300	1,337,212
Other receivables	5(4), 10	285,384	260,971	Payables to equipment suppliers		144,488	-
Inventories(net)	5(5)	3,269,229	2,092,557	Long-term debts-current portion	5(8)	10,643	17,539
Prepayments and other current assets		578,069	145,833	Other current liabilities		126,194	53,032
Deferred income tax assets-current(net)	3, 5(19)	768,911	262,733	Total current liabilities		4,941,898	5,937,004
Restricted deposits-current	7, 8	112,563	117,974				
Total current assets		43,221,559	40,439,819				
Long-term investments	3, 5(6)			Long-term liabilities			
Long-term equity investments				Long-term debts, less current portion	5(8)	-	10,643
Accounted for under equity method		635,795	-				
Accounted for under cost method		320,952	340,599				
Long-term bond investments		67,576	-	Other liabilities			
Total long-term investments		1,024,323	340,599	Accrued pension liabilities	3, 5(9)	74,064	54,319
				Minority interest		154,824	45,710
Property, plant and equipment				Total other liabilities		228,888	100,029
Buildings and facilities	3, 5(7), 6	739,276	734,712	Total liabilities		5,170,786	6,047,676
Machinery and equipment		82,914	103,334				
Research and development equipment		655,026	466,837				
Miscellaneous equipment		95,365	84,362	Shareholders' equities			
Total cost		1,572,581	1,389,245	Capital	5(10)		
Less : Accumulated depreciation		(413,538)	(318,235)	Common stock		7,693,359	6,415,473
Add : Construction in progress		943,865	279	Capital reserve	5(12)		
Prepayments for equipment		19,454	27,167	Additional paid-in capital		69,689	70,000
Property, plant and equipment(net)		2,122,362	1,098,456	Treasury stock transaction		84,975	41,198
				Donated assets		1,260	1,260
Intangible assets				Long-term investment transaction		-	3,448
Software	3	215,153	174,962	Total capital reserve		155,924	115,906
Patents and IPs	3, 6	917,415	-	Retained earnings			
Prepayments for patents and technical rights	3, 6	105,711	-	Legal reserve	5(11)	4,147,524	2,495,315
Total intangible assets		1,238,279	174,962	Special reserve	5(13)	49,071	-
				Undistributed earnings	5(13)	31,363,021	27,113,421
Other assets				Cumulative translation adjustments	3	(714,649)	(49,071)
Refundable deposits		12,568	7,733	Treasury stock-cost	3, 5(14)	(55,970)	(55,970)
Deferred expenses		365	584	Total shareholders' equities		42,638,280	36,035,074
Consolidated debits	3	189,610	20,597				
Total other assets		202,543	28,914				
Total assets		\$ 47,809,066	\$ 42,082,750	Total liabilities and shareholders' equities		\$ 47,809,066	\$ 42,082,750

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

English Translation of Financial Statements Originally Issued in Chinese
MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2004 and 2003
(Amounts in thousand New Taiwan dollars, except earnings per share)

	Note	2004	2003
Gross sales		\$ 42,383,416	\$ 39,809,564
Less : Sales returns and discounts	3, 5(17), 6	(1,836,204)	(1,713,966)
Net sales		40,547,212	38,095,598
Cost of goods sold	5(18)	(20,631,701)	(18,418,205)
Gross profits		19,915,511	19,677,393
Operating expenses	3, 5(18), 6		
Selling expenses		(250,942)	(247,758)
Administrative expenses		(1,085,465)	(558,415)
Research and development expenses		(3,644,503)	(3,930,933)
Total operating expenses		(4,980,910)	(4,737,106)
Operating income		14,934,601	14,940,287
Non-operating income			
Interest income		351,817	306,831
Gain on disposal of short-term investments	3	8,706	91,125
Gain on market price recovery of short-term investments	3	6,334	-
Reversal of bad debts	3	21,804	165
Reversal of accrued license fee	8(1)	-	1,557,540
Others		26,336	67,463
Total non-operating income		414,997	2,023,124
Non-operating expenses			
Interest expense		(63)	(44)
Loss on decline in market value of short-term investments	3	-	(13,483)
Net loss from equity investments	3, 5(6)	(358,848)	(62,492)
Permanent loss on long-term investments	3, 5(6)	(13,785)	(142,189)
Foreign exchange loss(net)	3	(119,692)	(52,762)
Inventory loss provision	3, 5(5)	(411,850)	(66,833)
Others		(9,462)	(6,495)
Total non-operating expenses		(913,700)	(344,298)
Income before income tax		14,435,898	16,619,113
Income tax expense	3, 5(19)	(27,394)	(101,705)
Minority interest in (income)loss and (income)loss from pre-acquisition of the subsidiaries		(85,519)	4,681
Net income		\$ 14,322,985	\$ 16,522,089
Earnings Per Share (in New Taiwan dollars)	3, 5(16)		
Income before income tax		\$ 18.87	\$ 21.68
Income tax expense		(0.03)	(0.13)
Minority interest in (income)loss and (income)loss from pre-acquisition of the subsidiaries		(0.11)	-
Net income		\$ 18.73	\$ 21.55

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITIES

For the years ended December 31, 2004 and 2003

(Amounts in thousand New Taiwan dollars)

	Common stock	Capital reserve	Legal reserve	Special reserve	Undistributed earnings	Cumulative translation adjustments	Treasury stock	Total
Balance as of January 1, 2003	\$ 4,604,654	\$ 82,102	\$ 1,271,971	\$ -	\$ 17,819,560	\$ 125,504	\$ (55,970)	\$ 23,847,821
Appropriation and distribution of 2002 earnings:								
Legal reserve	-	-	1,223,344	-	(1,223,344)	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(55,050)	-	-	(55,050)
Capitalization of employees' bonus	199,190	-	-	-	(654,482)	-	-	(455,292)
Stock dividends	1,611,629	-	-	-	(5,295,352)	-	-	(3,683,723)
Net income for the year ended December 31, 2003	-	-	-	-	16,522,089	-	-	16,522,089
The effects of subsidiaries' shareholding of the Company's stock	-	30,356	-	-	-	-	-	30,356
recorded as treasury stock	-	-	-	-	-	-	-	-
The effects of change in long-term equity investment due to change in investment percentage	-	3,448	-	-	-	-	-	3,448
	-	-	-	-	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-	(174,575)	-	(174,575)
Balance as of December 31, 2003	6,415,473	115,906	2,495,315	-	27,113,421	(49,071)	(55,970)	36,035,074
Appropriation and distribution of 2003 earnings:								
Legal reserve	-	-	1,652,209	-	(1,652,209)	-	-	-
Special reserve	-	-	-	49,071	(49,071)	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(44,462)	-	-	(44,462)
Capitalization of employees' bonus	157,471	-	-	-	(816,711)	-	-	(659,240)
Stock dividends	1,154,785	-	-	-	(6,607,937)	-	-	(5,453,152)
Purchase of treasury stock	-	-	-	-	-	-	(935,705)	(935,705)
Cancellation of treasury stock	(34,370)	(311)	-	-	(901,024)	-	935,705	-
Net income for the year ended December 31, 2004	-	-	-	-	14,322,985	-	-	14,322,985
The effects of subsidiaries shareholding of the Company's stock	-	43,777	-	-	-	-	-	43,777
recorded as treasury stock	-	-	-	-	-	-	-	-
The effects of change in long-term equity investment due to change in investment percentage	-	(3,448)	-	-	(1,971)	-	-	(5,419)
	-	-	-	-	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-	(665,578)	-	(665,578)
Balance as of December 31, 2004	<u>\$ 7,693,359</u>	<u>\$ 155,924</u>	<u>\$ 4,147,524</u>	<u>\$ 49,071</u>	<u>\$ 31,363,021</u>	<u>\$ (714,649)</u>	<u>\$ (55,970)</u>	<u>\$ 42,638,280</u>

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

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2004 and 2003
(Amounts in thousand New Taiwan dollars)

	2004	2003
Cash flows from operating activities :		
Net income	\$ 14,322,985	\$ 16,522,089
Adjustments to reconcile net income to net cash provided by operating activities		
Minority interest in income (loss)	85,519	(4,681)
Depreciation	181,322	136,873
Amortization	247,516	143,580
Reversal of bad debt	(21,804)	(165)
(Reversal) Loss on decline in market value of short-term investments	(6,334)	13,483
Gain on disposal of short-term investments	(8,706)	(91,125)
Inventory loss provision	411,850	66,833
Net loss from equity investments	358,848	62,492
Permanent loss on long-term investments	13,785	142,189
Loss (Gain) on disposal of property, plant and equipment	7,506	(7,552)
Net changes in operating assets and liabilities		
Notes and accounts receivable	201,105	64,932
Receivables to related parties	(36,882)	-
Inventories	(1,588,522)	(492,138)
Net changes in deferred income tax assets and liabilities	(506,178)	(212,845)
Others receivable	(24,413)	(83,028)
Prepayments and other current assets	(432,236)	141,585
Notes payable and accounts payable	(613,879)	869,460
Payables to related parties	(923,249)	(51,360)
Income taxes payable	243,180	(111,740)
Accrued expenses	88,088	(1,273,364)
Other current liabilities	73,162	5,487
Accrued pension liabilities	19,745	18,077
Net cash provided by operating activities	12,092,408	15,859,082
Cash flows from investing activities :		
Decrease in restricted deposits	5,411	809,026
Decrease in short-term investments	219,480	3,874,145
Increase in long-term investments	(1,062,164)	(53,124)
Increase in consolidated debits	(176,009)	(1,910)
Purchase of property, plant and equipment	(1,087,115)	(336,649)
Proceeds from disposal of property, plant and equipment	11,327	17,247
Increase in intangible assets	(1,297,123)	(102,498)
Increase in deferred expenses	(138)	(621)
Increase in refundable deposits	(4,835)	(3,800)
Net cash (used in) provided by investing activities	(3,391,166)	4,201,816
Cash flows from financing activities :		
Decrease in long-term debts	(17,539)	(16,189)
Purchase of treasury stock	(935,705)	-
Cash dividends	(5,453,152)	(3,683,723)
Directors' and supervisors' remuneration	(44,462)	(55,050)
Employee bonus	(659,240)	(455,292)
Cash dividends distributed to shares hold by subsidiaries	43,777	30,356
Increase (decrease) in minority interest	18,176	(2,792)
Net cash used in financing activities	(7,048,145)	(4,182,690)
Effect of exchange rate changes	(657,616)	(170,492)
Net increase in cash and cash equivalents	995,481	15,707,716
Cash and cash equivalents at the beginning of the year	32,121,718	16,414,002
Cash and cash equivalents at the end of the year	\$ 33,117,199	\$ 32,121,718
Supplemental disclosures of cash flow information :		
Income tax paid during the year	\$ 277,080	\$ 425,161
Interest paid during the year	\$ 63	\$ 44
Purchase of property, plant and equipment	\$ 1,231,603	\$ 336,649
Less: increase in payables to equipment suppliers	(144,488)	-
Cash paid for the purchase of property, plant and equipment	\$ 1,087,115	\$ 336,649
Non-cash activities :		
Stock dividends and employee bonus capitalized	\$ 1,312,256	\$ 1,810,819
Long-term debts-current portion	\$ 10,643	\$ 17,539
Cancellation of treasury stock	\$ (935,705)	\$ -

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

(Amounts in Thousand of New Taiwan Dollars, Unless Specified Otherwise)

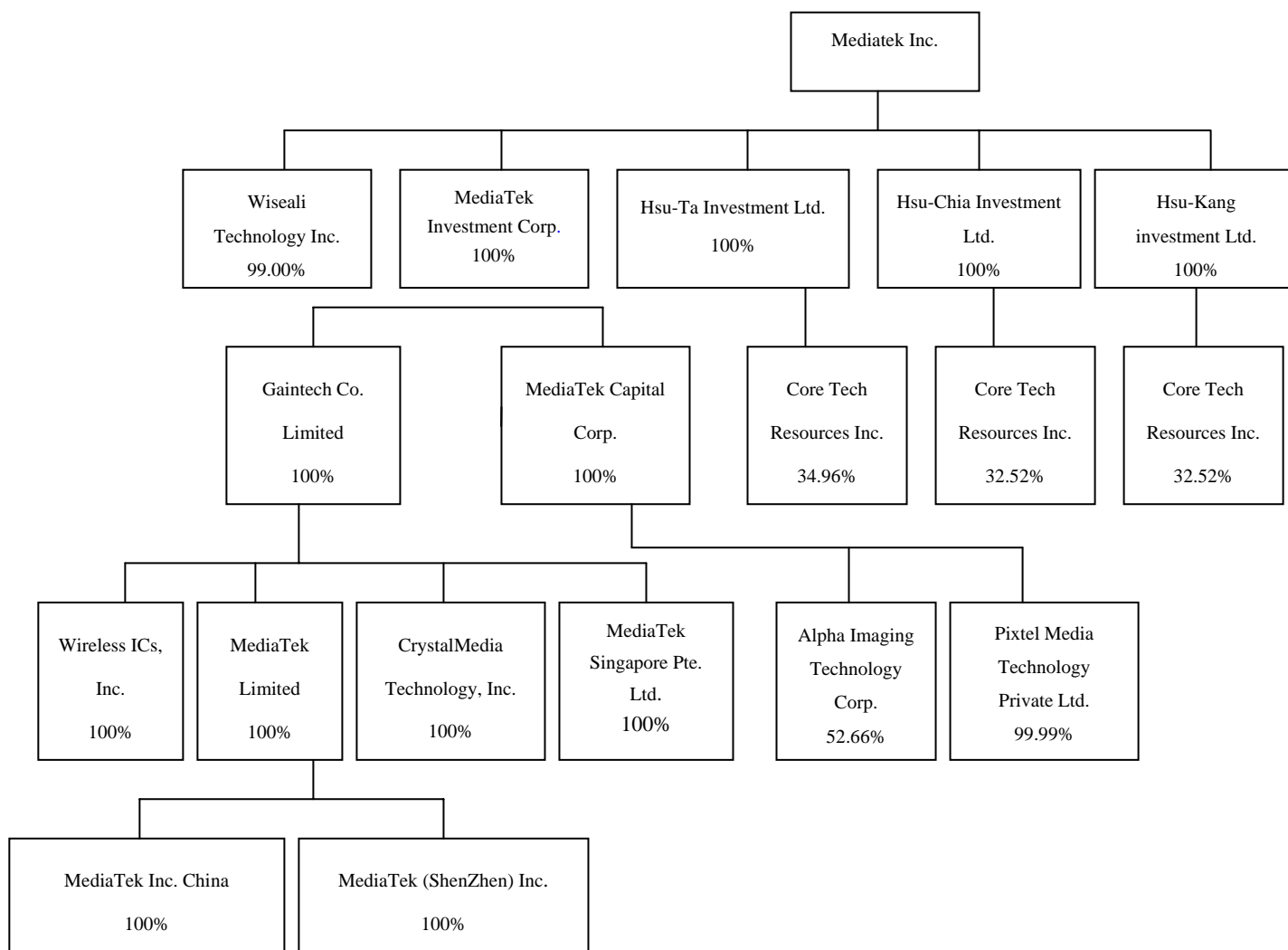
1. Organization and Operation

MediaTek Inc. (the "Company") was incorporated in the Hsinchu Science-Based Industrial Park ("HSIP"), Taiwan on May 28, 1997. The Company operates principally as a designer, manufacturer and supplier of integrate-circuit chips and decoders of optical storage.

As of December 31, 2004 and 2003, the employees of the Company and subsidiaries totaled 1,235 and 771, respectively.

2. Principles of Consolidation

- (1) Parent company: Mediatek Inc. (the "Company")
- (2) The following diagram presents information regarding the relationship and ownership percentages among Mediatek Inc. and its consolidated subsidiaries of ownership as of December 31, 2004:



MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

(3) Consolidated entity

Name of subsidiaries	Main Business	Percentage of Ownership
MediaTek Investment Corp.	General investing	100.00%
Hsu-Ta Investment Ltd.	General investing	100.00%
Hsu-Chia Investment Ltd.	General investing	100.00%
Hsu-Kang Investment Ltd.	General investing	100.00%
Wiseali Technology Inc.	IC design and sales	99.00%
Core Tech Resources Inc.	General investing	100.00%
MediaTek Capital Corp.	General investing	100.00%
Gaintech Co. Limited	General investing	100.00%
Alpha Imaging Technology Corp.	IC design and sales	52.66%
Pixtel Media Technology Private Ltd.	Research and development	99.99%
MediaTek Limited	Trading and general investing	100.00%
Wireless ICs, Inc.	Research and development	100.00%
CrystalMedia Technology, Inc.	Research and development	100.00%
MediaTek Singapore Pte. Ltd.	Research and development	100.00%
MediaTek Inc. China	Selling of IC design products	100.00%
MediaTek (ShenZhen) Inc.	Selling of IC design products	100.00%

3. Summary of Significant Account Policies

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

Foreign Currency Transactions

The Company maintains its accounting records in New Taiwan Dollars ("NT Dollars" or "NT\$"), while each foreign subsidiary maintains it in the local currency as its functional currency. Foreign currency transactions are recorded in the functional currency at exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rates in effect at the balance sheet date. Foreign exchange gains or losses are included in other income or losses. The functional currency of each foreign subsidiary is as follows:

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

<u>Foreign subsidiary</u>	<u>Functional currency</u>
Core Tech Resources Inc.	USD
Gaintech Co. Limited	USD
MediaTek Limited	USD
Wireless ICs, Inc.	USD
CrystalMedia Technology, Inc.	USD
MediaTek Singapore Pte. Ltd.	SGD
Pixtel Media Technology Private Ltd.	INR
MediaTek Inc. China	RMB
MediaTek (ShenZhen) Inc.	RMB

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. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. Translation gains and losses are included as a component of shareholders' equity. The accumulated exchange gains or losses resulting from the translation are recorded as cumulative translation adjustments under shareholders' equity.

Cash Equivalents

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

Short-term Investments

Short-term investments are recorded at cost when acquired and are stated at the lower of aggregate cost or market value at the balance sheet date. The market value of listed equity securities or closed-end funds is determined by the average closing price during the last month of the fiscal year. The market value for open-end funds is determined by their equity per unit at the balance sheet date. The amount by which aggregate cost exceeds market value is reported as a loss in the current year. In subsequent periods, recoveries of market value are recognized as a gain to the extent that the market value does not exceed the original aggregate cost of the investment. No revenue is recognized when stock dividends are received. Instead, the number of shares increases and the cost per share is recalculated. Gain or loss on disposal of open-end funds is recognized using first-in-first-out method. Interest income of credit-linked structured deposits matured within a year is accrued based on the contracted interest rate.

MEDIATEK INC. AND SUBSIDIARIES
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. A slow-moving reserve is provided based on inventory aging.

Long-term Investments

Long-term equity investments

(1) Long-term investments accounted for under cost method

Long-term investments in which the Company holds less than 20% of the outstanding voting shares of the investee companies and is not able to exercise significant influence over the investee companies are stated at cost except for investments in listed companies which are stated at lower of cost or market value. The unrealized loss on long-term investments is recorded as a contra equity account. If it is evidenced that the stock price is unlikely to recover in the future, an other-than-temporary loss will be recognized in the current period, and the cost of a long-term investment shall be reduced to the market price, which will then become the new cost.

(2) Long-term investments accounted for under equity method

Long-term investments in which the Company holds an interest of 20% or more and has the ability to exercise significant influence over the investee companies are accounted for under the equity method of accounting. The difference between the cost of the investment and the underlying equity in the investee's net assets at the date of acquisition is amortized over five years. Adjustment to capital reserve is required when holding percentage changes due to unproportional subscription to investee's new shares issued. If the capital reserve is insufficient, retained earnings are adjusted.

Unrealized intercompany gains and losses are eliminated under the equity method. Profit from sales of depreciable assets between the investee and the Company is amortized and recognized based on the assets' economic service lives. Profit from other types of intercompany transactions is recognized when realized.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS – (continued)

When equity in loss of an investee exceeds carrying value accounted for by the equity method, the Company recognizes the investment loss by reducing the balance of the investment to zero. However, if the Company intends to provide further financial supports 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 credit balance is recorded under other liabilities.

For any investee company that was accounted for under equity method and to dissolve at a dissolution date, the Company shall recognize investment income (loss) up to that date and cease to apply equity method then and afterwards. If the liquidation procedure is not completed at the financial statement closing date, an unrealized loss shall be estimated and charged to income to the extent that the carrying value of the underlying investment in excess of the estimated recovery value. No gain shall be recognized until the completion of liquidation if the estimated recovery value is over the carrying value of the underlying investment at the financial statement closing date.

Long-term Bond Investments

Long-term bond investments are recorded at cost when acquired and accounted for under cost method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. 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 7	years

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

When property, plant and equipment are disposed of, their original cost and accumulated depreciation are written off and related gains or losses are included in other income or losses.

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

Intangible Assets

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

Computer software	3 years
Patents and technical rights	3 years

Capital Expenditures vs. Revenue Expenditures

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

Revenue Recognition

Revenue is recognized in accordance with the R.O.C. Statement of Financial Accounting Standards No. 32, "Accounting for Revenue Recognition."

Employee Retirement Benefits

In accordance with the Labor Standards 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.

The Company has a defined benefit pension plan covering substantially all of its employees and adopts the R.O.C. Statement of Financial Accounting Standards No.18, "Accounting for Pensions." The minimum pension liability was recorded for the excess of accumulated pension obligations over the fair value of plan assets. Net transition assets or obligations from the plan assets are amortized using the straight-line method over the employees' expected average remaining service period of 20 years.

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

Consolidated debits

Consolidated debits represent the excess of the consideration paid for acquisition over the fair market value of identifiable net assets acquired. Consolidated debits are amortized using the straight-line method over the estimated lives of 5 years.

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

Income Tax

In accordance with the R.O.C. Statement of Financial Accounting Standards 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.

Income tax credit is accounted for in accordance with the R.O.C. Statement of Financial Accounting Standards 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.

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

Financial instruments-hedging purpose

a. Foreign exchange forward contracts

A forward foreign exchange contract obligates the Company to exchange predetermined amounts of specified foreign currencies at specified exchange rates for another currency on a specified date. For contracts that are designated as hedges, discounts or premiums, being the difference between the spot exchange rate and the forward exchange rate at the inception of the contract, are accreted or amortized to the income statement over the contract lives using the straight-line method. Realized gains and losses from settlement or unrealized gains and losses resulting from changes in the spot exchange rate at the balance sheet date are recorded in the income statement as foreign exchange gains or losses in the period in which they relate. The related amounts due to or from counter parties are included in other current assets or other current liabilities.

b. Option contracts

At maturity the Company or the financial institution, depending upon which party has the right of the option, exercises the option to receive a said amount denominated in one currency and pay a said amount in a different currency. The conversion rate is stated in the contract. For options, premiums are amortized over the contract lives using the straight-line method. Gains and losses are recorded in the income statement upon exercise.

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

Earnings Per Share

In accordance with the R.O.C. Statement of Financial Accounting Standards No.24, “Earnings Per Share,” the Company presents basic earnings per share. Earnings per common share are computed by dividing net income by the weighted-average number of common share outstanding during the year. Earnings per common share are adjusted retroactively by stock dividends resulting from retained earnings or capital surplus. Furthermore, if the base date of the capital increase for a stock dividend is before the issuance date of the financial statements, the earnings per common share shall be adjusted retroactively.

Treasury Stock

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

In accordance with the R.O.C. Statement of Financial Accounting Standards No. 30, “Accounting for Treasury Stock,” treasury stock transactions are accounted for under cost method. The gross cost of shares reacquired is recorded in a contra shareholders’ equity account called treasury stock. At the date of subsequent resale, the treasury stock account is credited for the cost of the treasury stock. When treasury stock is sold for more than its acquisition cost, the difference is credited to capital reserve – treasury stock transaction. If treasury stock is sold for less than its acquisition cost, the difference is charged to the same capital reserve account to the extent the capital reserve account to reduce to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.

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 are charged.

4. Reasons and Effects for Change in Accounting Principles.

None.

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

5. Contents of Significant Accounts**(1) Cash and Cash Equivalents**

<i>In thousand NTD</i>	As of December 31,	
	2004	2003
Petty Cash	\$92	\$30
Savings and checking accounts	7,534,786	5,320,074
Time deposits	20,383,479	21,324,012
Cash equivalents- CP-Repo and bonds-Repo	5,198,842	5,477,602
Total	<u>\$33,117,199</u>	<u>\$32,121,718</u>

As of December 31, 2004, the Company and its subsidiaries have committed to sell the CP-Repo and bonds-Repo, in cost amount of NT\$4,780,544 thousand and NT\$418,298 thousand, back to the brokers during the three-month period ended March 31, 2005.

Cash and cash equivalents were not pledged as of December 31, 2004.

(2) Short-term Investments-Net

<i>In thousand NTD</i>	As of December 31,			
	2004		2003	
	Cost	Market Value	Cost	Market Value
Mutual fund	\$544,641	\$549,758	\$878,295	\$888,120
Stocks	542	539	598	573
Short-term notes and bonds	651,422	644,240	710,204	695,980
Credit-linked structured deposits	317,575	318,186	135,912	136,422
Subtotal	1,514,180	1,512,723	1,725,009	1,721,095
Less: Allowance for market value decline	(6,455)	-	(13,311)	-
Net	<u>\$1,507,725</u>	<u>\$1,512,723</u>	<u>\$1,711,698</u>	<u>\$1,721,095</u>

Short-term Investments were not pledged as of December 31, 2004. Please refer to the Note 10 for risk disclosure of credit-linked structured deposits.

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

(3) Accounts Receivable-Net

<i>In thousand NTD</i>	As of December 31,	
	2004	2003
Accounts receivable	\$3,744,593	\$3,945,698
Less: Allowance for doubtful accounts	(198,996)	(219,363)
Net	<u>\$3,545,597</u>	<u>\$3,726,335</u>

(4) Other Receivables

<i>In thousand NTD</i>	As of December 31,	
	2004	2003
Forward exchange contracts receivable-net	\$86,764	\$8,253
Interest receivable	38,663	34,044
VAT refundable	159,311	218,148
Others	646	526
Total	<u>\$285,384</u>	<u>\$260,971</u>

(5) Inventories-Net

<i>In thousand NTD</i>	As of December 31,	
	2004	2003
Raw materials	\$1,082	\$2,381
Work in process	1,896,059	1,283,263
Finished goods	1,733,912	831,974
Inventories in transit	127,327	52,240
Subtotal	3,758,380	2,169,858
Less: Allowance for inventory obsolescence	(489,151)	(77,301)
Net	<u>\$3,269,229</u>	<u>\$2,092,557</u>

- a. The insurance coverage for inventories amounted to NT\$300,000 thousand and NT\$700,000 thousand as of December 31, 2004 and 2003, respectively. The subcontractors provided insurance policies for the inventories at their hand for processing. Thus, the subcontractors will assume the responsibility of damage, if any.
- b. Inventories were not pledged as of December 31, 2004.

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

(6) Long-term Investments

a.

As of December 31, 2004

Investee Companies	Types	Shares/units	Amounts (NT\$'000)	Ownership (%)	Accounting Method
<u>Equity investments-equity method</u>					
ALi Corporation	Common share	56,957,405	\$635,795	31.28%	Equity
<u>Equity investments-cost method</u>					
Yuantonix, Inc.	Common share	1,500,000	15,000	5.66%	Cost
Quanta Storage Inc.	Common share	975,000	3,668	0.48%	Cost
Browave Corporation	Common share	940,000	13,922	1.14%	Cost
Communication Technology Venture Capital Investment Corp.	Common share	8,000,000	73,049	14.41%	Cost
Legend Tech. V.C. Inv. Corp.	Common share	5,000,000	57,681	6.33%	Cost
Pixart Imaging Inc.	Common share	4,458,811	69,533	7.17%	Cost
Inprocomm Inc.	Common share	2,400,000	-	14.81%	Cost
VIA Optical Solution, Inc.	Common share	77	1	-	Cost
VIA Networking Technologies, Inc.	Common share	4	-	-	Cost
Araftek Inc.	Preferred share	1,100,000	1,574	5.85%	Cost
IPC	Preferred share	2,400,000	26,129	13.83%	Cost
Sino Photonics Venture Holding, Ltd.	Common share	1,200,000	38,300	9.88%	Cost
VenGlobal International Fund	Common share	1,000	20,502	5.66%	Cost
V Web Corp.	Preferred share	1,500,000	1,593	4.75%	Cost
	and common share				
Subtotal			320,952		
<u>Long-term bonds Investments</u>					
EoNex Technologies, Inc.	Convertible bonds	236	67,576	-	Cost
Total			\$1,024,323		

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

Investee Companies	As of December 31, 2003				
	Types	Shares/units	Amounts	Ownership	Accounting
			(NT\$'000)	(%)	Method
<u>Equity investments-equity method</u>					
MediaTek Communications, Inc.	Common share	60,000		100.00%	Equity
<u>Equity investments-cost method</u>					
Yuantonix, Inc.	Common share	1,500,000	15,000	6.00%	Cost
Quanta Storage Inc.	Common share	750,000	3,668	0.48%	Cost
Browave Corporation	Common share	940,000	13,922	1.14%	Cost
Communication Technology Venture Capital Corp.	Common share	8,000,000	73,049	14.41%	Cost
Legend Tech. V.C. Inv. Corp.	Common share	5,000,000	57,681	6.33%	Cost
Pixart Imaging Inc.	Common share	3,429,855	69,533	7.46%	Cost
Inprocomm Inc.	Common share	2,400,000	13,785	14.81%	Cost
VIA Optical Solution, Inc.	Common share	4	-	-	Cost
VIA Networking Technologies, Inc	Common share	77	1	-	Cost
Araftek Inc.	Preferred share	1,100,000	1,676	6.43%	Cost
IPC	Preferred share	2,400,000	27,817	13.83%	Cost
Sino Photonics Venture Holding, Ltd.	Common share	1,200,000	40,774	9.88%	Cost
VenGlobal International Fund		1,000	21,998	5.66%	Cost
V Web Corp.	Preferred share	1,500,000	1,695	3.84%	Cost
	and common share				
Subtotal			340,599		
Total			\$340,599		

b. For the years ended December 31, 2004 and 2003, investment loss accounted for under equity method amounted to NT\$358,848 thousand and NT\$62,492 thousand, respectively. The loss was recognized based on the audited financial statements of the investee companies.

c. In October 2003, due to the dissolution of MediaTek Communications, the Company assessed that the investment in MediaTek Communications was of no possibility to be recovered. Then, the book value of investment in MediaTek Communications has been written-off and the loss was recorded under the investment loss in the amount of NT\$62,492 thousand. MediaTek Communications has completed the liquidation process on May 10, 2004.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO FINANCIAL STATEMENTS – (continued)**

d. For the year ended December 31, 2004, the Company and its subsidiaries recognized the investment loss in the amount of NT\$13,785 thousand for the permanent diminution of value in the investment of Inprocomm Inc. For the year ended December 31, 2003, the Company and its subsidiaries recognized the investment loss in Browave Corporation, Inprocomm Inc., Araftek Inc., IPC and V Web Corp in amount of NT\$142,189 thousand for the permanent diminution of value in the investment.

e. Long-term investments were not pledged as of December 31, 2004.

(7) Property, Plant and Equipment

a. The insurance coverage for property, plant and equipment amounted to NT\$1,407,896 thousand and NT\$1,342,837 thousand as of December 31, 2004 and 2003, respectively.

b. No interest was capitalized for the years ended December 31, 2004 and 2003.

c. Property, plant and equipment were not pledged as of December 31, 2004.

(8) Long-term Debts

The authorities of HSIP financed the Company by providing free-interest loans for certain R&D projects:

Items	Original balance (NT\$'000)	As of December 31,		Repayment
		2004 (NT\$'000)	2003 (NT\$'000)	
Second project	17,180	\$-	\$6,896	The first repayment of NT\$3,388 thousand was made in May 2002. The remaining portion is repayable in eight quarterly installments, starting January 1, 2003, each of NT\$1,724 thousand.
Third project	24,000	10,643	21,286	The first repayment of NT\$2,715 thousand was made in August 2003. The remaining portion is repayable in eight quarterly installments, starting January 1, 2003, each of NT\$2,661 thousand.
Total long-term debts		10,643	28,182	
Less: Current portion		(10,643)	(17,539)	
Total		\$-	\$10,643	

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

(9) Accrued Pension Liabilities

a. The components of net pension cost

<i>In thousand NTD</i>	For the year ended December 31,	
	2004	2003
Service cost	\$18,667	\$16,782
Interest cost	1,913	1,773
Expected return on plan assets	(748)	(567)
Amortization	(86)	88
Over statement	10,078	7,145
Net pension cost	<u>\$29,824</u>	<u>\$25,221</u>

b. The funded status of the Company's pension plans

<i>In thousand NTD</i>	As of December 31,	
	2004	2003
Benefit obligations		
Vested benefit obligation	\$-	\$-
Non-vested benefit obligation	(42,505)	(24,743)
Accumulated benefit obligation	(42,505)	(24,743)
Effect of projected future salary increase	(49,997)	(29,902)
Projected benefit obligation	(92,502)	(54,645)
Fair value of plan assets	31,436	21,361
Funded status of pension plan	(61,066)	(33,284)
Unrecognized net transitional obligation	1,148	1,236
Unrecognized loss (gain)	10,393	(7,553)
Over-accrual	(24,539)	(14,718)
Accrued pension liabilities	<u>\$(74,064)</u>	<u>\$(54,319)</u>

- c. The pension fund is not included in the financial statements of the Company. As of December 31, 2004 and 2003, the fund amounted to NT\$ 31,436 thousand and NT\$21,361 thousand, respectively.

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

d. The vested benefit was nil as of December 31, 2004 and 2003.

The underlying actuarial assumptions:

	For the year ended December 31,	
	2004	2003
Discount rate	3.5%	3.5%
Rate of increase in future compensation levels	3.5%	3.5%
Expected long-term rate of return on plan assets	3.5%	3.5%

e. For those subsidiaries adopting defined contribution pension plans and making contribution to pension funds in accordance with the native law, pension expenses totaled to NT\$2,334 thousands and NT\$685 thousands for the years ended December 31, 2004 and, 2003, respectively.

(10) Common Stock

As of January 1, 2003, the authorized and issued common shares of the Company amounted to NT\$5,700,000 thousand and NT\$4,604,654 thousand, divided into 570,000,000 shares and 460,465,370 shares, respectively, each share at par value of NT\$10.

Based on the resolution of shareholders' general meeting on May 16, 2003, the Company increased its authorized capital to NT\$8,960,000 thousand, divided into 896,000 thousand shares, each share at par of NT\$10. Among the authorized capital, 40,000 thousand shares were reserved for the grant of options to qualified employees. The shareholders further resolved to issue 181,081,886 new shares for the capitalization of shareholders' bonus of NT\$1,611,629 thousand and employees' bonus of NT\$199,190 thousand. The capitalization had been governmentally approved.

Following the resolution of the shareholders' annual general meeting on June 9, 2004, the Company issued 131,225,575 new shares, each share at par value of NT\$10, for the capitalization of shareholders' bonus of NT\$1,154,785 thousand and employees' bonus of NT\$157,471 thousand. The capitalization had been governmentally approved.

Based on the approval from the Company's board of directors meeting held on May 7, 2004, the Company was allowed to purchase back its own common share. The Company bought 3,437,000 shares from market during the period from May 8 to July 7, 2004. On September 22, 2004, the Board further resolved to cancel the treasury stocks and the measurement date was at September 29, 2004. The cancellation of shares has been successfully updated to government.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO FINANCIAL STATEMENTS – (continued)**

As of December 31, 2004, the authorized and issued common shares of the Company amounted to NT\$8,960,000 thousand and NT\$7,693,359 thousand, divided into 896,000,000 shares and 769,335,831 shares, respectively, each share at par value of NT\$10.

(11) Legal Reserve

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

(12) Capital Reserve

<i>In thousand NTD</i>	As of December 31,	
	2004	2003
Additional paid-in capital	\$69,689	\$70,000
Treasury stock transaction	84,975	41,198
Donated assets	1,260	1,260
Long-term investment transaction	-	3,448
Total	<u>\$155,924</u>	<u>\$115,906</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.

For the years ended December 31, 2004 and 2003, the cash dividends of NT\$43,777 thousand and NT\$30,356 thousand, respectively, distributed to the Company's subsidiary were credited to the Company's capital reserve account in accordance with the R.O.C. Statement of Financial Accounting Standards No. 30, "Accounting for Treasury Stock."

(13) Earnings Distribution

Net income for the year ended December 31, 2002 may be appropriated or distributed in the following sequences:

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income;
- (d) Reserve or reverse for special reserve in compliance with the Company Law or the Securities and Exchange Law;
- (e) Remuneration for directors and supervisors at 0.5% of the remaining of (a) through (d);

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

- (f) 10% to 15% of the remaining balance after the appropriations from (a) to (e) shall be distributed as employees' bonus;
- (g) The remaining balance after all the above appropriations and distributions shall be shareholders' dividends, and may be retained or distributed proportionally.

Shareholders' dividends and employee bonuses may be distributed in form of shares or cash, or both. According to the Company's articles, cash dividend to be distributed shall not be more than 70% of total earnings to be distributed. While, remuneration for directors and supervisors is limited to cash.

In accordance with an amendment to the Company's articles of incorporation on May 16, 2003, the Company may appropriate or distribute proportionally the net income for the year ended December 31, 2003 at following sequences:

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income;
- (d) Reserve or reverse for special reserve in compliance with the Company Law or the Securities and Exchange Law;
- (e) Remuneration for directors and supervisors to a maximum of 0.5% of the remaining of (a) through (d);
- (f) 10% to 15% of the remaining balance after the appropriations from (a) to (e) shall be distributed as employees' bonus. Employees serving the Company's subsidiaries are inclusive;
- (g) The remaining balance after all the above appropriations and distributions shall be shareholders' dividends, and may be retained or distributed proportionally.

Dividend and employee bonuses may be distributed in form of shares or cash, or both. According to the amended articles, cash dividend to be distributed might not be less than 10% of total earnings to be distributed while this guideline may be adjusted according to the Company's judgment on current performance. Remuneration for directors and supervisors is limited to cash.

The Company's articles of incorporation, further amended on June 9, 2004, provide that net income for the year ended December 31, 2004 may be appropriated or distributed proportionally at following sequences:

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income;

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

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

Shareholders' dividends may be distributed in form of shares or cash, or both. According to the amended articles, cash dividend to be distributed might not be less than 10% of total dividends to be distributed while this guideline may be adjusted according to the Company's judgment on current performance.

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

(14) Treasury Stock

- a. Following the resolution of board meeting on May 7, 2004, the Company bought its own common shares back from open market. Treasury stock transactions for the year ended December 31, 2004 were summarized as follows:

Purpose	January 1, 2004		Increase		Decrease		December 31, 2004	
	Shares	Amounts (NT\$'000)	Shares	Amounts (NT\$'000)	Shares	Amounts (NT\$'000)	Shares	Amounts (NT\$'000)
Protecting shareholders' equity	-	-	3,437,000	\$935,705	(3,437,000)	(\$935,705)	-	-

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

b. According to the R.O.C Securities and Exchange Law, total shares bought back shall not exceed 10% of the Company's issued stocks. Total bought-back amounts shall not exceed the sum of retained earnings and the realized capital reserve. The maximum shares that the

Company was allowed to buy back, calculated based on the financial statements as of December 31, 2004, were 76,933,584 shares, and the maximum amount were NT\$34,915,916 thousand.

c. In compliance with the R.O.C Securities and Exchange Law, treasury stock shall not be pledged, nor does it possess voting rights or the rights to receive dividends. The Company shall cancel the treasury shares and file a change in registered paid-in capital to government within 6 months. The Board had resolved to cancel the treasury stocks amounted to 3,437,000 shares and set the measurement date for reducing capital at September 29, 2004. The cancellation of treasury stocks and reducing capital has been successfully filed to government.

d. The Company's shares owned by its subsidiaries are also accounted for as treasury stock. These shares were shown as follows:

Owner	January 1, 2004		Additions		December 31, 2004		
	Shares	Amount (NT\$'000)	Shares	Amount (NT\$'000)	Shares	Amount (NT\$'000)	Market Value (NT\$'000)
MediaTek Capital Corp.	5,122,656	\$55,970	927,044 (Note)	\$-	6,049,700	\$55,970	\$1,280,177

Owner	January 1, 2003		Additions		December 31, 2003		
	Shares	Amount (NT\$'000)	Shares	Amount (NT\$'000)	Shares	Amount (NT\$'000)	Market Value (NT\$'000)
MediaTek Capital Corp.	3,794,560	\$55,970	1,328,096 (Note)	\$-	5,122,656	\$55,970	\$1,624,102

(Note) Stock dividend received.

(15) Employees' Stock Option Plans

Alpha Imaging Technology Corp. ("AIT"), one of the Company's subsidiaries, has granted 474,000 units and 212,000 units of options to qualified employees on May 31, 2004 and December 20, 2004, respectively. All of the granted employee's stock options have been exercised as of December 31, 2004 and, accordingly, AIT has issued additional 686,000 common shares.

AIT's above stock option plan is accounted for using intrinsic value method. For the year ended December 31, 2004, compensation expense related to the employee stock option amounted to NT\$1,272 thousand. Related disclosure was as follows:

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

Grant Date	Total Shares Granted (Shares)	Decrease (Shares)	Total Outstanding Options (Shares)	Options Available to Be Exercised (Shares)	Exercisable Date	Exercise Price (NTD)	Exercise of Contract	Market Price (NTD)	
								High	Low
2004.05.31	474,000	474,000	-	474,000	2004.05.31	\$12	Issuance of new shares	Remark	Remark
2004.12.20	212,000	212,000	-	212,000	2004.12.20	\$12	Issuance of new shares	Remark	Remark

Remark: The common shares of AIT have not been publicly traded. In evaluating the fair market value of share, AIT utilized NT\$12 per share, which was the same as the net value per share at that time, for the first grant, and NT\$18 per share, which was equivalent to the price of the most recent cash offerings, for the second grant.

(16) 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,	
	2004	2003
Common shares outstanding, beginning	641,547,256	460,465,370
Stock dividend, August 25, 2003	-	161,162,879
Stock issuance for employees' bonus, August 25, 2003	-	19,919,007
Purchase and disposal of treasury stock (Remark 1)	(2,018,628)	-
Stock dividend, August 5, 2004	115,735,176	115,478,506
Stock issuance for employees' bonus, August 5, 2004	15,782,096	15,747,069
Subtotal	771,045,900	772,772,831
Less: the Company's shares owned by its subsidiary (Remark 2)	(6,176,116)	(6,176,116)
Weighted average shares outstanding, ending	764,869,784	766,596,715

Remark 1: Computed in a weighted-average basis.

Remark 2: Adjusted retroactively by stock dividends and computed in a weighted-average basis.

<i>In thousand NTD</i>	2004	2003
Income before tax	\$14,435,898	\$16,619,113
Income tax expense	(27,394)	(101,705)
Minority interest in (income) loss and (income) loss from pre-acquisition of the subsidiaries	(85,519)	4,681
Net income	\$14,322,985	\$16,522,089

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO FINANCIAL STATEMENTS – (continued)**

<i>Earnings Per Share (in NTD)</i>	2004	2003
Income before tax	\$18.87	\$21.68
Income tax expense	(0.03)	(0.13)
Minority interest in (income) loss and (income) loss from pre-acquisition of the subsidiaries	(0.11)	-
Net income	<u>\$18.73</u>	<u>\$21.55</u>

(17) Sales Revenues-Net

<i>In thousand NTD</i>	For the year ended December 31,	
	2004	2003
Revenues from sales of chipsets	\$41,430,230	\$39,770,509
Others	953,186	39,055
Subtotal	42,383,416	39,809,564
Less: Sales returns and sales discount	(1,836,204)	(1,713,966)
Net sales	<u>\$40,547,212</u>	<u>\$38,095,598</u>

(18) Personnel, Depreciation and Amortization Expenses

<i>In thousand NTD</i>	For the year ended December 31,					
	2004			2003		
	Recorded under cost of goods sold	Recorded under operating expense	Total	Recorded under cost of goods sold	Recorded under operating expense	Total
Personnel Expense						
Salary expense	\$47,002	\$1,258,264	\$1,305,266	\$44,211	\$817,027	\$861,238
Insurance expense	2,166	46,594	48,760	1,766	31,484	33,250
Pension expense	1,322	30,836	32,158	1,496	24,410	25,906
Other	332	18,173	18,505	555	8,334	8,889
Total	<u>\$50,822</u>	<u>\$1,353,867</u>	<u>\$1,404,689</u>	<u>\$48,028</u>	<u>\$881,255</u>	<u>\$929,283</u>
Depreciation	<u>\$19,435</u>	<u>\$161,887</u>	<u>\$181,322</u>	<u>\$28,363</u>	<u>\$108,510</u>	<u>\$136,873</u>
Amortization (Remark)	<u>\$150</u>	<u>\$247,366</u>	<u>\$247,516</u>	<u>\$-</u>	<u>\$143,580</u>	<u>\$143,580</u>

Remark: including some amortization recorded under non-operating expenses.

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

(19) Income Tax

- a. Pursuant to the “Statute for the Establishment and Administration of Science-Based Industrial Park,” the Company was granted several periods of tax holidays with respect to income derived from approved investments. The tax holidays expired on December 31, 2004.
- b. Pursuant to the “Statute for Upgrading Industries,” the Company is entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. The Company has elected the tax exemption periods to be from January 1, 2002 through December 31, 2006, from January 1, 2003 through December 31, 2007, and from January 1, 2004 through December 31, 2008, respectively.
- c. The Company’s income tax returns for the years 1998 and 1999 have been assessed and approved by the tax authorities in 2002 and 2003, respectively. The Company should pay additional income tax of NT\$26,947 thousand and NT\$41,290 thousand for the years 1998 and 1999, respectively. The Company has recorded the additional assessed tax as expenses and also has filed a reinvestigation to the tax authorities and filed an administrative appeal to the Ministry of Finance (“MOF”). The administrative appeal was rejected in December 2004. The Company will file an administrative proceeding in future.
- d. The Company’s income tax returns for the year 2000 have been assessed and approved by the tax authorities in November 2004, and the Company was imposed to pay additional tax of NT\$142,862 thousand. The Company has recorded the additional tax as an expense and filed an administrative appeal to the tax authorities in December 2004.
- e. The income tax returns of MediaTek Investment Corp., MediaTek Capital Corp., Hsu-Ta Investment Limited, Hsu-Chia Investment Limited, Hsu-Kang Investment Limited, Alpha Imaging Technology Inc. for all the years through 2002 have been assessed and approved by the tax authorities.
- f. According to the R.O.C. Income Tax Law, operating loss can be carried forward for 5 years. As of December 31, 2004, the unutilized accumulated loss carry forwards of Alpha Imaging Technology Corp. were as follows:

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

Year incurred	Total credit amount (NT\$'000)	Unused amount (NT\$'000)	Year expired
2003	\$9,740	\$5,299	2008

The tax effects of such amounts were included in deferred income tax assets.

- g. As of December 31, 2004, Wireless ICs, Inc. (USA) had a net operating loss of approximately USD1,300 thousand and USD1,200 thousand to be carried over to offset future income for Federal and California income tax purposes and will expire in the years 2023 and 2012, respectively.

As of December 31, 2004, CrystalMedia Technology, Inc. (USA) had a net operating loss of approximately USD1,390 thousand and USD1,230 thousand to be carried over to offset future income for Federal and California income tax purposes and will expire in the years 2023 and 2013, respectively.

The operating loss carry forwards mentioned above have been included in deferred income tax assets.

- h. The Company's available investment tax credits as of December 31, 2004 were as follows:

Year incurred	Nature of Expenditures	Total credit amount (NT\$'000)	Unused amount (NT\$'000)	Year expired
2002	R&D	\$2,124	\$2,124	2006
2003	R&D	930,001	304,385	2007
2004				
(Estimate)	R&D	1,241,145	1,241,145	2008
2004				
(Estimate)	Human development	1,712	1,712	2008
		<u>\$2,174,982</u>	<u>\$1,549,366</u>	

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

- i.

(a) Deferred income tax assets (liabilities) (<i>In thousand NTD</i>)	As of December 31, 2004
Total deferred income tax liabilities	(7,004)
Total deferred income tax assets	\$1,710,189
Valuation allowance for deferred income tax assets	\$934,274

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO FINANCIAL STATEMENTS – (continued)**

(b) Temporary differences that generated from deferred income tax assets (liabilities) (<i>In thousand NTD</i>)		As of December 31, 2004	
The Company and domestic subsidiary		Amount	Tax effect
Deductible temporary difference-Recognition of unrealized accrued expenses		\$433,730	\$5,354
Deductible temporary difference-Recognition of unrealized allowance for inventory obsolescence		\$489,151	\$6,703
Deductible temporary difference- Unrealized allowance for doubtful accounts		\$161,559	\$1,994
Deductible temporary difference-Unrealized technology license fee		\$106,112	\$1,310
Taxable temporary difference-Unrealized foreign exchange gain		\$(78,720)	\$(1,028)
Deductible temporary difference-other		\$360,900	\$90,225
Loss carry forwards		\$5,299	\$1,325
Investment tax credits			\$1,549,366
The foreign subsidiary			
Research and development tax credit			\$17,059
Loss carry forwards			\$35,182
Deductible temporary difference-other			\$1,671
Taxable temporary difference-other			\$(5,976)
(c) <i>In thousand NTD</i>		As of December 31, 2004	
Deferred income tax assets-current		\$1,541,735	
Valuation allowance for deferred income tax assets-current		(771,796)	
Net deferred income tax assets-current		769,939	
Deferred tax income liabilities-current		(1,028)	
Net deferred income tax assets and liabilities-current		\$768,911	
(d) <i>In thousand NTD</i>		As of December 31, 2004	
Deferred income tax assets-noncurrent		\$168,454	
Valuation allowance for deferred income tax assets-noncurrent		(162,478)	
Net deferred income tax assets-noncurrent		5,976	
Deferred income tax liabilities-noncurrent		(5,976)	
Net deferred income tax assets and liabilities-noncurrent		\$-	

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

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

<i>In thousand NTD</i>	For the year ended December 31, 2004
Income tax payable	\$175,526
10% tax on undistributed earnings	622,531
Investment tax credits	(394,579)
Deferred income tax effects	
Investment tax credits	(798,315)
Valuation allowance	285,621
Loss carry forwards	(13,898)
Unrealized technology license fee	12,988
Others	7,426
Accruals for additional prior year income tax	142,862
Prior year income tax adjustment	(14,671)
Others	1,903
Income tax expense	\$27,394

(f) Integrated income tax information

Balance of the imputation credit account (ICA)

(In thousand NTD)

Expected creditable ratio

As of December 31, 2004

\$547,753

2.96% (Note)

Note: The ratio was computed based on the amount of actual available shareholders' tax credits plus estimated income tax payable as of December 31, 2004.

(g) Information related to undistributed retained earnings

(In thousand NTD)

Prior to 1998

After 1998 (inclusive)

Total

As of December 31, 2004

\$-

31,363,021

\$31,363,021

j.

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

Total deferred income tax liabilities

Total deferred income tax assets

Valuation allowance for deferred income tax assets

As of December 31, 2003

\$(2,642)

\$914,028

\$648,653

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO FINANCIAL STATEMENTS – (continued)**

(b) Temporary differences that generated from deferred income tax assets (liabilities) (<i>In thousand NTD</i>)		As of December 31, 2003	
<u>The Company and domestic subsidiary</u>		Amount	Tax effect
Deductible temporary difference-Recognition of unrealized accrued expenses		\$433,730	\$6,126
Deductible temporary difference-Recognition of unrealized allowance for inventory obsolescence		\$77,301	\$1,092
Deductible temporary difference-Allowance for doubtful accounts		\$180,967	\$2,556
Deductible temporary difference-Unrealized technology license fee		\$1,012,216	\$14,298
Taxable temporary difference-Unrealized foreign exchange gain		\$(21,895)	\$(309)
Deductible temporary difference-other reason		\$393,650	\$98,412
Loss carry forwards		\$16,852	\$4,213
Investment tax credits			\$762,920
<u>The foreign subsidiary</u>			
Research and development tax credit			\$5,190
Loss carry forwards			\$18,396
Deductible temporary difference-other reason			\$825
Taxable temporary difference-other reason			\$(2,333)
(c) <i>In thousand NTD</i>		As of December 31, 2003	
Deferred income tax assets-current			\$777,663
Valuation allowance for deferred income tax assets-current			(541,621)
Net deferred income tax assets-current			263,042
Deferred income tax liabilities-current			(309)
Net deferred income tax assets and liabilities-current			\$262,733
(d) <i>In thousand NTD</i>		As of December 31, 2003	
Deferred income tax assets-noncurrent			\$136,365
Valuation allowance for deferred income tax assets-noncurrent			(134,032)
Net deferred income tax assets-noncurrent			2,333
Deferred income tax liabilities-noncurrent			(2,333)
Net deferred income tax assets and liabilities-noncurrent			\$-

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

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

<i>In thousand NTD</i>	For the year ended December 31, 2003
Income tax payable	\$229,318
10% tax on undistributed earnings	573,717
Investment tax credits	(395,254)
Deferred income tax effects	
Investment tax credits	(730,057)
Valuation allowance	496,675
Loss carry forwards	(22,609)
Unrealized technology license fee	(14,298)
Unrealized accrued expenses	119,398
Others	(61,954)
Accruals for additional prior year income tax	41,290
Prior year income tax adjustment	(138,078)
Others	3,557
Income tax expense	<u>\$101,705</u>

(f) Integrated income tax information

	As of December 31, 2003
Balance of the imputation credit account (ICA)	
<i>(In thousand NTD)</i>	\$597,381
Actual creditable ratio	<u>3.08%</u>

(g) Information related to undistributed retained earnings

<i>(In thousand NTD)</i>	As of December 31, 2003
Prior to 1998	\$-
After 1998 (inclusive)	27,113,421
Total	<u>\$27,113,421</u>

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

6. Related Party Transactions

(1) Related Parties and Relations

Related parties	Relations
United Microelectronics Corp. (“UMC”)	The supervisor of the Company
King Yuan Electronics Co., Ltd. (“KING YUAN”)	The chairmen of the Company and KING YUAN are close relatives.
PixArt Imaging Inc. (“PII”)	Same person represents the chairman of both companies’ boards.
UMC Japan (“UMCJ”)	Equity investee of UMC
ALi Corporation (“ALi”)	Equity invetee

(2) Major Transactions with related parties

a. Purchases

<i>In thousand NTD</i>	For the year ended December 31,			
	2004		2003	
	Amount	% of total purchase	Amount	% of total purchase
UMC	\$7,690,155	56.03	\$8,185,626	73.04
UMCJ	799,601	5.83	1,099,645	9.81
Total	\$8,489,756	61.86	\$9,285,271	82.85

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

- b. The Company has entered into a manufacturing contract with UMC. Under the contract, the Company pledged a time deposit of NT\$864,000 thousand to UMC as a production deposit. On August 2003, the time deposit was released from pledge. A subsidiary of the Company also pledged a time deposit of NT\$30,000 thousand to UMC as a production deposit for the years ended December 31, 2004 and 2003. The Company and its subsidiary recorded it under the caption of restricted deposits.
- c. The Company and its subsidiaries paid NT\$921,632 thousand and NT\$648,653 thousand to KING YUAN for the years ended December 31, 2004 and 2003, respectively, for its various IC testing and experimental services. On the other hand, the Company’s revenue from providing manufacturing technology services to KING YUAN amounted to NT\$7,539 thousand for the year ended December 31, 2003.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS – (continued)

- d. The Company sold certain machinery to KING YAUN during April 2003 at a price of NT\$7,667 thousand, resulting in a gain on disposal of machinery of NT\$2,950 thousand.
- e. The Company has entered into a facility lease agreement with PII during the year ended December 31, 2001. In August 2002, the Company exercised purchase rights for the underlying facility, as permitted by the agreement and approved by HSIP. The title of leased facility has been transferred to the Company in March 2003 and the Company recorded the facility under the caption of building and facility. In January 2003, the Company has entered into another facility purchase agreement with PII in amount of NT\$31,270 thousand. The Company has fully paid the price.
- f. The Company and its subsidiaries purchased R&D equipment, machinery equipment and miscellaneous supplies from ALi in amount of NT\$18,902 for the year ended December 31, 2004.
- g. The Company purchased certain patents and technical rights from ALi totally at the price of NT\$274,381 thousand. The Company has fully paid the price during the year ended December 31, 2004. The title of NT\$168,670 thousand of the underlying patents and technical rights have been transferred to the Company during the year ended December 31, 2004 and was recorded under the caption of patents and technical rights. As of December 31, 2004, the remaining balance of NT\$105,771 thousand of the patents and technical rights has not yet been transferred to the Company, but recorded under the caption of prepayments for patents and technical rights.
- h. A subsidiary of the Company has provided certain technology license and services to ALi in amount of NT\$35,125 thousand for the year ended December 31, 2004.
- i. The Company bought 8,751,000 shares of Wiseali's common stock from ALi totally at the price of NT\$253,779 thousand in November 2004.

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

a. Receivables from related parties

<i>In thousand NTD</i>	As of December 31,			
	2004		2003	
	Amount	%	Amount	%
ALi	\$36,882	1.03	\$-	-

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO FINANCIAL STATEMENTS – (continued)**

b. Payables to related parties

<i>In thousand NTD</i>	As of December 31,			
	2004		2003	
	Amount	%	Amount	%
UMC	\$790,985	29.66	\$1,716,616	40.84
UMCJ	86,712	3.25	71,185	1.69
KING YUAN	127,832	4.79	140,977	3.35
Total	<u>\$1,005,529</u>	<u>37.70</u>	<u>1,928,778</u>	<u>45.88</u>

7. Assets Pledged As Collateral

(1) As of December 31, 2004

<i>In thousand NTD</i>	Net book value	Secured financial institutions	Contents (Purpose)
Restricted deposits-current	\$42,000	Farmers Bank of China	Long-term debt
Restricted deposits-current	39,770	Pixtel	Contract executed deposits
Restricted deposits-current	30,000	UMC	Production deposit
Restricted deposits-current	793	ICBC	Pledged forward exchange contract
Total	<u>\$112,563</u>		

(2) As of December 31, 2003

<i>In thousand NTD</i>	Net book value	Secured financial institutions	Contents (Purpose)
Restricted deposits-current	\$63,000	Farmers Bank of China	Long-term debt
Restricted deposits-current	30,000	UMC	Production deposit
Restricted deposits-current	24,974	Tiva	Contract executed deposits
Total	<u>\$117,974</u>		

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS – (continued)

8. Commitments and Contingencies

(1) Law suits

- a. The Company acquired its manufacturing technology of CD-ROM control chips mainly from UMC. UMC, however, was involved in certain legal action with OAK, an U.S. company, for patents of such technology. In October 1997, OAK filed a complaint with the United States Northern District Court of California alleged that UMC breached a prior Settlement Agreement and later sought against the Company and UMC for the damages, injunctive and other relief. In April 1998, OAK filed a complaint with the International Trade Commission (“ITC”) against the Company and UMC for the infringement of the patents stated above and violation of Section 337 of the Tariff Act of 1930. In May 2001, the Court of Appeals for the Federal Circuit (“CAFC”) affirmed that there was no violation of Section 337. OAK did not appeal to Supreme Court of the United States regarding the CAFC’s decision within the legal period. In August 2003, Zoran Corporation acquired OAK and succeeded to OAK’s position in this litigation. As a result, the only dispute for certain damages between the Company and Zoran that remains pending is that in Northern District Court of California. It is probable that the Company would suffer no more significant litigation loss from the underlying dispute. Accordingly, the Company has made a reversal of related royalty fee accrual amounted to NT\$1,557,540 thousand, recorded as non-operating income for the year ended December 31, 2003. While, the remaining balance of related royalty fee accrual amounted to NT\$419,056 thousand was still recorded as accrued expenses as of December 31, 2004.
- b. On March 10, 2004, Zoran and OAK filed a complaint with the U.S. ITC (“the ITC Complaint”) naming MediaTek as a proposed respondent. By the ITC Complaint, Zoran and OAK alleged that the Company has engaged in unfair trade practices in violation of Section 337 of the Tariff Act of 1930. They alleged that certain of the Company’s chipsets infringed their own patents (U.S. Patent No.6466736, No.6584527 and No.6546440). Around March 18, 2004, Zoran and OAK also filed a complaint against the Company with the U.S. District Court for the Central District of California based on the same patents and the same allegations of infringement as were the subject of the ITC Complaint. The District Court action has been transferred to the District Court for the Northern District of California. The Company has engaged U.S. attorneys to defend both cases vigorously.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS – (continued)

- c. On July 23, 2004, the Company filed a complaint against Zoran and OAK with the U.S. ITC and the District Court for the District of Delaware alleging patent infringement. The Company alleged that optical disc drive controller products of Zoran and OAK infringe the Company's patents (U.S. Patent No. 6229773 and No. 5970031). The Company further requested the ITC to issue an order to bar any importation of Zoran and OAK's products infringing MediaTek's U.S. Patents. The Company also requested that the Court stop Zoran and OAK to further infringe the Company's patents and that Zoran and OAK shall compensate the Company's losses by the amount tripling of the losses. The Company further amended the complaint to add Sunext Technology Co., Ltd. ("Sunex") as a co-defendant. In addition to the patents allegedly infringed in the original complaint, the Company further alleged that optical disc drive products of Zoran, OAK, and Sunext infringe another MediaTek's patent (U.S. Patent No. 6170043) too. The ITC accepted the company's Amendment to the complaint on October 7, 2004.
- d. The Company is the defendant in a lawsuit brought by motion picture studios, including Metro-Goldwyn-Mayer Studios Inc., Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios LLLP, The Walt Disney Company and Warner Bros. Entertainment Inc. The lawsuit was filed on or about August 23, 2004, with the Los Angeles Superior Court of the State of California. Plaintiffs have alleged that the Company breached its agreement (the license agreement between MediaTek and the DVD Copy Control Association, the licensor of a DVD encryption system called the "Content Scramble System," or "CSS") by selling descrambler chips to entities that are not licensed by CSS. The Company has engaged U.S. attorneys to defend this District Court case vigorously.
- e. In June 2002, the Company filed a complaint with the Northern District of California against VIA Technologies, Inc., ("VIA") and AOpen, Inc. ("AOpen"), alleging that VIA and AOpen are infringing two patents related to optical disc drivers. In September 2003, the District Court granted the Company's motion for preliminary injunction against VIA and AOpen. The Company has also named the U.S. subsidiaries of VIA and Aopen, as well as VIA Optical Solution, Inc. ("VIA Optical"), as co-defendants.
- f. In June 2003, VIA filed a complaint against the Company with the Northern District of California, alleging that the Company infringes its own patent (U.S. Patent No. 6459665).

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS – (continued)

- g. In June and July 2003, VIA filed a complaint against the Company the Hsinchu District Court of Taiwan, alleging that the Company infringed its own patent (Taiwan Patent No. 163889). VIA's complaint alleged that the Company's DVD-ROM and COMBI chipsets infringed the patent.
- h. The Company, VIA and its subsidiary-VIA Optical entered into a settlement agreement that resolved all litigations about the patents in the U.S. and Taiwan on August 3, 2004. According to the settlement agreement, all parties shall dismiss all their complaints in all jurisdictions. Under this settlement agreement, the Company has licensed VIA Optical certain copyrights and trade secrets and VIA Optical shall pay the Company a fee of US\$25 million for usage of the rights upon the agreement made effected and shall annually pay US\$5 million during the following 5 years.
- i. The Company and its subsidiary-MediaTek (ShenZhen) Inc. filed a complaint with the ShenZhen Intermediate People's Court against Zoran and Zoran's Shenzhen representative office, alleging that they have infringed the Company's patent (PRC Patent No. 97120448.9). The Company is seeking court orders to prohibit Zoran from dealing in any IC products that infringe the subject patent, monetary damages and cessation of sale, importation and exportation of Zoran's infringing products in/from China.
- j. During August 2003, Sunplus Technology Co., Ltd. has filed a complaint against five employees, including the general manager, of the Company's subsidiary, Alpha Imaging Technology Corp., for infringing rights. The management has been unable to assess the indirect operating and financial influences on the Company and the subsidiary since the Company has not been informed of all the facts and the dollar amounts that Sunplus has asked for compensation and no further actions were taken from the court. While, the subsidiary has contracted an attorney to watch and evaluate the case.

(2) Commitments.

- a. In 2002, ESS Technology, Inc. ("ESS") filed a complaint with the Northern District of California, against the Company, alleging that the Company infringed ESS copyrights in firmware used with ESS chipsets in DVD players. In June 2003, ESS and the Company entered into a settlement agreement resolving all of the issues in dispute between two parties. Under this settlement agreement, ESS has licensed the Company certain copyrights and the Company should pay ESS a fee of US\$45 million for usage of the rights in the past. The Company recorded such amount as R&D expenses. Also, the settlement agreement provides that the Company should pay quarterly royalties based on the sales volume of the DVD player chipsets within 2 years, starting from third quarter of the year 2003. The maximum royalties are no more than US\$45 million.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS – (continued)

- b. The Company has entered into an assets purchasing agreement with Pixtel Communications, Inc. (“Pixtel”) in May 2004. The Company then acquired Pixtel’s wireless communication related software technology and patents in amount of US\$8,305 thousand. As of December 31, 2004, the Company has paid US\$7,059 thousand, equivalent to NT\$236,125 thousand, for this agreement and recorded it as R&D expenses. Also, the Company has deposited the remaining balance of US\$1,246 thousand, equivalent to NT\$39,770 thousand, in an escrow account and recorded it as restricted deposits-current.
- c. The Company has entered into several contracts in total of NT\$3,241,269 thousand (sale tax excluded) for constructing its headquarter tower. As of December 31, 2004, the Company has paid out NT\$941,243 thousand. The other amount of NT\$2,300,026 thousand remained an irrevocable commitment.
- d. As of December 31, 2004, totaling US\$31,377 thousand of the Company’s other significant contracts remained unpaid.
- e. The Company has entered certain lease agreements for land with the Administrative Bureau of HSIP for its need of operation. Related rent incurred in the future would be as follows:

<u>Lease Period</u>	<u>Amount</u>
2005.01.01~2005.12.31	\$25,474
2006.01.01~2006.12.31	25,474
2007.01.01~2007.12.31	25,474
2008.01.01~2008.12.31	24,406
2009.01.01~2023.12.31	343,084
Total	<u>\$443,912</u>

9. Significant Casualty Loss

None

10. Significant Subsequent Events

None

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

11. Others

(1) Financial instruments

a. Derivative financial instruments

(i) Contract amount or nominal amount and credit risk

. As of December 31, 2004,

Financial Instruments	Type	Maturity	Contract amount (US\$'000)	Exercise rate	Credit risk
Forward exchange-Hedging	Sell USD	January 2005~ February 2005	\$130,500	31.885~33.413	-

. As of December 31, 2003,

Financial Instruments	Type	Maturity	Contract amount (US\$'000)	Exercise rate	Credit risk
Forward exchange -Hedging	Sell USD	January 2004~ February 2004	\$105,000	33.975~34.235	-
	Purchase USD	January 2004	\$1,000	34.235	-

. Credit risk relates to the extent to which failures by counter parties to discharge their obligations could reduce the amount of future cash flows from financial assets on hand as of the balance sheet date. The Company and its subsidiaries minimized exposure to credit risks by only dealing with reputable banks.

(ii) Price risk

The Company and subsidiaries considered that the price risk related to the hedge transactions is minimal as gains or losses from contracts for hedging purposes are likely to be offset by gains or losses from the underlying assets and liabilities denominated in foreign currencies.

(iii) Liquidity risks

The exchange rate of the forward exchange contracts are fixed, the Company and its subsidiaries anticipate that they have enough USD assets, no significant additional cash requirement is anticipated, and therefore, cash flow risk is minimal.

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MEDIATEK INC. AND SUBSIDIARIES**NOTES TO FINANCIAL STATEMENTS – (continued)**

- (iv) Types of derivative financial instruments, purpose of holding the derivative financial instruments and the strategy for achieving the hedging purpose:

The Company and its subsidiaries' derivative financial instruments are not held for trading purpose and held for decreasing cost of hedging. The purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk resulting from assets, liabilities or commitments denominated in foreign currency. The Company and its subsidiaries' hedging strategy are to avoid majority of market price risk. Derivative financial instruments selected for hedging are highly anti-co-related with the fluctuation of the fair value of derivatives hedged. Derivatives are evaluated periodically.

- (v) Presentation of derivative financial instruments

Forward exchange contracts receivable and payable are reported under current assets or liability on a net basis. As of December 31, 2004 and 2003, details were as follows:

<i>In thousand NTD</i>	As of December 31,	
	2004	2003
Forward contract receivable	\$4,237,64	\$3,574,4
Forward contract payable	(4,165,10	(3,567,6
Discount	14,22	1,5
Forward exchange contracts receivable -net	<u>\$86,76</u>	<u>\$8,2</u>

The forward exchange contracts receivable-net was recorded under the caption of others receivables.

Foreign exchange gain (loss) incurred from the derivatives for the years ended December 31, 2004 and 2003 amounted to NT\$149,121 thousand and NT\$13,399 thousand, respectively.

b. Disclosures of risks for investments in credit-linked notes and structured deposits

- (i) Contract amount (*In thousand USD*)

Underlying investments	As of December 31,	
	2004	2003
POU CHEN Credit-linked deposit	-	\$4,000
NanYa Plastics Credit-linked deposit	\$1,000	-
Mega Fin Hold Credit-linked deposit	\$2,450	-
Quanta Computer Credit-linked deposit	\$1,500	-
Delta Electronic Inc. Credit-linked deposit	\$5,000	-

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

(ii) Credit risk

Default by the issuers of underlying securities may reduce the value of credit-linked deposits to zero. The Company and subsidiaries minimized the credit risk by selecting counter parties who are reputable and in good financial standing.

(iii) Liquidity risk

The Company and its subsidiaries are unable to have the credit-linked investments redeemed or called before maturity, which being the liquidity risk. In minimizing such risk, the Company and its subsidiaries only invested in securities whose maturities are within a year.

(iv) Market risk

There is no market risk for the underlying investment except for the fluctuations in the exchange rate of US Dollar to NT Dollar.

(v) Cash flow risk

No cash flow risk is involved as the entire amounts of credit-linked investments have been fully paid.

c. Fair value of financial instruments

<i>In thousand NTD</i>	As of December 31,			
	2004		2003	
	Carrying value	Fair value	Carrying value	Fair value
Non-derivative				
Assets				
Cash, cash equivalents and restricted deposits	\$33,229,762	\$33,229,762	\$32,239,692	\$32,239,692
Short-term investments	\$1,507,725	\$1,512,723	\$1,711,698	\$1,721,095
Receivables (including due from related parties)	\$3,582,479	\$3,582,479	\$3,726,335	\$3,726,335
Other receivables (excluding forward exchange contracts receivable -net)	\$198,620	\$198,620	\$252,718	\$252,718
Long-term investments				
- Those with market value	\$639,463	\$1,175,501	\$3,668	\$136,305
- Those without market value	\$317,284	-	\$336,931	-
Long-term bonds investments				
- Those without market value	\$67,576	-	-	-
Refundable deposit	\$12,568	\$12,568	\$7,733	\$7,733

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

Liabilities

Payables (including due to related parties)	\$2,666,569	\$2,666,569	\$4,203,697	\$4,203,697
Income tax payable	\$568,704	\$568,704	\$325,524	\$325,524
Accrued expenses	\$1,425,300	\$1,425,300	\$1,337,212	\$1,337,212
Payables to equipment suppliers	\$144,488	\$144,488	-	-
Long-term debts (including current portion)	\$10,643	\$10,643	\$28,182	\$28,182

Derivatives

Forward exchange contracts- hedging	\$86,764	\$74,829	\$8,253	\$7,262
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The methods and assumptions used to estimate the fair value of derivative financial instruments are as follows:

- (i) The fair value of the Company and its subsidiaries' short-term financial instruments is based on the carrying value of those instruments at the reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables, other receivables, payables, payables to equipment suppliers, accrued expenses and income tax payable.
- (ii) The fair value of the Company and its subsidiaries' short-term investments and long-term investments is based on market prices at the reporting date if market prices are available. The fair value of the Company and subsidiaries' long-term investments is based on relevant financial or any other information if market prices are not available.
- (iii) The fair value of the Company and its subsidiaries' refundable deposits and restricted deposits is based on the book value at the reporting date because the estimated future cash receipts were similar to the book value.
- (iv) The fair value of long-term debts is estimated using the discounted cash flow method based on the Company and its subsidiaries' borrowing rates for similar types of borrowings.
- (v) The fair value of derivative financial instruments (normally including unrealized gains or losses from outstanding forward exchange contracts) is the amount that the Company and subsidiaries are entitled to receive or obligated to pay, assuming the Company and subsidiaries terminated contracts at reporting date.

MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS – (continued)

(2) Elimination entries between the Company and its subsidiaries

a. Elimination of the long-term investment accounts and the related equity balances:

<i>In thousand NTD</i>	As of and for the year ended December 31,			
	2004		2003	
	Debit	Credit	Debit	Credit
Common stock	11,950,000		11,850,000	
Additional paid-in capital	-		3,448	
Legal reserve	22,156		14,582	
Consolidated debits	176,009		-	
Minority interest income	9,776		-	
Gain from equity investment	274,780		-	
Long-term equity investments		11,379,858		11,491,008
Minority interest		719		-
Retained earnings		337,495		108,202
Cumulative translation adjustments		714,649		49,071
Loss from equity investment		-		219,749

b. Elimination inter-company transactions - sale revenue, cost of goods sold and so on:

Sales revenue	421,758	456,941
Sales returns and discounts	-	17,727
Cost of sales	47,461	368,006
Selling expense	270,119	29,239
Research and development expense	104,178	41,969

c. Elimination of reciprocal balance:

Payables to related parties	9,432	12,802
Deferred revenue	172,596	100,267
Receivables from related parties	9,432	12,802
Intangible assets	172,596	100,267

d. Elimination of reciprocal balance:

Dividends income	43,777	30,356
Amortization	6,995	5,019
Loss from equity investment	43,777	30,356
Consolidated debits	6,995	5,019

(3) Certain accounts in the consolidated financial statements of the Company and its subsidiaries as of December 31, 2003 have been reclassified to conform to the presentation of the current period.