

MEDIATEK INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2005 AND 2004

REPRESENTATION LETTER

The entities included in the combined financial statements of MediaTek Inc. as of and for the year ended December 31, 2005, which were prepared in conformity with the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliation Enterprises, are the same as the entities included in the consolidated financial statements prepared in conformity with the revised R.O.C. Statement of Financial Accounting Standards No.7 " Consolidated Financial Statement ". In addition, the information needed to be disclosed in the combined financial statements is included in the consolidated financial statements. Thus, MediaTek Inc. and Subsidiaries did not prepare a separate set of combined financial statements.

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

February 6, 2006

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

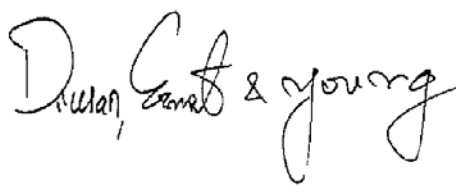
To the Board of Directors and Shareholders of
MediaTek Inc.

We have audited the consolidated balance sheets of MediaTek Inc. and subsidiaries as of December 31, 2005 and 2004, 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, 2005 and 2004, 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 6, 2006
Taipei, Taiwan
Republic of China

A handwritten signature in black ink that reads "Diwan, Ernst & Young". The signature is written in a cursive, flowing style. To the right of the signature is a vertical red line.

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. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2005 and 2004
(Amounts in thousand New Taiwan dollars)

ASSETS	Note	2005	2004	LIABILITIES AND SHAREHOLDERS' EQUITIES	Note	2005	2004
Current assets				Current liabilities			
Cash and cash equivalents	3, 5(1)	\$ 43,645,596	\$ 33,117,199	Notes and accounts payable		\$ 3,402,067	\$ 1,661,040
Short-term investments(net)	3, 5(2)	2,113,712	1,507,725	Payables to related parties	6	2,253,059	1,005,529
Notes and accounts receivable(net)	3, 5(3)	4,618,753	3,545,597	Income tax payable	3, 5(21)	913,252	568,704
Receivables from related parties	6(3)	10,448	36,882	Accrued expenses	8	3,629,217	1,425,300
Other receivables	3,5(4), 11	369,622	286,796	Payables to equipment suppliers		316,582	144,488
Inventories(net)	3,5(5)	3,662,766	3,269,229	Liabilities of disposal group	3, 4, 5(6)	451,632	-
Prepayments and other current assets		314,510	576,657	Long-term debts-current portion	5(9)	-	10,643
Assets of disposal group	3, 4, 5(6)	1,490,914	-	Other current liabilities		473,156	126,194
Deferred income tax assets-current(net)	3,5(21)	237,422	155,953	Total current liabilities		11,438,965	4,941,898
Restricted deposits-current	7	59,080	112,563				
Total current assets		56,522,823	42,608,601				
Long-term investments	3, 4, 5(7)			Long-term liabilities			
Long-term equity investments				Bonds payable	5(10)	921,672	-
Accounted for under equity method		51,730	635,795				
Accounted for under cost method		1,644,326	320,952				
Long-term bond investments		-	67,576				
Prepayment for investments		6,870	-	Other liabilities			
Total long-term investments		1,702,926	1,024,323	Accrued pension liabilities	3, 5(11)	23,633	74,064
				Guarantee deposit received		7,437	-
Property, plant and equipment				Deferred credits	2(3)	183,851	-
Land		310,838	-	Total other liabilities		214,921	74,064
Buildings and facilities	3, 5(8), 6, 7	1,003,003	739,276	Total liabilities		12,575,558	5,015,962
Machinery and equipment		168,037	82,914				
Research and development equipment		939,184	655,026				
Miscellaneous equipment		167,782	95,365				
Total cost		2,588,844	1,572,581	Equity attributable to shareholders of parent			
Less : Accumulated depreciation		(793,067)	(413,538)	Capital			
Add : Construction in progress		2,711,279	943,865	Common stock	5(12)	8,640,506	7,693,359
Prepayments for equipment		19,998	19,454	Capital reserve			
Property, plant and equipment(net)		4,527,054	2,122,362	Additional paid-in capital	5(14)	69,689	69,689
				Treasury stock transaction	5(14)	145,472	84,975
Intangible assets				Donated assets	5(14)	1,260	1,260
Software	3, 6	475,261	215,153	Long-term investment transaction	5(14)	47,115	-
Goodwill	2(3)	211,259	189,610	Total capital reserve		263,536	155,924
Patents and IPs	6, 7	2,135,113	917,415	Retained earnings			
Prepayments for patents and technical rights		-	105,711	Legal reserve	5(13), 5(16)	5,579,822	4,147,524
Total intangible assets		2,821,633	1,427,889	Special reserve	5(16)	714,649	49,071
				Undistributed earnings	5(16)	37,993,458	31,363,021
Other assets				Other			
Leased assets	3, 5(8), 6, 7	1,011,902	-	Cumulative translation adjustments	3	(391,751)	(714,649)
Refundable deposits	8	81,905	12,568	Treasury stock-cost	3, 5(17)	(55,970)	(55,970)
Deferred assets	3	2,805	365	Total equity attributable to shareholders of parent		52,744,250	42,638,280
Deferred income tax assets-noncurrent(net)	2, 5(21)	1,356,471	612,958				
Total other assets		2,453,083	625,891	Minority interest in subsidiaries		2,707,711	154,824
				Total shareholders' equities		55,451,961	42,793,104
Total assets		\$ 68,027,519	\$ 47,809,066	Total liabilities and shareholders' equities		\$ 68,027,519	\$ 47,809,066

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

Chairman : Ming-Kai Tsai

President: Jyh-Jer Cho

Chief Financial Officer : Ming-To Yu

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2005 and 2004

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

	Note	2005		2004	
Gross sales		\$	54,764,973	\$	42,383,416
Less : Sales returns and discounts	3, 5(19), 6		(1,962,213)		(1,836,204)
Net sales			52,802,760		40,547,212
Cost of goods sold	5(20)		(25,525,492)		(20,631,701)
Gross profits			27,277,268		19,915,511
Operating expenses	3, 5(20), 6,8,10				
Selling expenses			(920,150)		(250,942)
Administrative expenses			(1,953,952)		(1,085,465)
Research and development expenses			(7,228,769)		(3,644,503)
Total operating expenses			(10,102,871)		(4,980,910)
Operating income			17,174,397		14,934,601
Non-operating income					
Interest income			749,000		351,817
Gain on disposal of assets	3		9,868		-
Gain on disposal of investments	3		128,550		8,706
Gain on market price recovery of short-term investments	3		6,476		6,334
Reversal of bad debts	3		-		21,804
Reversal of inventory loss provision	3,5(5)		590,497		-
Reversal of accrued license fee	8(2)		419,056		-
Others			99,032		26,336
Total non-operating income			2,002,479		414,997
Non-operating expenses					
Interest expense			(19,207)		(63)
Net loss from equity investments	3, 5(6)		-		(358,848)
Other loss on long-term investments	3, 5(6)		(47,716)		(13,785)
Loss on disposal of assets	3		(6,186)		-
Foreign exchange loss(net)	3,10		(21,632)		(119,692)
Inventory loss provision	3, 5(5)		-		(411,850)
Others			(85,675)		(9,462)
Total non-operating expenses			(180,416)		(913,700)
Income before income tax			18,996,460		14,435,898
Income tax expense	3, 5(21)		(135,797)		(27,394)
Consolidated net income		\$	18,860,663	\$	14,408,504
Income Attributable to :					
Shareholders of parent		\$	18,273,633	\$	14,322,985
Minority interest			587,030		85,519
Consolidated net income		\$	18,860,663	\$	14,408,504
		Before income tax	After income tax	Before income tax	After income tax
Basic Earnings Per Share (in New Taiwan Dollars)	3,5(18)				
Consolidated net income		\$ 22.15	\$ 21.99	\$ 16.80	\$ 16.77
Net income attributable to minority interests	5(18)	(0.69)	(0.68)	(0.10)	(0.10)
Net income attributable to shareholders of parent	5(18)	\$ 21.46	\$ 21.31	\$ 16.70	\$ 16.67

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

Chairman : Ming-Kai Tsai

President : Jyh-Jer Cho

Chief Financial Officer : Ming-To Yu

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, 2005 and 2004
(Amounts in thousand New Taiwan dollars)

	Common stock	Capital reserve	Retained Earnings			Cumulative translation adjustments	Treasury stock	Total Shareholders' Equity Attributable to Shareholders of Parent	Minority Interests in subsidiaries	Total Shareholders' equities
			Legal reserve	Special reserve	Undistributed earnings					
Balance as of January 1, 2004	\$ 6,415,473	\$ 115,906	\$ 2,495,315	\$ -	\$ 27,113,421	\$ (49,071)	\$ (55,970)	\$ 36,035,074	\$ 45,710	\$ 36,080,784
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)	-	(44,462)
Employees bonus	157,471	-	-	-	(816,711)	-	-	(659,240)	-	(659,240)
Shareholders' dividends	1,154,785	-	-	-	(6,607,937)	-	-	(5,453,152)	-	(5,453,152)
Purchase of treasury stock	-	-	-	-	-	-	(935,705)	(935,705)	-	(935,705)
Cancellation of treasury stock	(34,370)	(311)	-	-	(901,024)	-	935,705	-	-	-
Net income attributable to parent company's shareholders for the year ended December 31, 2004	-	-	-	-	14,322,985	-	-	14,322,985	-	14,322,985
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	43,777	-	-	-	-	-	43,777	-	43,777
The effects of change in long-term equity investment due to change in investment percentage	-	(3,448)	-	-	(1,971)	-	-	(5,419)	-	(5,419)
Cumulative translation adjustments	-	-	-	-	-	(665,578)	-	(665,578)	-	(665,578)
Increase in minority interests	-	-	-	-	-	-	-	-	109,114	109,114
Balance as of December 31, 2004	7,693,359	155,924	4,147,524	49,071	31,363,021	(714,649)	(55,970)	42,638,280	154,824	42,793,104
Appropriation and distribution of 2004 earnings:										
Legal reserve	-	-	1,432,298	-	(1,432,298)	-	-	-	-	-
Special reserve	-	-	-	665,578	(665,578)	-	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(36,675)	-	-	(36,675)	-	(36,675)
Employees bonus	177,811	-	-	-	(1,045,951)	-	-	(868,140)	-	(868,140)
Shareholders' dividends	769,336	-	-	-	(8,462,694)	-	-	(7,693,358)	-	(7,693,358)
Net income attributable to parent company's shareholders for the year ended December 31, 2005	-	-	-	-	18,273,633	-	-	18,273,633	-	18,273,633
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	60,497	-	-	-	-	-	60,497	-	60,497
The effects of change in long-term equity investment due to change in investment percentage	-	47,115	-	-	-	-	-	47,115	-	47,115
Cumulative translation adjustments	-	-	-	-	-	322,898	-	322,898	-	322,898
Increase in minority interests	-	-	-	-	-	-	-	-	2,552,887	2,552,887
Balance as of December 31, 2005	\$ 8,640,506	\$ 263,536	\$ 5,579,822	\$ 714,649	\$ 37,993,458	\$ (391,751)	\$ (55,970)	\$ 52,744,250	\$ 2,707,711	\$ 55,451,961

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

Chairman : Ming-Kai Tsai

President : Jyh-Jer Cho

Chief Financial Officer : Ming-To Yu

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2005 and 2004
(Amounts in thousand New Taiwan dollars)

	2005	2004
Cash flows from operating activities :		
Consolidated net income	\$ 18,860,663	\$ 14,408,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	290,814	181,322
Amortization	934,775	247,516
Bad debt loss provision(reversal)	49,633	(21,804)
Inventory loss provision (reversal)	(590,497)	411,850
Gain on market price recovery of short-term investments	(6,476)	(6,334)
Net loss from equity investments	-	358,848
Other loss on long-term investments	47,716	13,785
Gain on disposal of investments	(128,550)	(8,706)
Interest income on disposal of long-term bond investments	(5,763)	-
Loss (gain) on disposal of property, plant and equipment	(3,682)	7,506
Loss on reacquisition of bonds (recorded under non-operating expenses)	2	-
Decrease (increase) in notes and accounts receivable	(1,127,075)	201,105
Decrease (increase) in receivables from related parties	26,434	(36,882)
Increase in other receivables	(82,826)	(25,825)
Decrease (increase) in inventories	196,960	(1,588,522)
Increase in net changes in deferred income tax assets	(824,982)	(506,178)
Decrease (increase) in prepayments and other current assets	262,147	(430,824)
Increase (decrease) in notes payable and accounts payable	1,741,027	(613,879)
Increase (decrease) in payables to related parties	1,247,530	(923,249)
Increase in income taxes payable	344,548	243,180
Increase in accrued expenses	2,203,917	88,088
Increase in other current liabilities	346,962	73,162
(Decrease) increase in accrued pension liabilities	(50,431)	19,745
Increase in reserve for redemption of debentures	14,024	-
Net cash provided by operating activities	23,746,870	12,092,408
Cash flows from investing activities :		
Decrease in restricted deposits	53,483	5,411
Decrease (increase) in short-term investments	(562,164)	219,480
Increase in disposal group	(1,039,282)	-
Increase in long-term investments	(1,502,631)	(1,062,164)
Disinvestment of long-term investment refundable	30,043	-
Proceeds from disposal of long-term investments	175,816	-
Proceeds from disposal of property, plant and equipment	14,464	11,327
Purchase of property, plant and equipment	(3,542,265)	(1,087,115)
Increase in patents and IPs (included deferred assets)	(2,069,566)	(1,297,261)
Increase in goodwill	(262,094)	(176,009)
Increase in refundable deposits	(69,337)	(4,835)
Proceeds from disposal of deferred assets	691	-
Net cash used in investing activities	(8,772,842)	(3,391,166)
Cash flows from financing activities :		
Decrease in long-term debts	(10,643)	(17,539)
Increase in bonds payable	908,797	-
Redemption of bonds	(1,149)	-
Increase in other liabilities	183,851	-
Increase in guarantee deposit received	7,437	-
Purchase of treasury stock	-	(935,705)
Cash dividends	(7,693,358)	(5,453,152)
Directors' and supervisors' remuneration	(36,675)	(44,462)
Employee bonus	(868,140)	(659,240)
Cash dividends distributed to subsidiaries holding the Company's stock	60,497	43,777
Increase in minority interest	2,051,766	18,176
Net cash used in financing activities	(5,397,617)	(7,048,145)
Effect of first inclusion for consolidation of certain subsidiaries	635,795	-
Effect of exchange rate changes	316,191	(657,616)
Net increase in cash and cash equivalents	10,528,397	995,481
Cash and cash equivalents at the beginning of the year	33,117,199	32,121,718
Cash and cash equivalents at the end of the year	\$ 43,645,596	\$ 33,117,199
Supplemental disclosures of cash flow information :		
Interest paid during theyear	\$ 5,401	\$ 63
Income tax paid during theyear	\$ 466,044	\$ 277,080
Activities partially effected cash flows :		
Purchase of property, plant and equipment	\$ 3,714,359	\$ 1,231,603
Less:increase in payables to equipment suppliers	(172,094)	(144,488)
Cash paid for the purchase of property, plant and equipment	\$ 3,542,265	\$ 1,087,115
Non-cash activities :		
Stock dividends and employee bonus capitalized	\$ 947,147	\$ 1,312,256
Long-term debts-current portion	\$ -	\$ 10,643
Cumulative translation adjustments	\$ 322,898	\$ (665,578)
Long-term equity investment adjustments	\$ 47,115	\$ (5,419)
Cancellation of treasury stock	\$ -	\$ (935,705)

The accompanying notes are an integral part to these financial statements

Chairman : Ming-Kai Tsai

President : Jyh-Jer Cho

Chief Financial Officer : Ming-To Yu

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

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

1. Organization and Operation

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

As of December 31, 2005 and 2004, the employees of the Company and subsidiaries totaled 2,333 and 1,235, respectively.

2. Principles of Consolidation

(1) General Descriptions of the Consolidated Entities

Effective on January 1, 2005, the Company adopted the revised R.O.C. Statement of Financial Accounting Standard (“SFAS”) No. 7 “Consolidated Financial Statements”. Based on SFAS No. 7, the Company consolidated the accounts of all directly and indirectly majority owned subsidiaries, and all the investees under substantial control of the Company; moreover, pursuant to the newly adopted standard, the Company did not retroactively restate its consolidated financial statements as of and for the year ended December 31, 2004. The consolidated entities include the Company and the following subsidiaries:

Company	Relations	Main Business	Percentage of Ownership		Note
			As of December 31,2005	As of December 31,2004	
MediaTek Investment Corp.	Affiliated company	General investing	100.00%	100.00%	-
Hsu-Ta Investment Limited	Affiliated company	General investing	100.00%	100.00%	-
Hsu-Chia Investment Limited	Affiliated company	General investing	100.00%	100.00%	-
Hsu-Kang Investment Limited	Affiliated company	General investing	100.00%	100.00%	-
Wiseali Technology Inc.	Affiliated company	IC design and sales	100.00%	99.00%	-
Core Tech Resources Inc.	Affiliated company	General investing	100.00%	100.00%	-
MediaTek Capital Corp.	Affiliated company	General investing	100.00%	100.00%	-
Gaintech Co. Limited	Affiliated company	General investing	100.00%	100.00%	-
Alpha Imaging Technology Corporation	Affiliated company	IC design and sales	50.00%	52.66%	-

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

Company	Relations	Main Business	Percentage of Ownership		Note
			As of December 31,2005	As of December 31,2004	
Pixtel Media Technology Private Ltd.	Affiliated company	Research and development	99.99%	99.99%	-
MediaTek Limited	Affiliated company	Trading and general investing	100.00%	100.00%	-
Wireless ICs, Inc.	Affiliated company	Research and development	100.00%	100.00%	-
CrystalMedia Technology, Inc.	Affiliated company	Research and development	100.00%	100.00%	-
MediaTek Singapore Pte. Ltd.	Affiliated company	Research and development	100.00%	100.00%	-
MediaTek Inc.China	Affiliated company	Research and development	100.00%	100.00%	-
MediaTek (ShenZhen) Inc.	Affiliated company	Research and development	100.00%	100.00%	-
Ali Corporation and it's consolidated subsidiaries	The Company has a direct or indirect control over the management of the personnel, financial or business operation of ALi Corporation and its consolidated subsidiaries	IC design and sales	25.17%	31.28%	Note

Note : As of December 31,2005, although the Company directly or indirectly owns less than 50% shares of ALi Corporation and its subsidiaries, but the Company has a direct or indirect control over the management of the personnel, financial or business operation of ALi Corporation and its consolidated subsidiaries; thus, all subsidiaries shall be included in the consolidated financial statements. The Company did not retroactively restate its consolidated financial statements as of and for the end December 31, 2004.

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

ALi Corporation and it's consolidated subsidiaries are as follow:

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

Note 1 : ALi Microelectronics Corporation, USA, ALinx Technology Corp., T-square Electronics (Beijing) and ALinx Technology (BVI) Corp. were owned 100% interest directly and indirectly by ALi Corporation. Except ALinx Technology (BVI) Corp. was completed liquidation process, the others have been still in process of liquidation as of December 31, 2005 and have not been included in the consolidated entities of the consolidated financial statements as of and for the year ended December 31, 2005. The income (loss) before liquidation had been consolidated in the consolidated financial statements. The description of these investee companies are referred to the Note 5(7).

Note 2 : ALi Corporation held the outstanding voting shares of the ULi Electronics Inc. (ULi) from 58.18% to 36.29% because ALi Corporation disposed the investee's voting shares, because and the investee issue new shares for the capitalization of shareholder's dividends, employees' bonus and employee stock options. The investee was regarded as a subsidiary because ALi Corporation held the majority. The legal representative of ALi Corporation was elected as the chairman and the chief executive officer separately.

MEDIATEK INC. AND SUBSIDIARIES

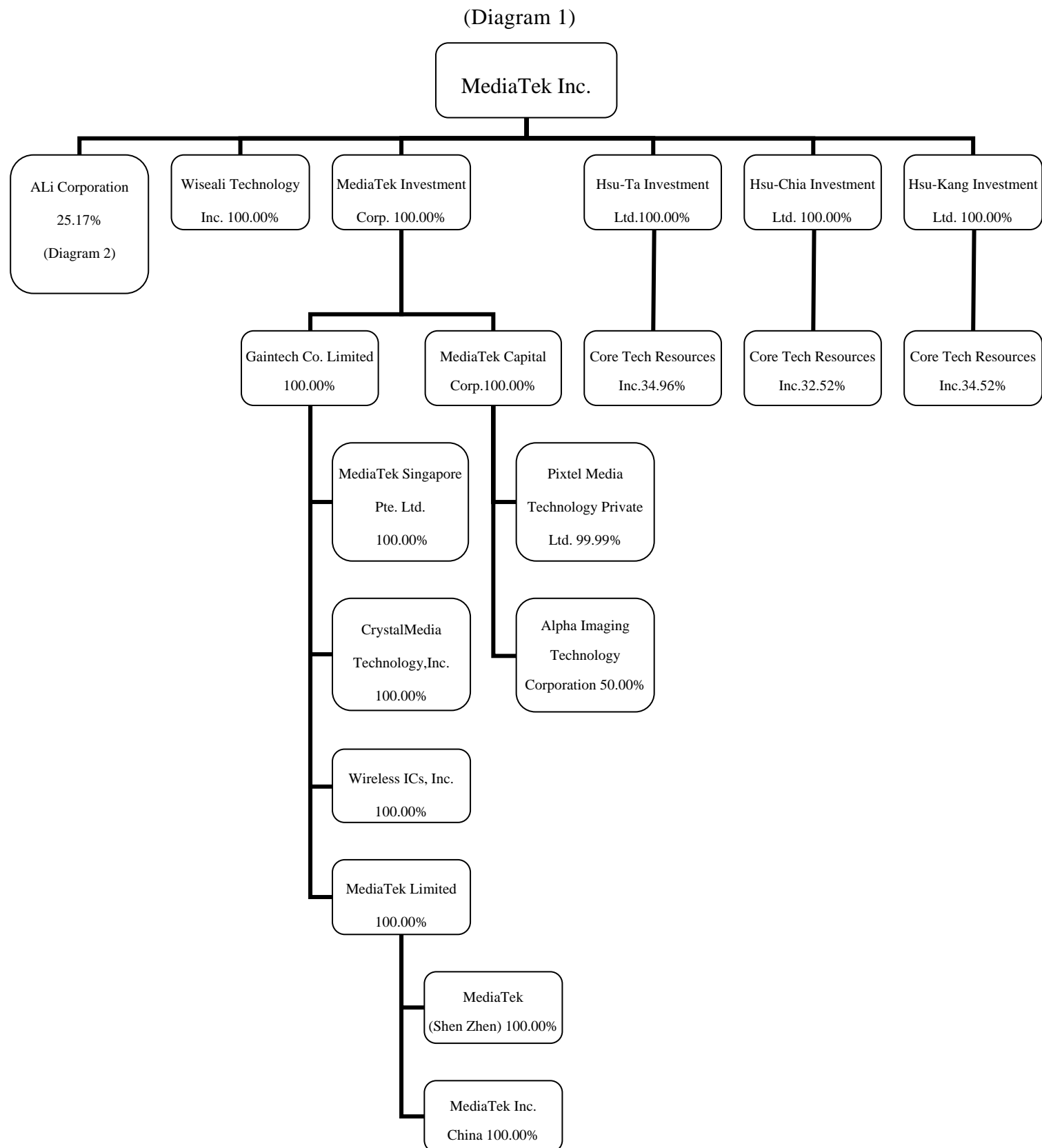
NOTES TO FINANCIAL STATEMENTS –(continued)

On December 14, 2004, the Board of Directors of ULi has agreed the merger with NVIDIA BVI Holdings Limited (“NVIDIA BVI.”). NVIDIA BVI planned to acquire 100% shares of the subsidiary at the price of \$19 per share. After the merger, the NVIDIA BVI is the active company and the subsidiary is the inactive company. This merger was resolved in the Board of Directors and shareholders’ meeting on January 6, 2006, and related assets and liabilities were reclassified to disposal group (including the investees held by ULi directly or indirectly) and were accounted for by the lower of cost or market (LCM) method. The profits and losses of ULi prior to the merger are all stated in the consolidated financial statements. As of February 6, 2006, the merger is in procedure.

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

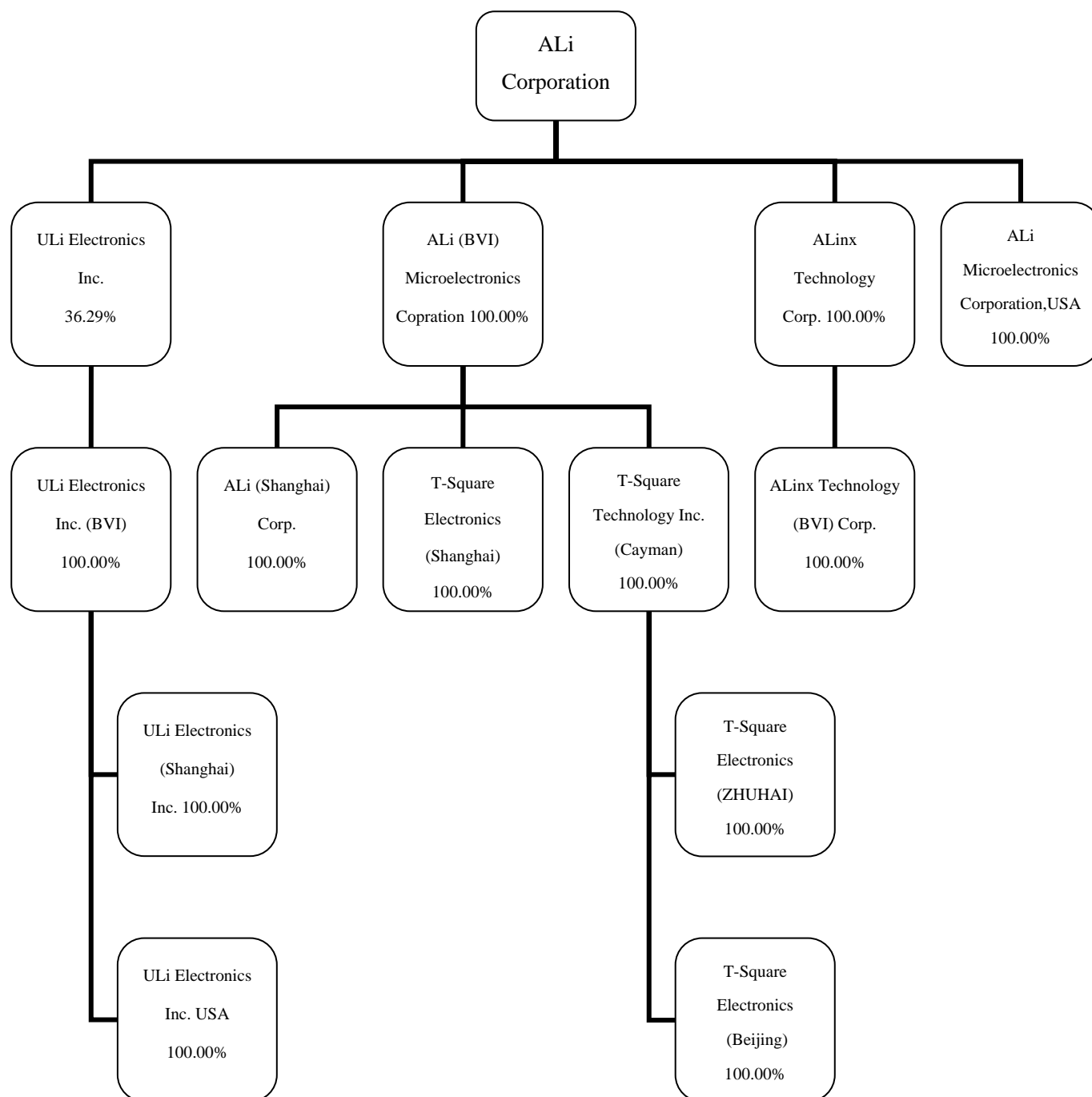
MEDIATEK INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS –(continued)

(2) The following diagram presented information regarding the relationship and ownership percentages among the Company and subsidiaries as of December 31, 2005:



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

(Diagram 2)



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

(3) Principles of Consolidation

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 statement.

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

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

The subsidiary is classified to disposal group if the parent company acquired the subsidiary with the intention to dispose of it, the subsidiary can be sold in accordance with normal terms and commercial custom, and the parent company has high possibility of willing to sell shares within one year. Disposal group is measured under the LCM method. The reserved gains or losses under this evaluation will be recognized. The related accounts of the disposal group shall be presented in the consolidated balance sheet separately from assets, liabilities or equities.

If the acquisition cost is greater or less than the proportionate book value of the investee, it is accounted for in accordance with the SFAS No.25 "Business Combinations." The additional goodwill and/or deferred credit is amortized based on the estimated economic lives and is reported in the operation expense or non-operating gains or losses.

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

3. Significant Accounting 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 affiliate maintains it in the local currency of each foreign subsidiary 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 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.

Long-term investments in foreign equity investee companies accounted for under cost method are translated into NT Dollars using the prevailing exchange rate at acquisition date or the rate at the balance sheet date, whichever is lower. Any difference is included in cumulative translation adjustment account.

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. No revenue is recognized when stock dividends are received. Instead, the number of shares increases and the cost per share is recalculated. 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 the 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 the 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's operating and financial policies 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 unproportionate 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 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. If an investee company subsequently reports net income, and investor company shall resume applying the equity method only after its shares of that net income equals the share of net losses not recognized during the period the equity method was suspended.

In accordance with the R.O.C. SFAS No. 7, consolidated financial statements are prepared if the Company owns more than 50% of the equity investee's shares. However, the financial statements of any subsidiary in which the total assets and total revenues for the current year are less than 10% of those of the Company are not included in the consolidated financial statements. If the sum of the total assets or total revenues of all unconsolidated subsidiaries exceeds 30% of the Company's assets or revenues, each unconsolidated subsidiary with or over 3% of assets or revenues of the Company should be consolidated.

In accordance with the R.O.C. SFAS No. 7 amended since January 1, 2005, consolidated financial statements are required for the Company and its investees, whether the Company directly or indirectly owns more than 50% of the investee's shares or exercises control.

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. Significant additions, renewals and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed in the year incurred. Interest expense from borrowing specifically for a project during the purchase and construction period is also capitalized. 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. Property, plant and equipment for lease are reclassified to leased assets on book value. Depreciation is computed on a straight-line basis over the useful lives.

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

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 15 years
Leased assets	50 years

Intangible Assets

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

Software (Design software)	3 years
Patents and IPs	3 years

Deferred Assets

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

Asset Impairment

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

Convertible Bonds

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

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

- (2) When bondholders exercise their conversion rights, the book value of convertible bonds is credited to common stock at an amount equal to the par value of the common stock and the excess is credited to capital reserve. No gain or loss shall be recognized on bond conversion.
- (3) The cost of issuing convertible bonds is recorded as deferred charges and amortized over the period from the issuance date of the convertible bonds to the expiry date of the put option.

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 criteria, the expenditure is capitalized, while the others are expensed as incurred.

Revenue Recognition

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

Warranty Cost

For the sale of some products with warranty, warranty cost shall be estimated and recorded as the revenue from sale of the related products incurred.

Employee Retirement Benefits

- (1) In accordance with the Labor Standards Law (the "Law") of the R.O.C., the Company, ALi Corporation, ULi Electronics Inc. and Alpha Imaging Technology Corporation make monthly contributions based on certain percentage of the wages and salaries paid to a pension fund maintained with the Central Trust of China. The fund is administered by the Employees' Retirement Fund Committee and deposited in the committee's name. Therefore, the pension fund is not included in the financial statements of the Company and its subsidiaries mentioned above.
- (2) 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.

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

- (3) The Company, ALi Corporation, ULi Electronics Inc. and Alpha Imaging Technology Corporation have a defined benefit pension plan covering substantially all of its employees and adopt the R.O.C. SFAS No. 18, "Accounting for Pensions." The minimum pension liability was recorded for the excess of accumulated pension obligations over the fair value of plan assets. Net transition assets or obligations from the plan assets are amortized using the straight-line method over the employees' expected average remaining service period of 15 to 23 years. For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts.
- (4) The Company's foreign subsidiaries having a defined contribution pension plan make monthly contributions to pension funds in accordance with the native law. The monthly amount to be contributed is recorded as an expense at the respective months incurred.

Income Tax

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.

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.

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

Employee Stock Option Plan

Effective January 1, 2004, the Company and its subsidiaries adopted intrinsic value method for its compensating employees' stock option plans. Under the method, the excess of the market price over exercise price at the plan date is adjusted under shareholders' equity and expensed over grantee's service periods. Disclosure of pro forma information for net income and earnings per share using fair value method is required.

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

Financial instruments-hedging purpose

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

Earnings Per Share

In accordance with the R.O.C. SFAS 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. SFAS No. 30, “Accounting for Treasury Stock.” Cash dividends distributed to the Company’s subsidiaries are deducted from investment income and credited to capital reserves-treasury stock transaction.

In accordance with the R.O.C. SFAS 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.

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

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

4. Reasons and Effects for Change in Accounting Principles

- (1) Effective on January 1, 2005, the Company adopted accounting treatment for assets defined under the R.O.C. SFAS No.35, "Accounting for Assets Impairment." Restatements to prior period's financial statements caused by the Statement is not allowed. There are no significant impacts on the Company and its subsidiaries' total assets as of December 31, 2005, and net income and earnings per share for the year then ended.
- (2) Effective on January 1, 2005, the accounting principles of disposal group are treated in accordance with the amended R.O.C. SFAS No. 7 "Consolidated Financial Statements." The subsidiaries that are of high possibility to be disposed of within one year are stated the disposal group by the use of the LCM method. The reversed gains or market value decline losses under this evaluation will be recognized. To this accounting change, there is no significant effect on the consolidated income, earnings per share after tax for the year ended December 31, 2005, and the consolidated assets as of December 31, 2005.

5. Contents of Significant Accounts

(1) Cash and Cash Equivalents

<i>In thousand NTD</i>	As of December 31,	
	2005	2004
Petty cash	\$640	\$92
Saving and checking accounts	5,855,754	7,534,786
Time deposits	21,310,187	20,383,479
Cash equivalents- CP-Repo and bonds-Repo	16,479,015	5,198,842
Total	<u>\$43,645,596</u>	<u>\$33,117,199</u>

As of December 31, 2005, the Company and its subsidiaries have committed to sell the bonds-Repo back to the brokers during the three month period ended March 31, 2006.

Cash and cash equivalents were not pledged as of December 31, 2005.

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

(2) Short-term Investments-Net

<i>In thousand NTD</i>	As of December 31,			
	2005		2004	
	Cost	Market Value	Cost	Market Value
Mutual fund	\$1,815,513	\$1,839,435	\$544,641	\$549,758
Stocks	32,754	28,861	542	539
Short-term notes and bonds	265,478	265,541	651,422	644,240
Credit-linked structured deposits	-	-	317,575	318,186
Subtotal	2,113,745	2,133,837	1,514,180	1,512,723
Less: Allowance for market value decline	(33)	-	(6,455)	-
Net	<u>\$2,113,712</u>	<u>\$2,133,837</u>	<u>\$1,507,725</u>	<u>\$1,512,723</u>

Short-term investments were not pledged as of December 31, 2005. Also, please refer to the Note 11 for risk disclosure of credit-linked structured deposits.

(3) Notes and Accounts Receivable-Net

<i>In thousand NTD</i>	As of December 31,	
	2005	2004
Notes receivable	\$1,416	\$-
Accounts receivable	4,861,680	3,744,593
Subtotal	4,863,096	3,744,593
Less: Allowance for doubtful accounts	(243,708)	(198,996)
Allowance for sales returns and discounts	(635)	-
Net	<u>\$4,618,753</u>	<u>\$3,545,597</u>

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

(4) Other Receivables

<i>In thousand NTD</i>	As of December 31,	
	2005	2004
Forward exchange contracts receivable- net	\$52,016	\$86,764
Interest receivable	104,484	38,663
VAT refundable	195,416	159,311
Others	17,706	2,058
Total	<u>\$369,622</u>	<u>\$286,796</u>

(5) Inventories-Net

<i>In thousand NTD</i>	As of December 31,	
	2005	2004
Raw materials	\$134,534	\$1,082
Work in process	2,419,889	1,896,059
Finished goods	1,451,353	1,733,912
Inventories in transit	85,778	127,327
Subtotal	4,091,554	3,758,380
Less: Allowance for inventory obsolescence	(428,788)	(489,151)
Net	<u>\$3,662,766</u>	<u>\$3,269,229</u>

a. The insurance coverage for inventories amounted to NT\$303,000 thousand and NT\$300,000 thousand as of December 31, 2005 and 2004, 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, 2005.

(6) Disposal group

The disposal group included ULi Electronics Inc., ULi Electronics Inc. (BVI), ULi Electronics Inc. USA and ULi Electronics Inc.(Shanghai) Inc, please refer to Note 2(1). The details are as follows:

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

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

(7) Long-term Investments

a.	As of December 31, 2005				
Investee Companies	Types	Shares/ units	Amounts (NT\$ '000)	Ownership (%)	Accounting Method
<u>Equity investments-equity method</u>					
ALi Microelectronics Corporation, USA	Common share	3,600,000	\$-	100.00%	Equity
ALinx Technology Corp.	Common share	15,089,000	40,533	100.00%	Equity
T-square Electronics (Beijing)	Capital	-	11,197	100.00%	Equity
Subtotal			51,730		
<u>Equity investments-cost method</u>					
Yuantonix, Inc.	Common share	1,500,000	15,000	5.18%	Cost
Browave Corporation	Common share	940,000	13,922	1.14%	Cost
Communication V.C. Corp.	Common share	8,000,000	73,049	14.41%	Cost
Legend Tech. V.C. Inc. Corp.	Common share	3,500,000	42,681	6.33%	Cost
Pixart Imaging Inc.	Common share	5,127,632	69,533	6.77%	Cost
Inprocomm Inc.	Common share	1,080,000	-	14.81%	Cost
Tenor Electronics Corporation	Common share	3,000,000	30,000	15.00%	Cost
VIA Optical Solution, Inc.	Common share	77	1	-	Cost
VIA Networking Technologies, Inc.	Common share	4	-	-	Cost
Taifatech Inc.	Common share	2,000,000	40,000	11.76%	Cost
Andes Technologies, Inc.	Common share	8,000,000	100,000	12.70%	Cost
Araftek Inc.	Preferred share	1,100,000	1,620	6.42%	Cost
IPC	Preferred share	2,400,000	11,850	13.83%	Cost

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

As of December 31, 2005					
Investee Companies	Types	Shares/ units	Amounts (NT\$ '000)	Ownership (%)	Accounting Method
Sino Photonics Venture Holding, Ltd.	Common share	1,200,000	39,419	9.88%	Cost
VenGlobal International Fund	Common share	1,000	21,179	5.66%	Cost
V Web Corp.	Preferred share	1,500,000	1,639	4.59%	Cost
	and				
	Common share				
WI Harper Inc Fund VI Ltd.	Preferred share	32,970	98,550	13.39%	Cost
	and				
	Common share				
Prosperity V.C. Corp.	Common share	5,000,000	50,000	6.10%	Cost
Richwave Technology Corp.	Common share	3,800,000	25,264	14.25%	Cost
EE Solutions Inc.	Common share	650,000	9,300	2.43%	Cost
DivX Networks, Inc.	Common share	430,441	1,319	0.76%	Cost
Chinatrust Financial Holding Co. Ltd	Series B preferred stock	25,000,000	1,000,000	-	Cost
Subtotal			1,644,326		
<u>Prepayment for investments</u>					
JAFCO			6,870		
Total			\$1,702,926		

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 V.C. Corp.	Common share	8,000,000	73,049	14.41%	Cost
Legend Tech. V.C. Inc. Corp.	Common share	5,000,000	57,681	6.33%	Cost
Pixart Imaging Inc.	Common share	4,458,811	69,533	7.17%	Cost

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

As of December 31, 2004					
Investee Companies	Types	Shares/units	Amounts (NT\$ '000)	Ownership (%)	Accounting Method
Inprocomm Inc.	Common share	2,400,000		14.81%	Cost
VIA Optical Solution, Inc.	Common share	77		-	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>					
ETI	Convertible bonds	236	67,576	-	Cost
Total			\$1,024,323		

b. For the years ended December 31, 2005 and 2004, investment loss accounted for under equity method amounted to NT\$0 thousand and NT\$358,848 thousand, respectively.

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

(a) Duration: 7 years.

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

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

(d) Dividends:

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

(e) Redemption at maturity:

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS –(continued)

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

- d. ALi Microelectronics Corporation, USA ("ALi-USA") was resolved to be dissolved in the shareholders' annual general meeting, and ALi Corporation stopped valuing it at the equity method. As of December 31, 2005, the liquidation process has not been completed. However, ALi-USA has refunded the investment in the amount of NT\$18,837 thousand. ALi Corporation recognized the liquidated gain in the amount of NT\$1,775 thousand, which was recorded under subtrahend of other loss on long-term investments.
- e. ALinx Technology Corp. started to liquidate in October 2005 and Ali Corporation stopped valuing at the equity method. As of December 31, 2005, it has not completed the liquidation process.
- f. T-square Electronics (Beijing) Corp. started to liquidate in May 2005, and T-square Technology Inc. (Cayman) stopped valuing at the equity method. As of December 31, 2005, T-square Electronics (Beijing) Corp. has not completed the liquidation process, but T-square Technology Inc. (Cayman) has recognized the liquidated loss in the amount of NT\$618 thousand recorded under other loss on long-term investments.
- g. The original investment cost amounted to NT\$42,222 thousand and US\$1,000 thousand in Richwave Technology Incorporation and DivX Networks, Inc. respectively. Due to loss of those investee continuously, the Company and its subsidiaries recognized impairment loss in amount of NT\$16,958 thousand and NT\$31,915 thousand recorded under other loss on long-term investments, respectively.
- h. For the year ended December 31, 2004, the subsidiary-MediaTek Capital recognized the investment loss in the amount of NT\$13,785 thousand for the permanent diminution of value in the investment of Inprocomm Inc., and recorded it under other loss on long-term investments.
- i. Long-term investments were not pledged as of December 31, 2005.

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

- j. ALi Microelectronics Corporation, USA, ALinx Technology Corp. and T-square Electronics (Beijing) Corp. were owned 100% interest directly and indirectly by ALi Corporation. These subsidiaries have been still in process of liquidation and have not been included in the consolidated entities of the consolidated financial statements.

(8) Property, Plant, Equipment and Leased Assets

- a. The insurance coverage for property, plant, equipment and leased assets amounted to NT\$2,388,132 thousand and NT\$1,407,896 thousand as of December 31, 2005 and 2004, respectively.
- b. No interest was capitalized for the years ended December 31, 2005 and 2004, respectively.
- c. Please refer to the Note 7 for property, plant, equipment and leased assets pledged as collaterals.
- d. Leased assets of the Company's subsidiaries as of December 31, 2005 were as follows:

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

(9) 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)	<u>As of December 31,</u>		Repayment
		2005 (NT\$'000)	2004 (NT\$'000)	
Third project	24,000	\$-	\$10,643	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, 2004, each of NT\$2,661 thousand.
Total long-term debts		-	10,643	
Less: Current portion		-	(10,643)	
Total		<u><u>\$-</u></u>	<u><u>\$-</u></u>	

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

(10) Convertible Bonds

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

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

- a. Total amount: NT\$900,000 thousand
- b. Coupon interest rate: 0%
- c. Duration: 5 years (from November 13, 2002 to November 12, 2007)
- d. Security:

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

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

The bonds are redeemable at 104.568% and 107.728 % of par at the option of the bondholders, in whole or in part, on November 13, 2005 and November 12, 2007, respectively.
- g. Conversion period/Conversion price and adjustment:
 - (a) Conversion period: From February 13, 2003 to November 3, 2007.

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

(b) Conversion price and adjustment:

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

(c) Reset conversion price:

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

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

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

(11) Accrued Pension Liabilities

a. Defined Benefit Pension Plan

(a) The pension fund amounted to NT\$130,245 thousand (not included disposal subsidiary-ULi Electronics Inc.) and NT\$31,436 thousand as of December 31, 2005 and 2004, respectively.

(b) The components of net pension cost:

<i>In thousand NTD</i>	For the year ended December 31,	
	2005	2004
Service cost	\$22,139	\$18,667
Interest cost	6,742	1,913
Expected return on plan assets	(2,723)	(748)
Amortization	(1,175)	(86)
Over (reversal) statement	(25,344)	10,078
Other	920	-
Net pension cost	\$559	\$29,824

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

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

<i>In thousand NTD</i>	As of December 31,	
	2005	2004
Benefit obligations		
Vested benefit obligation	\$(142)	\$-
Non-vested benefit obligation	(70,138)	(42,505)
Accumulated benefit obligation	(70,280)	(42,505)
Effect of projected future salary increase	(103,617)	(49,997)
Projected benefit obligation	(173,897)	(92,502)
Fair value of plan assets	130,245	31,436
Funded status of pension plan	(43,652)	(61,066)
Unrecognized net transitional obligation	3,077	1,148
Unrecognized loss	17,173	10,393
Over-accrual	(231)	(24,539)
Accrued pension liabilities	\$(23,633)	\$(74,064)

(d) The vested benefit of the Company and its subsidiaries amounted to NT\$215 thousand (not included disposal subsidiary-ULi Electronics Inc.) and NT\$0 thousand for the years ended December 31, 2005 and 2004, respectively.

The underlying actuarial assumptions:

	For the year ended December 31,	
	2005	2004
Discount rate	3.5%	3.5%
Rate of increase in future compensation levels	3.0%~5.0%	3.5%
Expected long-term rate of return on plan assets	3.0%~3.5%	3.5%

b. Defined Contribution Pension Plan

The Company and its subsidiaries adopting defined contribution pension plans and making contribution to pension funds in accordance with the native law, pension expenses amounted to NT\$50,194 thousand and NT\$2,334 thousand for the years ended December 31, 2005 and 2004, respectively.

(12) Common Stock

As of January 1, 2004, the authorized and issued common shares of the Company amounted to NT\$8,960,000 thousand and NT\$6,415,473 thousand, divided into 896,000,000 shares and 641,547,256 shares, respectively, each share at par value of NT\$10.

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

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 measurement date on the approval from the Company's board of directors meeting was on August 5, 2004. 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 on September 29, 2004. The cancellation of shares has been successfully updated to government.

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

As of December 31, 2005, 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 (including 20,000,000 shares reserved for exercise of employee stock options.) shares and 864,050,580 shares, respectively, each share at par value of NT\$10.

(13) Legal Reserve

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

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

(14) Capital Reserve

<i>In thousand NTD</i>	As of December 31,	
	2005	2004
Additional paid-in capital	\$69,689	\$69,689
Treasury stock transaction	145,472	84,975
Donated assets	1,260	1,260
Long-term Investments	47,115	-
Total	<u>\$263,536</u>	<u>\$155,924</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, 2005 and 2004, the cash dividends of NT\$60,497 thousand and NT\$43,777 thousand, respectively, distributed to the Company's subsidiary were credited to the Company's capital reserve account in accordance with the R.O.C. SFAS No. 30, "Accounting for Treasury Stock."

(15) Employee Stock Option Plans

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

Plan	Approve date by board of directors meeting /SFB	Grant Dates	Units Granted		Exercisable Period	Restrict Period	Exercise Price	Adjusted Exercise Price
<u>ALi Corporation</u>								
Second Employee stock option plan in 2001	2001.12.04	2002.04.01	4,245	Note1	2002.04.01~ 2006.04.01	2002.04.01~ 2004.03.31	74.5	52.9
First Employee stock option plan in 2002	2002.04.16	2002.04.17	2,605	Note1	2002.04.17~ 2006.04.17	2002.04.17~ 2004.04.16	77.0	54.6
First Employee stock option plan in 2003	2003.12.31	2004.05.20	1,616	Note1	2004.05.20~ 2008.05.20	2004.05.20~ 2006.05.19	19.6	17.7
First Employee stock option plan in 2004	2004.11.26	2005.03.24	5,670	Note1	2005.03.24~ 2008.003.24	2005.03.24~ 2007.03.23	22.15	20.5

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

Plan	Approve date by board of directors meeting /SFB	Grant Dates	Units Granted		Exercisable Period	Restrict Period	Exercise Price	Adjusted Exercise Price
<hr/>								
<u>Alpha Imaging Technology Corp.</u>								
First Employee stock option plan in 2004	2004.05.31	2004.05.31	474,000	Note2	-	-	12	-
Second Employee stock option plan in 2004	2004.12.20	2004.12.20	212,000	Note2	-	-	12	-
First Employee stock option plan in 2005	2005.06.10	2005.06.10	144,000	Note2	-	-	12	-

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

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

For the year ended December 31, 2005, additional 3,610,000 common shares of ALi Corporation were issued for employee stock options exercised. The accumulative common shares of ALi Corporation issued for this purpose were 6,896,000 shares as of December 31, 2005. Also, additional 144,000 common shares and 686,000 common shares of Alpha Imaging Technology Corp. were issued for its employee stock options exercised for the years ended December 31, 2005 and 2004, respectively and deliver 830,000 shares of common stock.

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

Alpha Imaging Technology Corp. has adopted the intrinsic value method. The compensation expense incurred was NT\$8,784 thousand and NT\$1,272 thousand for the years ended December 31, 2005 and 2004, respectively. As of December 31, 2005, all employees’ stock options have been executed and therefore, no outstanding employees’ stock options were outstanding.

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

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

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

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

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

	For the year ended December 31,			
	2005		2004	
	Units (in thousands)	Weighted average exercise price(NT\$)	Units (in thousands)	Weighted average exercise price(NT\$)
Outstanding at beginning of year	-	\$-	-	\$-
Granted units	144	12	686	12
Exercised units	(144)	12	(686)	12
Revoked units	-	-	-	-
Forfeited units	-	-	-	-
Outstanding at end of year	-	-	-	-
Exercisable at end of year	-	-	-	-
Weighted average fair value of options granted during the year	\$61.80		\$6.80	

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

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

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

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

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

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

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

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

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

		For the year ended December 31,	
		2005	2004
Consolidated net income attributable to parent company's shareholders	Net income	\$18,273,633	\$14,322,985
	Pro forma net income	18,270,058	14,321,604
Basic EPS	Earnings per share	21.31	16.67
	Pro forma earnings per share	21.31	16.67
Consolidated net income attributable to minority interests	Net income	587,030	85,519
	Pro forma net income	577,723	84,355
Basic EPS	Earnings per share	0.68	0.10
	Pro forma earnings per share	0.67	0.10

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS –(continued)

(16) Earnings Distribution

Net income for the year ended December 31, 2004 may be appropriated or distributed in the following sequences:

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income;
- (d) Reserve or reverse for special reserve in compliance with the Company Law or the Securities and Exchange Law;
- (e) Remuneration for directors and supervisors to a maximum of 0.5% of the remaining of (a) through (d), while remuneration for directors and supervisors' services is limited to cash payments.
- (f) The remaining balance after all the above appropriations and distributions, combining with inappropriate earnings from prior years, shall be fully for shareholders' dividends and 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 and employee bonuses may be distributed in the form of shares or cash, or both, and 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. Remuneration for directors and supervisors is limited to cash.

The Company's articles of incorporation, revised on June 13, 2005, provided that the net appropriation earnings for 2005 are consistent with the above appropriation of earning for 2004, while 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 to shareholders.

According to the regulations of the SFB, 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.

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

(17) Treasury Stock

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

Treasury stock transactions for the year ended December 31, 2005 : None

Treasury stock transactions for the year ended December 31, 2004:

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

a. 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.

b. 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.

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

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

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	924,044 (Note)	\$-	6,049,700	\$55,970	\$1,280,177

(Note) Stock dividend received.

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

Cash dividends distributed to the Company's subsidiaries are deducted from investment income account and credited to capital reserves-treasury stock transaction. Please refer to note 5(14).

(18) Earnings Per Share

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

Contents	For the year ended December 31,	
	2005	2004
Weighted average shares outstanding, ending	857,395,910	859,105,979
(Less the Company's share owned by its subsidiary)		

For the year ended December 31, 2005:	Amount (numerator)		Shares (Denominator)	Earning per share	
	Before tax	After tax		Before tax	After tax
Consolidated net income attributable to parent company's shareholders					
Basic EPS	\$18,400,854	\$18,273,633	857,395,910	\$21.46	\$21.31

Consolidated net income attributable to minority interests					
Basic EPS	\$595,606	\$587,030	857,395,910	\$0.69	\$0.68

For the year ended December 31, 2004:	Amount (numerator)		Shares (Denominator)	Earning per share	
	Before tax	After tax		Before tax	After tax
Consolidated net income attributable to parent company's shareholders					
Basic EPS	\$14,350,37	\$14,322,985	859,105,979	\$16.70	\$16.67

Consolidated net income attributable to minority interests					
Basic EPS	\$85,51	\$85,519	859,105,979	\$0.10	\$0.10

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

(19) Sales Revenues-Net

<i>In thousand NTD</i>	For the year ended December 31,	
	2005	2004
Revenues from sales of chipsets	\$54,301,326	\$41,430,230
Others	463,647	953,186
Subtotal	54,764,973	42,383,416
Less: Sales returns and sales discount	(1,962,213)	(1,836,204)
Net sales	<u>\$52,802,760</u>	<u>\$40,547,212</u>

(20) Personnel, Deprecation and Amortization Expenses

<i>In thousand NTD</i>	For the year ended December 31,					
	2005			2004		
	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	\$87,055	\$2,606,186	\$2,693,241	\$47,002	\$1,258,264	\$1,305,266
Insurance expense	4,273	101,161	105,434	2,166	46,594	48,760
Pension expense	3,338	47,415	50,753	1,322	30,836	32,158
Other	1,146	34,885	36,031	332	18,173	18,505
Total	<u>\$95,812</u>	<u>\$2,789,647</u>	<u>\$2,885,459</u>	<u>\$50,822</u>	<u>\$1,353,867</u>	<u>\$1,404,689</u>
Depreciation	<u>\$15,668</u>	<u>\$275,146</u>	<u>\$290,814</u>	<u>\$19,435</u>	<u>\$161,887</u>	<u>\$181,322</u>
Amortization (Remark)	<u>\$1,017</u>	<u>\$933,758</u>	<u>\$934,775</u>	<u>\$150</u>	<u>\$247,366</u>	<u>\$247,516</u>

Remark: The amount includes amortization recorded under non-operating expenses and amortization of technical rights.

(21) 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS –(continued)

- 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 period to be from January 1, 2002 through December 31, 2006, January 1, 2003 through December 31, 2007, January 1, 2004 through December 31, 2008, and January 1, 2005 through December 31, 2009.
- c. The Company and its subsidiaries have filed respective business income tax return separately. There is no allowance for combining their filings into one.
- d. 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 had made half of the requested tax payment and filed an administrative appeal to the Ministry of Finance “MOF”. The administrative appeal was rejected in December 2004, and the Company filed an administrative appeal to the tax authorities in March 2005 again. The Company has recorded the additional tax as an expense.
- e. The Company’s income tax returns for the years 2000 and 2001 have been assessed and approved by the tax authorities in November 2004 and in March 2005, respectively. The Company should pay additional income tax of NT\$142,862 thousand and NT\$207,598 thousand, respectively. The Company has recorded the additional tax as an expense and also has filed a recheck reinvestigation to the tax authorities in December 2004 and in May 2005, respectively.
- f. The Company’s income tax returns for the year 2002 has been assessed and approved by the tax authorities in December 2005. The Company should pay additional income tax of NT\$899,276 thousand. However, because the different viewpoints of the calculation for tax income and of the related adopted regulation with Taxation Agency, the Company has filed for a revised result which has been assessed and approved to the tax authorities. The Company has recorded the additional tax of NT\$449,638 thousand as an expense.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS –(continued)

- g. According to the R.O.C. Income Tax Law, net operating loss can be carried forward for 5 years. As of December 31, 2005, the unutilized accumulated loss carry forwards of domestic subsidiaries were as follows:

Year incurred	Total credit amount (NT\$'000)	Unused amount (NT\$'000)	Year expired
2003	\$30,479	\$30,479	2008
2004	392,770	392,770	2009
	<u>\$423,249</u>	<u>\$423,249</u>	

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

- h. As of December 31, 2005, CrystalMedia Technology, Inc. (USA) had a net operating loss of approximately USD398 thousand and USD287 thousand to be carried over to offset future income for Federal and California income tax purposes.

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

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

Year incurred	Nature of Expenditures	Total credit amount (NT\$'000)	Unused amount (NT\$'000)	Year expired
2002	R&D	282,868	211,570	2006
2002	Human development	938	938	2006
2002	Investment in important technology-based enterprises	28,000	28,000	2006
2003	R&D	1,176,868	403,877	2007
2003	Human development	1,637	861	2007
2004	R&D	1,401,404	1,401,404	2008
2004	Human development	2,061	2,061	2008
2004	Investment in important technology-based enterprises	13,160	8,046	2008
2005(Estimate)	R&D	1,484,337	1,484,338	2009
2005(Estimate)	Human development	1,168	1,168	2009
	Total	<u>\$4,392,441</u>	<u>\$3,542,263</u>	

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

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

j.

(a) Deferred income tax assets (liabilities) (<i>In thousand NTD</i>)	As of December 31, 2005	
Total deferred income tax liabilities	\$(36,224)	
Total deferred income tax assets	\$4,284,039	
Valuation allowance for deferred income tax assets	\$2,653,922	
(b) Temporary differences that generated from deferred income tax assets (liabilities) (<i>In thousand NTD</i>)	As of December 31, 2005	
The Company and domestic subsidiary	Amount	Tax effect
Deductible temporary difference-Recognition of unrealized accrued expenses	\$14,674	\$52
Deductible temporary difference-Recognition of unrealized allowance for inventory obsolescence	\$428,788	\$67,756
Deductible temporary difference-Unrealized allowance for doubtful accounts	\$200,792	\$717
Deductible temporary difference-Unrealized technology license fee	\$1,806,750	\$6,454
Taxable temporary difference-Unrealized foreign exchange gain	\$(42,439)	\$(4,358)
Deductible temporary difference-Unrealized long-term investment loss	\$693,420	\$173,355
Deductible temporary difference-Unrealized sales discounts	\$328,393	\$82,098
Deductible temporary difference-Allowance for sales returns and discounts	\$635	\$159
Taxable temporary difference-cumulative translation adjustments	\$(47,648)	\$(11,912)
Taxable temporary difference-Unrealized pension expense	\$(34,202)	\$(8,551)
Deductible temporary difference-Recognition of unrealized pension expenses	\$319	\$80
Deductible temporary difference-Unrealized patents and computer software cost	\$316,990	\$79,248
Deductible temporary difference-others	\$807,062	\$201,766
Loss carry forwards	\$423,249	\$105,812
Investment tax credits		\$3,542,263

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

The foreign subsidiary

R&D Investment tax credits	\$22,514
Loss carry forwards	\$413
Deductible temporary difference-others	\$1,352
Taxable temporary difference-others	\$(11,403)

(c)

<i>In thousand NTD</i>	<u>As of December 31, 2005</u>
Deferred income tax assets-current	\$580,245
Valuation allowance for deferred income tax assets-current	(338,465)
Net deferred income tax assets-current	241,780
Deferred income tax liabilities-current	(4,358)
Net deferred income tax assets and liabilities-current	\$237,422

(d)

<i>In thousand NTD</i>	<u>As of December 31, 2005</u>
Deferred income tax assets-noncurrent	\$3,703,794
Valuation allowance for deferred income tax assets-noncurrent	(2,315,457)
Net deferred income tax assets-noncurrent	1,388,337
Deferred income tax liabilities-noncurrent	(31,866)
Net deferred income tax assets and liabilities-noncurrent	\$1,356,471

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

<i>In thousand NTD</i>	<u>For the year ended December 31, 2005</u>
Income tax payable	\$113,721
10% tax on undistributed earnings	151,227
Investment tax credits	(132,474)
Deferred income tax effects	
Investment tax credits	(1,998,352)
Valuation allowance	1,719,648
Loss carry forwards	(69,718)
Unrealized accrued expenses	5,302
Unrealized allowance for inventory obsolescence	(61,053)
Unrealized technology license fee	(5,144)
Unrealized loss on long-term investment	(173,355)
Unrealized patents and computer software cost	(79,248)

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

Estimate sales discounts and allowances	(82,098)
Others	(80,964)
Accruals for additional prior year income tax	657,236
Prior year income tax adjustment	40,158
Others	130,911
Income tax expense	<u>\$135,797</u>

(f) Integrated income tax information

	<u>As of December 31, 2005</u>
Balance of the imputation credit account (ICA)	
<i>(In thousand NTD)</i>	<u>\$696,965</u>
Expected creditable ratio	<u>2.03%(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, 2005.	

(g) Information related to undistributed retained earnings

<i>In thousand NTD</i>	<u>As of December 31, 2005</u>
Prior to 1998	\$-
After 1998 (inclusive)	<u>37,993,458</u>
Total	<u>\$37,993,458</u>

k. (a) Deferred income tax assets (liabilities)

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

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>	<i>As of December 31, 2004</i>	
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>	<i>As of December 31, 2004</i>
	Deferred income tax assets-current	\$166,896
	Valuation allowance for deferred income tax assets-current	(9,915)
	Net deferred income tax assets-current	156,981
	Deferred tax income liabilities-current	(1,028)
	Net deferred income tax assets and liabilities-current	\$155,953

(d)	<i>In thousand NTD</i>	<i>As of December 31, 2004</i>
	Deferred income tax assets-noncurrent	\$1,543,293
	Valuation allowance for deferred income tax assets-noncurrent	(924,359)
	Net deferred income tax assets-noncurrent	618,934
	Deferred income tax liabilities-noncurrent	(5,976)
	Net deferred income tax assets and liabilities-noncurrent	\$612,958

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)

Actual creditable ratio

As of December 31, 2004

\$547,753

3.06%

(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

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 chairman of the Company and KING YUAN are close relatives.
ALi Corporation (“ALi”)	Equity invetee(Note1)
UMC Japan (“UMCJ”)	Affiliated company of UMC
Jmicron Technology Corp. (“Jmicron”)	Same person represents the chairman of both companies’ boards.
Richwave Technology Corp. (“Richwave”)	ALi is legal representative of Richwave Technology Corp.
ULi Electronics Inc.(“ULi”)	Affiliated company of the Company(Note2)

Note1 : The Company has a substantial control of ALi. As a result, the Company consolidated the accounts of ALi as of and for the year ended December 31, 2005. Pursuant to the newly adopted standard, the Company did not retroactively restate its consolidated financial statements as of and for the year ended December 31, 2004. And it did not restate related party transaction for the year ended December 31, 2004.

Note2 : Only disclosed ULi’s related party transaction in 2005, please refer to Note 2(1). It did not disclosed about receivables and payables for related party transaction as of December 31, 2005.

(2) Major Transactions with Related Parties

a. Sales

<i>In thousand NTD</i>	For the year ended December 31,			
	2005		2004	
	Amount	%	Amount	%
Richwave	\$105	-	\$-	-

The prices were made according to the product specification and the price terms for the related parties were similar to those for regular customers.

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

b. Purchases

<i>In thousand NTD</i>	As of December 31,			
	2005		2004	
	Amount	%	Amount	%
UMC	\$8,776,449	60.24	\$7,690,155	56.03
UMCJ	277,704	1.91	799,601	5.83
Other	4,492	0.03	-	-
Total	<u>\$9,058,645</u>	<u>62.18</u>	<u>8,489,756</u>	<u>61.86</u>

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, and to other suppliers were end-of-month 45 to 90 days.

c. Alpha Imaging Technology Corporation, one of the Company's subsidiaries, pledged a time deposit of NT\$30,000 thousand to UMC as a production deposits for the years ended December 31, 2005 and 2004. It is recorded under the caption of restricted deposits, please refer to Note 7. ULi pledged a time deposit of NT\$81,900 thousand to UMC as a production deposits for the year ended December 31, 2005.

d. The Company and its subsidiaries paid NT\$935,679 thousand and NT\$921,632 thousand to KING YUAN for the years ended December 31, 2005 and 2004, respectively, for its various IC testing and experimental services.

e. The Company and its subsidiary paid NT\$ 23,901 thousand to UMC for indirect materials and technology service for the year ended December 31, 2005.

f. The Company and its subsidiaries purchased R&D equipment, machinery equipment and miscellaneous supplies from ALi in amount of NT\$18,902 thousand 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 in 2004.

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.

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

- i. The Company bought 8,751,000 shares of Wiseali Technology Inc.’s common stock from ALi totally at the price of NT\$253,779 thousand in November 2004.
- j. As of December 31, 2005, ULi deposited NT\$3,478 thousand to ALi for office renting, and it was recorded under the account of deposits received. Please refer to Note 6(3).

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

(a) Receivables from related parties

<i>In thousand NTD</i>	As of December 31,			
	2005		2004	
	Amount	%	Amount	%
ULi(Note)	\$9,785	0.21	\$-	-
Richwave	663	0.01	-	-
ALi	-	-	36,882	1.03
Total	\$10,448	0.22	\$36,882	1.03

Note : ULi, one of ALi’s subsidiaries, was held for disposal as of December 31, 2005, and was not eliminated reciprocal receivables and payables.

(b) Payables to related parties

<i>In thousand NTD</i>	As of December 31,			
	2005		2004	
	Amount	%	Amount	%
UMC	\$2,046,192	36.14	\$790,985	29.66
KING YUAN	206,528	3.65	127,832	4.79
UMCJ	-	-	86,712	3.25
Other	339	0.01	-	-
Total	\$2,253,059	39.80	1,005,529	37.70

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

7. Assets Pledged As Collateral

(1) As of December 31, 2005

<i>In thousand NTD</i>	<u>Net book value</u>	<u>Secured financial institutions</u>	<u>Contents (Purpose)</u>
Restricted deposits-current	\$24,000(Note)	Farmers Bank of China	Long-term debt
Restricted deposits-current	30,000	UMC	Production deposit
Restricted deposits-current	5,000	ChiaoTong Bank	Tariff execution deposits
Restricted deposits-current	80	Chinese Petroleum Corp.	Membership of auto club
Land, building and facilities (including leased assets)	1,451,348	Chinese Development Industrial Bank	Secured convertible bonds
Total	<u>\$1,510,428</u>		

Note : The company paid off these debts in October 2005. The Company didn't finished handling and removing hypothecation yet up to December 31, 2005.

(2) As of December 31, 2004

<i>In thousand NTD</i>	<u>Net book value</u>	<u>Secured financial institutions</u>	<u>Contents (Purpose)</u>
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>		

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS –(continued)

8. Commitments and Contingencies

(1) Litigation

A. Litigation relating to Zoran/Oak

- (a) The Company's technology in CD-ROM drive control chipsets originally came from United Microelectronics Corporation ("UMC"). Around that time, UMC and OAK Technologies Inc. ("Oak") of the United States had been engaging in patent infringement disputes relating such products. In October 1997, Oak, based on the settlement agreement reached with UMC, filed a complaint with the Northern District of California alleging breach of contract and other causes of actions. Subsequently, the Company became one of the litigants of UMC's legal disputes with Oak. In April 1998, Oak accused the Company and UMC through the International Trade Commission (ITC) of violation of Section 337 of the Tariff Act of 1930. The final determination rendered by the ITC in May 2001 affirmed that the Company's products did not infringe Oak's patents. As Oak was merged into Zoran Corporation ("Zoran"), Zoran took over Oak's position in these cases. In 2003, base on ITC's final determination and subsequent developments, the Company assessed that the litigation would not possibly lead to a gross loss to the Company and, in turn, restored NT\$1,557,540,000 originally set aside as licensing fee payable from the accounts concerned. On March 11, 2005, the Company filed supplemental complaint against Oak, alleging intentional interference with economic advantage, malicious prosecution, abuse of process, unfair competition and breach of covenant not to sue, seeking damages from Oak tin the Northern District of California.
- (b) On March 10, 2004, Zoran and Oak filed a complaint with the US ITC that the Company's CD-ROM drive and DVD player chipsets have infringed upon three United States patents of Zoran and Oak (Pat. No. 6466736, 6584527 and 6546440) in violation of Section 337 of the Tariff Act of 1930. The ITC Administrative Law Judge ("ALJ") issued its initial determination on May 15, 2005, stating that the Company's products did not infringe Zoran/Oak's two patents (Pat. No. 6466736 and 6546440), but also determined that some of the Company's older model chips infringed claim number 3 of one of Zoran/Oak's patents (Pat. No. 6584527). The ITC affirmed the ALJ's initial determination in its final determination on September 29, 2005. The Company strongly believes in the invalidity of Zoran's patent (Pat. No. 6584527) in addition to MediaTek's products' non-infringement of this patent. The Company does not believe that this final determination will have any major effect to the operation of the company. A refundable deposit of US\$1,943 thousand is currently required and paid to ITC, which is recorded under restricted deposits.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS –(continued)

- (c) On July 23, 2004, the Company filed separate complaints with ITC and Delaware Federal District Court of the United States, accusing Zoran and Oak of having infringed upon certain of the Company's patents in the United States relating to servo controller chips and player shockproof system (Pat. No. 6229773 and 5970031). The Company requested that ITC starts its investigation right away and further requested that ITC enjoin imports of all Zoran and Oak products which infringed upon the two MediaTek patents. The Company further requested that Delaware Federal District Court enjoin Zoran and Oak from importing products that infringed upon the two MediaTek patents of in addition to claiming treble damages for willful infringement. ITC already launched an investigation on August 26, 2004. Subsequently, the Company amended its complaint to add Sunext Technology Co., Ltd. as a respondent to this action and further alleged that Zoran, Oak and Sunext Technology Co., Ltd. have infringed upon another MediaTek US patent relating to CD-ROM firmware renewal technology (Pat. No. 6170043). The US ITC granted the Company's amended complaint on October 7, 2004 and the hearing is scheduled to be held late June 2005. The final determination is anticipated to come out no later than November 2005.
- (d) On February 2, 2005, the Company and its subsidiary filed a patent infringement suit in the Shenzhen Intermediate People's Court against Zoran and Zoran Corporation Shenzhen Representative Office, asserting that certain Zoran products infringe upon the Company's PRC Pat. No. 97120448.9. The Company requested the Court to immediately start its investigation into this matter and sought, among other things, monetary damages and cessation of sale, importation and exportation of Zoran's products that infringe upon the aforementioned Company patent in or from the People's Republic of China.

With respect to A, B, C and D, the Company and Zoran and its subsidiary-Oak have agreed to withdraw or dismiss any and all pending claims against each other in all cases.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS –(continued)

- B. On April 7, 2005, Sanyo Electric Co. (“Sanyo”) filed a complaint with the Central District of California, USA, alleging certain of the Company’s chips infringed two of its US patents (Pat. No. 5499252 and 5818801), seeking damages and injunctive relief against any and all infringing products. The Company filed a motion to add a counterclaim with one US patent (Pat. No. 6003151), seeking damages and injunctive relief against any and all of Sanyo’s infringing products. The Central District of California granted the Company’s motion on December 5, 2006. On August 31, 2005, the Company filed a complaint against Sanyo and Sanyo North America Corp. in the Eastern District of Texas, stating that Sanyo’s products such as DVD players, DVD recorders, and digital televisions separately infringed certain of the Company’s US patents (Pat. No. 5867819 and 6118486), seeking damages and future injunctive relief against any and all of Sanyo’s infringing products. In addition, the Company amended its complaint on October 3, 2006, adding that Sanyo’s DVD recorders, digital cameras and cellular phones also infringed another one of the Company’s US patents (Pat. No. 5751356). The Company will use its best efforts to handle this litigation.
- C. On August 3, 2005, Matsushita Electric Industrial Co., Ltd. (“MEI”) filed a complaint for patent infringement against the Company in the U.S. District Court for the Northern District of California. In the complaint, MEI alleges that the Company infringes U.S. Pat. No.5548249, 5970238 and 6728475. The Complaint seeks both damages and an injunction prohibiting the sale of the Company’s products that infringe upon the aforementioned MEI patents. The Company has asserted a counterclaim against MEI and Panasonic Corporation of North America (“Panasonic”) for patent infringement of U.S. Pat. No.5970031, also seeking both damages and an injunction prohibiting the sale of all MEI products that infringe upon the aforementioned Company patent. Further, on October 17, 2005, the Company filed a complaint for patent infringement against MEI and Panasonic in the Eastern District of Texas, asserting that the DVD recorders and digital TVs of MEI and Panasonic infringe upon the Company's U.S. Pat. No.5802068 and 6118486 respectively. The Company is seeking monetary damages and an injunction. The Company is cautiously handling these litigations.

(2) Commitments

- A. The Company has entered into several contracts in total of NT\$3,717,269 thousand (sale tax excluded) for constructing its headquarter tower. As of December 31, 2005, the Company has paid out NT\$2,658,678 thousand. The other amount of NT\$1,058,591 thousand remained an irrevocable commitment.

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

B. As of December 31, 2005, totaling US\$5,315 thousand of the Company's other significant contracts remained unpaid.

C. For using patents license of others, ALi Corporation shall pay royalty fees on the basis of the sales quantity of the product, or at a certain percentage of net sales as defined in patent license agreements.

D. 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:

E.

Lease Period	Amount
2006.01.01~2006.12.31	\$25,474
2007.01.01~2007.12.31	25,474
2008.01.01~2008.12.31	24,406
2009.01.01~2009.12.31	23,879
2010.01.01~2023.12.31	319,205
Total	\$418,438

9. Significant Casualty Loss

None

10. Significant Subsequent Events

a. The Company entered into a patent agreement with Zoran Corporation and its subsidiary-OAK in January 2006. Zoran Corporation granted the related patent usage of Optical Storage products to the Company and its subsidiaries. The Company also agreed to authorize the patent usage of its PC Optical Storage to Zoran Corporation. The Company estimated to pay Zoran US\$55,000 thousand (NT\$1,806,750 thousand) for royalties. As of December 31, 2005, the royalties were recorded under the R&D expense by the Company. Both came to an agreement that within 30 months, according to the Optical Storage Chips, as the sales quantity reaches to a certain amount, the Company must pay Zoran US\$1,000 thousand per month. Total amount will not exceed US\$30,000 thousand.

b. The merger of ULi Electronics Inc., a subsidiary of ALi, and NVIDIA BVI Holding Limited, please refer to Note 2(1) to the consolidated financial statements.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO FINANCIAL STATEMENTS –(continued)****11. Others****(1) Financial Instruments****a. Derivative financial instruments****(a) Contract amount or nominal amount and credit risk**

. As of December 31, 2005,

Financial Instruments	Type	Maturity	Contract amount (US\$'000)	Exercise rate	Credit risk
Forward exchange -Hedging	Sell USD	January 2006~ February 2006	\$100,000	32.986~33.505	-

. 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	-

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 minimize exposure to credit risks by only dealing with reputable banks.

(b) Price risk

The Company and its subsidiaries consider 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.

(c) Liquidity risks

The exchange rates 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.

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

- (d) 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.

- (e) 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, 2005 and 2004, details were as follows:

<i>In thousand NTD</i>	As of December 31,	
	2005	2004
Forward contract receivable	\$3,330,14	\$4,237,64
Forward contract payable	(3,285,00	(4,165,
Discount	6,87	14,22
Forward exchange contracts receivable -net	<u>\$52,01</u>	<u>\$86,76</u>

The forward exchange contracts receivable-net is classified under the caption of other receivables.

Foreign exchange gain (loss) incurred from the derivatives for the years ended December 31, 2005 and 2004 amounted to (NT\$205,220) thousand and NT\$149,121 thousand, respectively.

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

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

Underlying investments	As of December 31,	
	2005	2004
NanYa Plastics Credit-linked deposit	-	\$1,000
Mega Fin Hold	-	\$2,450
Quanta Computer	-	\$1,500
Delta Electronics Inc. Credit-linked deposit	-	\$5,000

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

(b) Credit risk

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

(c) Liquidity risk

The Company and its subsidiaries is 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 invests in securities whose maturities are within a year.

(d) 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.

(e) Cash flow risk

No cash flow risk was 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,			
	2005		2004	
	Carrying value	Fair value	Carrying value	Fair value
Non-derivative				
Assets				
Cash, cash equivalents and restricted deposits	\$43,704,676	\$43,704,676	\$33,229,762	\$33,229,762
Short-term investments	\$2,113,712	\$2,133,837	\$1,507,725	\$1,512,723
Receivables	\$4,629,201	\$4,629,201	\$3,582,479	\$3,582,479
(including receivables from related parties)				
Other receivables	\$317,606	\$317,606	\$200,032	\$200,032
(excluding forward exchange contracts receivable -net)				
Disposal of subsidiaries' assets(net)				
(Less disposal of subsidiaries' liabilities)	\$1,039,282	\$1,629,184	\$-	\$-
Long-term investments subsidiaries' liabilities				
- Those with market value	\$-	\$-	\$639,463	\$1,175,501
- Those without market value	\$1,702,926	\$-	\$317,284	\$-

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

<i>In thousand NTD</i>	As of December 31,			
	2005		2004	
	Carrying value	Fair value	Carrying value	Fair value
Long-term bond investments				
- Those without market value	\$-	\$-	\$67,576	\$-
Refundable deposit	\$81,905	\$81,905	\$12,568	\$12,568
Liabilities				
Payables	\$5,655,126	\$5,655,126	\$2,666,569	\$2,666,569
(including due to related parties)				
Income taxes payable	\$913,252	\$913,252	\$568,704	\$568,704
Accrued expenses	\$3,629,217	\$3,629,217	\$1,425,300	\$1,425,300
Payables to equipment suppliers	\$316,582	\$316,582	\$144,488	\$144,488
Long-term debts	\$-	\$-	\$10,643	\$10,643
(including current portion)				
Bonds payable	\$961,672	\$1,074,979	\$-	\$-
Guarantee deposit	\$7,437	\$7,437	\$-	\$-
Derivatives				
Forward exchange contracts- hedging	\$52,016	\$49,010	\$86,764	\$74,829

The methods and assumptions used to estimate the fair value of derivative financial instruments are as follows:

- A. (a) The fair value of the Company and its subsidiaries short-term financial instruments is based on the carrying value of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables, other receivables, payables, income taxes payable, accrued expenses, payables to equipment suppliers and disposal of subsidiary' assets (net).
- (b) 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's long-term investments is based on relevant financial or any other information if market prices are not available.
- (c) The fair value of the Company and its subsidiaries refundable deposits, guarantee deposit 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS –(continued)

- (d) 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.
- (e) The fair value of the Company and subsidiaries' convertible bonds is on the market prices at the reporting date.
- (f) The fair value of derivative financial instruments (normally including unrealized gains or losses from outstanding forward exchange contracts) is the amount that the Company is entitled to receive or obligated to pay, assuming the Company and its subsidiaries terminated contracts at reporting date.

(2) Others

- a. Based on the Board's approval at August 26, 2005, the Company set out its plan in acquiring Alpha Imaging Technology Corporation ("AIT") with a stock-for-stock transaction. Each of the Company's shares was entitled to 3.392 AIT shares according to the purchasing contract. At December 30, 2005, the contract is however cancelled due to the exchange rate unable to reflect true value of said transaction. The Board has approved on the cancellation.
- b. Certain accounts in the financial statements of the Company as of December 31, 2004 have been reclassified to conform to the presentation of the current period.

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NOTES TO FINANCIAL STATEMENTS –(continued)

(3) Intercompany relationships and significant intercompany transactions for the year ended December 31, 2005 :

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated total revenue or total assets (Note 3)
0	MediaTek Inc.	ALi Corporation	1	Receivables from related parties	\$4,200	Collection terms were month end 45 ~60 days	0.01%
			1	Sales revenue	\$24,917		0.05%
			2	Payables to related parties	\$1,034	Payment terms were month end 45 ~60 days	-
			2	Patents and IPs	\$190,542	By the contract	0.28%
			2	Research and development expenses	\$83,839		0.15%
			2	Long-term investments	\$2,900	Note 4	-
		MediaTek Limited	1	Sales revenue	\$110,085	Collection terms were month end 45 ~60 days	0.20%
			1	Receivables from related parties	\$45,946		0.07%

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

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	CrystalMedia Technology, Inc.	2	Research and development expenses	\$95,220	By the contract	0.17%
			2	Patents and IPs	\$32,348		0.05%
		Wireless ICs, Inc.	2	Research and development expenses	\$45,028		0.08%
		Alpha Imaging Technology Corporation	1	Receivables from related parties	\$276		-
			1	Sales revenue	\$8,887		0.02%
			1	Other revenue	\$78		-
			2	Research and development expenses	\$9,452		0.02%
		Pixtel Media Technology Private Limited	3	Research and development expenses	\$80,448		0.15%
1	Gaintech Co.Limited	CrystalMedia Technology, Inc.	3	Receivables from related parties	\$24,861	By the contract	0.04%
			3	Research and development expenses	\$61,140		0.11%
		Wireless ICs, Inc.	3	Research and development expenses	\$64,358		0.12%
		Media Singapore Pte. Ltd.	3	Prepayments	\$27,347		0.04%
			3	Research and development expenses	\$53,659		0.10%

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MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS –(continued)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Limited	MediaTek Inc.China	3	Administrative expenses	\$57,922	By the contract	0.11%
		MediaTek (ShenZhen) Inc.	3	Administrative expenses	\$82,700		0.15%
3	ALi Corporation	ULi Electronics Inc.	3	Subtrahend of the operation cost	\$6,410	By the contract	0.01%
				Sales revenue	\$7,750	Note 5	0.01%
				Rental revenue	\$23,025	By the rental contract	0.04%
		ALi (BVI) Microelectronics Corporation	3	Software	\$71,429	By the contract	0.11%
			3	Payables to related parties	\$26,181	Collection terms were month end 30~60 days	0.04%
		T-Square Technology Inc. (Cayman)	3	Software	\$70,972	By the contract	0.10%
			3	Prepayments	\$16,598		0.02%
4	ALi (BVI) Microelectronics Corporation	ALi (Shanghai) Corp.	3	Software	\$50,675		0.07%
		T-Square Electronics (Shanghai)	3	Software	\$16,476		0.02%

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MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS –(continued)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
5	ULi Electronics Inc.	ULi Electronics Inc. (BVI)	3	Service fee	\$10,198	By the contract	0.02%
			3	Software	\$34,471	Payment terms were month end 30~60 days	0.05%
		ULi Electronics Inc. USA	3	Service fee	\$62,617	By the contract	0.11%
			3	Payables to related parties	\$6,287	Payment terms were month end 30~60 days	0.01%
			3	Refundable deposits	\$4,853	By the contract	0.01%
		ALi Corporation	3	Deferred assets	\$691	Payment terms were month end 30~60 days	-
			3	Indirect material	\$467		-
6	ULi Electronics Inc. (BVI)	ALi (Shanghai) Corp.	3	Software	\$5,716	By the contract	0.01%
		ULi Electronics (Shanghai) Inc.	3	Service fee	\$9,665		0.02%
			3	Software	\$27,063		0.04%
7	ULi Electronics Inc. USA	ULi Electronics Inc.	3	Property, plant and equipment	\$1,152		-

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

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
8	ALi (Shanghai) Corp.	ALi (BVI) Microelectronics Corporation	3	Receivables from related parties	\$26,181	Collection terms were month end 30~60 days	0.04%
9	T-Square Technology Inc. (Cayman)	T-Square Electronics (Shanghai)	3	Software	\$15,752	By the contract	0.02%
		T-Square Electronics (ZHUHAI)	3	Software	\$39,385		0.06%
		T-square Electronics (Beijing)	3	Software	\$15,835		0.02%
10	T-Square Electronics (ZHUHAI)	ALi Corporation	2	Property, plant and equipment	\$194	Payment terms were month end 30~60 days	-

Note1 : 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.

Note3 : 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 : Based on the Board’s approval.

Note 5 : The price between ALi Corporation and ULi Electronics Inc. was determined through mutual agreement based on research and develop, manufacture and selling IC cooperatively.

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

(4) 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>	<i>As of and for the year ended December 31, 2004</i>	
Entries	Debit	Credit
Common stock	11,950,000	
Additional paid-in capital	-	
Legal reserve	22,156	
Consolidated debits	176,009	
Minority interest income	9,776	
Gain from equity investment	274,780	
Long-term equity investments		11,379,858
Minority interest		719
Retained earnings		337,495
Cumulative translation adjustments		714,649
Loss from equity investment		-

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

Sales revenue	421,758	
Sales returns and discounts		-
Cost of sales		47,461
Selling expense		270,119
Research and development expense		104,178

c. Elimination of reciprocal balance:

Payables to related parties	9,432	
Deferred revenue	172,596	
Receivables from related parties		9,432
Intangible assets		172,596

d. Elimination of reciprocal balance:

Dividends income	43,777	
Amortization	6,995	
Loss from equity investment		43,777
Consolidated debits		6,995

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS –(continued)

(4) The Company's shares owned by its subsidiaries:

Owner	Share	Amounts (NT\$'000)	Purpose
MediaTek Capital Corp.	6,654,670	\$55,970	Long-term equity investments