MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

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

REPRESENTATION LETTER

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

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

January 29, 2007

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
of MediaTek Inc.

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

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

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

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

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

Notice to Readers

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2006 and 2005

(Amounts in thousand New Taiwan Dollars)

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2006 and 2005

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITIES

For the years ended December 31, 2006 and 2005

(Amounts in thousand New Taiwan Dollars)

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2006 and 2005

(Amounts in thousand New Taiwan Dollars)

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. Organization and Operation

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

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

2. Summary of Significant Accounting Policies

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

General Descriptions of the Consolidated Entities

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

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

(To be continued)

(Continued)

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

Remark:

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

ALi Corporation and its consolidated entities are as follows:

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

Remark:

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

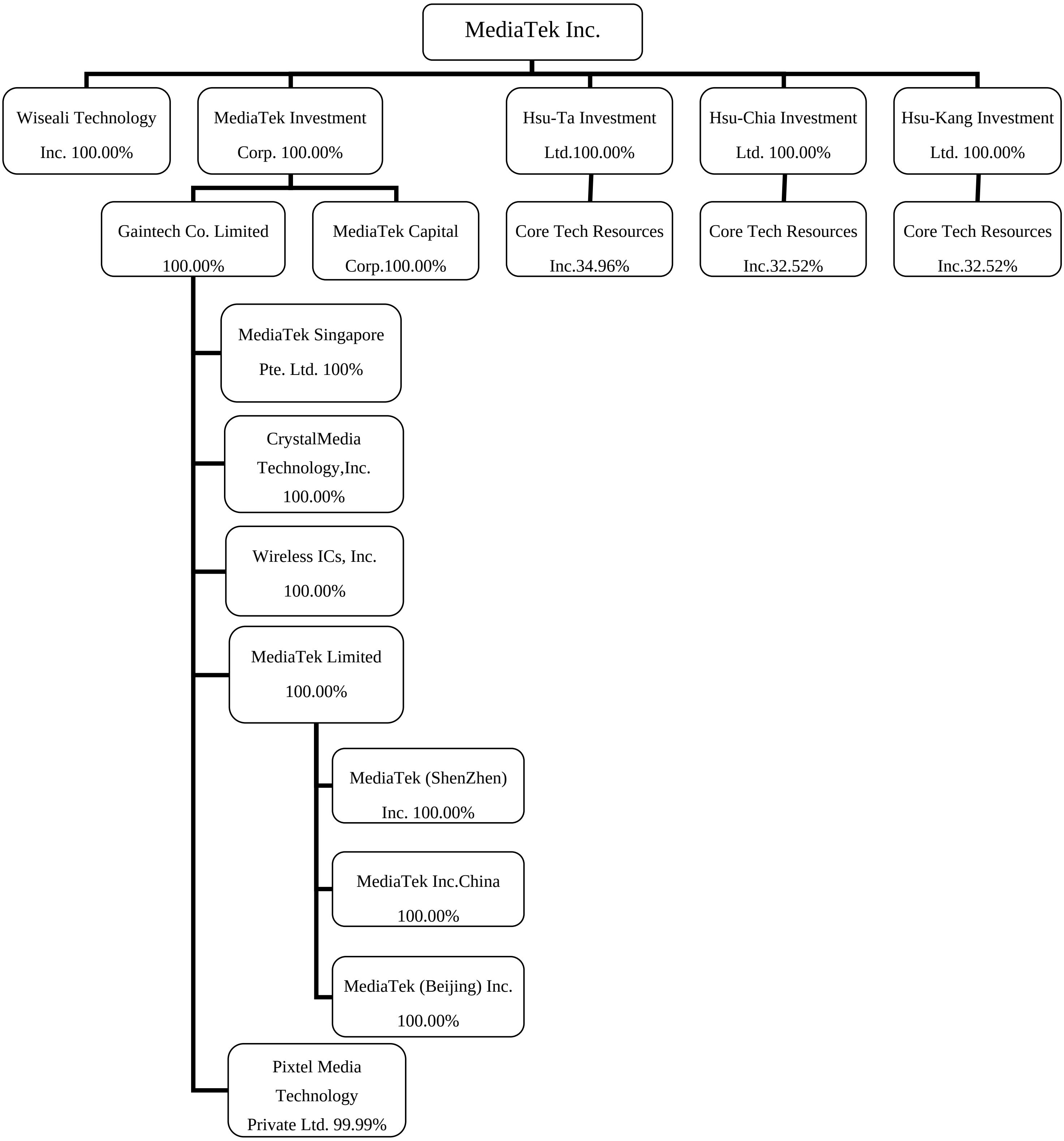
2. Corporation’s (ALi’s) ownership interest in ULi Electronics Inc. (ULi) changed from 58.18% to 36.29% during the Year 2005 because of several events, including disposal of ULi’s shares, ULi’s new shares issuance from capitalization of shareholder’s dividends and employees’ bonuses, and ULi’s employee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

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

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

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

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



Principles of Consolidation

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

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

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

C. A long-lived asset (i.e. the subsidiary classified as a disposal group) to be sold shall be classified as held for sale in the period in which all of the following criteria are met and measured at the lower of its carrying amount or fair value less cost to sell:

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

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

Foreign Currency Transactions

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

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

Cash Equivalents

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

Financial Assets and Financial Liabilities

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

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

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

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

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

c. Financial assets carried at cost

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

d. Held-to-Maturity Financial Assets

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

e. Available-for-sale financial assets

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

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

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

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

Allowance for Doubtful Accounts

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

Inventories

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

Investment Accounted for Using Equity Method

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

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

Intangible Assets

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

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

Deferred Assets

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

Asset Impairment

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

Convertible Bonds

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

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

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

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

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

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

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

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

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

Capital Expenditures vs. Revenue Expenditures

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

Revenue Recognition

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

Warranty Cost

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

Employee Retirement Benefits

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

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

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

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

Income Tax

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

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

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

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

Employee Stock Option Plan

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

Derivative Financial Instruments-Trading purpose

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

Earnings Per Share

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

Treasury Stock

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

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

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

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

3. Reasons and Effects for Change in Accounting Principles

A.

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

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

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

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

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

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

Short-term investments

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

Long-term investments

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

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

c. Financial instruments-hedging purpose

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

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

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

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

4. Contents of Significant Accounts

(1) Cash and Cash Equivalents

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

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

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

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

(a)

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

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

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

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

Remark:

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

(b)

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

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

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

Held for trading financial assets:

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

Held for trading financial liabilities:

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

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

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

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

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

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

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

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

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

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

(4) Notes and Accounts Receivable-Net

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

(5) Other Receivables

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

(6) Inventories-Net

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

Inventories were not pledged.

(7) Subsidiaries Classified as A Disposal Group

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

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

(8) Funds and Investments

a.

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

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

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

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

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

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

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

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

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

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

(a) Duration: 7 years.
(b) Par value: NT$10 per share.
(c) Issuing price: NT$40 per share.
(d) Dividends:
Dividend is fixed at 3.5% per year based on actual issuing price, and is paid in cash on an annual basis. In any given year a dividend is not distributed, either due to a loss status or constraints under regulation requirements, such dividend is postponed to following years.
(e) Redemption at maturity:
Redemption price at maturity is set at 100% of actual issuing price, NT$40 per share.

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

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

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

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

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

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

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

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

m. Long-term investments were not pledged.

(9) Property, Plant, Equipment and Leased Assets

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

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

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

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

(10) Convertible Bonds

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

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

a. Total amount: NT$900,000 thousand

b. Coupon interest rate: 0%

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

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

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

f. Redemption at the option of the holders:

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

g. Conversion period/Conversion price and adjustment:

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

(b) Conversion price and adjustment:

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

(c) Reset conversion price:

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

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

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

(11) Accrued Pension Liabilities

a. Defined Benefit Pension Plan

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

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

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

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

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

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

(e) The underlying actuarial assumptions:

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

b. Defined Contribution Pension Plan

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

(12) Common Stock

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

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

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

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

(13) Legal Reserve

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

(14) Capital Reserve

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

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

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

(15) Employee Stock Option Plans

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

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

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

Remark:

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

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

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

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

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

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

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

Remark:

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

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

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

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

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

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

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

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

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

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

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

(16) Earnings Distribution

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

(a) Income tax obligation;

(b) Offsetting accumulated deficits, if any;

(c) Legal reserve at 10% of net income;

(d) Reserve or reverse for special reserve in compliance with the Company Law or the Securities and Exchange Law;

(e) Remuneration for directors and supervisors to a maximum of 0.5% of the remaining of (a) through (d), while remuneration for directors and supervisors’ services is limited to cash payments.

(f) The remaining balance after all the above appropriations and distributions, combining with inappropriate earnings from prior years, shall be fully for shareholders’ dividends and employees’ bonuses and may be retained or distributed proportionally. The portion of employees’ bonuses may be within 10% to 15% of total earnings resolved to distribute for shareholders’ dividends and employees’ bonuses. Employees’ bonuses may be distributed in form of shares or cash, or both. The qualification of employees entitled to the bonuses is at the discretion of board meeting. Employees serving the Company’s subsidiaries are inclusive.

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

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

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

(17) Treasury Stock

The Company's shares owned by its subsidiaries are also accounted for as treasury stock.

Movement of the Company's treasury stock was as follows:

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

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

Remark: Stock dividends received.

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

(18) Sales Revenues-Net

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

(19) Personnel, Deprecation and Amortization Expenses

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

Remark: The amount includes amortization of technical rights.

(20) Income Tax

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

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

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

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

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

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

e.

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

(b) Temporary differences generated from deferred income tax assets (liabilities) *(In thousand NTD)*	As of December 31, 2006	
The Company and domestic subsidiaries	Amount	Tax effect
Deductible temporary difference-Recognition of unrealized allowance for inventory obsolescence	$402,065	$3,875
Deductible temporary difference-Unrealized allowance for doubtful accounts recognition	$146,975	$1,416
Deductible temporary difference-Unrealized technology license fee	$1,084,050	$10,447
Taxable temporary difference-Unrealized foreign exchange gain	$(108,616)	$(1,047)
Deductible temporary difference-Unrealized loss on valuation of financial assets	$13,689	$132
Deductible temporary difference-Unrealized long-term investment loss	$1,702,351	$425,588
Deductible temporary difference-others	$492	$123
Investment tax credits		$3,327,781
The foreign subsidiaries		
R&D investment tax credits		$23,888
Deductible temporary difference-others		$3,666
Taxable temporary difference-others		$(17,858)

(c)

In thousand NTD	As of December 31, 2006
Deferred income tax assets-current	$350,305
Valuation allowance for deferred income tax assets-current	(6,673)
Net deferred income tax assets-current	343,632
Deferred income tax liabilities-current	(8,488)
Net deferred income tax assets and liabilities-current	$335,144

(d)

In thousand NTD	As of December 31, 2006
Deferred income tax assets-noncurrent	$3,446,611
Valuation allowance for deferred income tax assets-noncurrent	(2,327,682)
Net deferred income tax assets-noncurrent	1,118,929
Deferred income tax liabilities-noncurrent	(10,417)
Net deferred income tax assets and liabilities-noncurrent	$1,108,512

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

In thousand NTD	For the year ended December 31, 2006
Income tax payable	$233,664
10% tax on undistributed earnings	487,881
Investment tax credits	(363,257)
Deferred income tax effects	
Investment tax credits	213,108
Valuation allowance	(319,567)
Others	256,696
Accruals for additional prior year income tax	1,331,000
Prior year income tax adjustment	112,331
Others	(113,092)
Income tax expense	1,838,764
Tax benefit from cumulative effect of changes in accounting principles	12
Income tax expense from continuing operations	$1,838,776

(f) Integrated income tax information

In thousand NT	As of December 31, 2006
Balance of the imputation credit account (ICA)	$712,526
Expected creditable ratio	2.19%(Remark)

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

(g) Information related to undistributed retained earnings

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

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

	As of December 31, 2005
Total deferred income tax liabilities	$(36,224)
Total deferred income tax assets	$4,284,039
Valuation allowance for deferred income tax assets	$2,653,922

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

	As of December 31, 2005	
The Company and domestic subsidiaries	Amount	Tax effect
Deductible temporary difference-Recognition of unrealized accrued expenses	$14,674	$52
Deductible temporary difference-Recognition of unrealized allowance for inventory obsolescence	$428,788	$67,756
Deductible temporary difference-Unrealized allowance for doubtful accounts	$200,792	$717
Deductible temporary difference-Unrealized technology license fee	$1,806,750	$6,454
Taxable temporary difference-Unrealized foreign exchange gain	$(42,439)	$(4,358)
Deductible temporary difference-Unrealized long-term investment loss	$693,420	$173,355
Deductible temporary difference-Unrealized sales discounts	$328,393	$82,098
Deductible temporary difference-Allowance for sales returns and discounts	$635	$159
Taxable temporary difference-Cumulative translation adjustments	$(47,648)	$(11,912)
Taxable temporary difference-Unrealized pension expense	$(34,202)	$(8,551)
Deductible temporary difference-Recognition of unrealized pension expenses	$319	$80
Deductible temporary difference-Unrealized patents and computer software cost	$316,990	$79,248
Deductible temporary difference-others	$807,062	$201,766
Loss carry forwards	$432,249	$105,812
Investment tax credits		$3,542,263
The foreign subsidiaries		
Research and development tax credit		$22,514
Loss carry forwards		$413
Deductible temporary difference-other		$1,352
Taxable temporary difference-other		$(11,403)

(c)

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

(d)

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

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

In thousand NTD	For the year ended December 31, 2005
Income tax payable	$113,721
10% tax on undistributed earnings	151,227
Investment tax credits	(132,474)
Deferred income tax effects	
Investment tax credits	(1,998,352)
Valuation allowance	1,719,648
Others	(546,278)
Accruals for additional prior year income tax	657,236
Prior year income tax adjustment	40,158
Others	130,911
Income tax expense from continuing operations	$135,797

(f) Integrated income tax information

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

(g) Information related to undistributed retained earnings

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

(21) Earnings Per Share

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

(in shares)

	For the year ended December 31,	
Contents	2006	2005
Weighted average shares outstanding, ending (Less the Company's share owned by its subsidiary)	960,992,546	960,992,546

	Amount (numerator)			Earning per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
For the year ended December 31, 2005:					
Consolidated net income attributable to parent company's shareholders					
Basic EPS					
Income before cumulative effect of changes in accounting principles	$24,383,678	$22,571,526	960,992,546	$25.37	$23.49
Cumulative effect of changes in accounting principles	8,044	8,056		0.01	0.01
Net income	$24,391,722	$22,579,582		$25.38	$23.50
Consolidated net income attributable to minority interests					
Basic EPS					
Income before cumulative effect of changes in accounting principles	$600,994	$574,370	960,992,546	$0.63	$0.60
Cumulative effect of changes in accounting principles	1,258	1,258		-	-
Net income	$602,252	$575,628		$0.63	$0.60

	Amount (numerator)			Earning per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
For the year ended December 31, 2005:					
Consolidated net income attributable to parent company's shareholders					
Basic EPS					
Income before cumulative effect of changes in accounting principles	$18,400,854	$18,273,633	960,992,546	$19.15	$19.02
Cumulative effect of changes in accounting principles	-	-		-	-
Net income	$18,400,854	$18,273,633		$19.15	$19.02
Consolidated net income attributable to minority interests					
Basic EPS					
Income before cumulative effect of changes in accounting principles	$595,606	$587,030	960,992,546	$0.62	$0.61
Cumulative effect of changes in accounting principles	-	-		-	-
Net income	$595,606	$587,030		$0.62	$0.61

5. Related Party Transactions

(1) Related Parties and Relations

Related parties	Relations
United Microelectronics Corp. ("UMC")	The supervisor of the Company (Remark 1)
King Yuan Electronics Co., Ltd. ("KING YUAN")	The chairman of the Company and KING YUAN are close relatives.
PixArt Imaging Inc.("PII")	A subsidiary served as the Board
ALi Corporation ("ALi")	Equity investee(Remark 2)
Alpha Imaging Technology Corp. ("Alpha")	Indirect equity investee(Remark 2)
UMC Japan ("UMCJ")	Affiliated company of UMC(Remark 1)
Jmicron Technology Corp. ("Jmicron")	Same person represents the chairman of both companies' boards.
Richwave Technology Corp. ("Richwave")	ALi is legal representative of Richwave Technology Corp. (Remark 3)
ULi Electronics Inc.("ULi")	Affiliated company of the Company(Remark 4)

Remark 1:

Due to UMC resigning from the supervisor of the Company on April 18, 2006, UMC and its affiliated companies were not the related parties of the Company since then. The following related party transactions and accounts related to UMC and its affiliated companies were only up to March 31, 2006.

Remark 2:

The following information related to Alpha, ALi and its subsidiaries were presented as related party transactions and accounts starting October 2006 as the Company lost its controlling power over these companies. Prior to then, they were consolidated in the Company's financial statements.

Remark 3:

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

Remark 4:

With respect to the merger between ULi and NVIDIA described in the Note 2(1) to the financial statements, the assets and liabilities of ULi's subsidiaries were included in disposal group, instead of being presented in related party accounts, as of December 31, 2005. Though, the transactions between ULi and its related parties were accounted for related party transactions for the year then ended. As the merger was made effective and ULi was dissolved at February 2006, the transactions incurred between the Company and ULi and for the period from January 1 to the merger date were accounted for as related party transactions in the Company's consolidated financial statements.

(2) Major Transactions with Related Parties

a. Sales

	For the year ended December 31,			
In thousand NTD	2006		2005	
	Amount	%	Amount	%
Richwave	$298	-	$105	-
Alpha	11,877	0.02	-	-
ALi	41	-	-	-
Total	$12,216	0.02	$105	-

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

b. Purchases

	As of December 31,			
In thousand NTD	2006		2005	
	Amount (Remark)	%	Amount	%
UMC	$2,783,853	19.36	$8,776,449	60.24
UMCJ	-	-	277,704	1.91
Jmicron	-	-	4,492	0.03
Total	$2,783,853	19.36	9,058,645	62.18

Remark: Prices for purchases from related parties are not comparable because the manufacturing process and product specification are significantly different. Payment terms to UMC was end-of-month 45 to 60 days, and to other suppliers were end-of-month 45 to 90 days.

c. Alpha was pledged a time deposit of NT$30,000 thousand to UMC as a production deposits for the year ended December 31, 2005. It is recorded under the caption of restricted deposit, please refer to Note 6. ULi pledged a time deposit of NT$81,900 thousand to UMC as a production deposit for the year ended December 31, 2005.

d. The Company and subsidiaries paid NT$1,162,614 thousand and NT$935,679 thousand to KING YUAN for the years ended December 31, 2006 and 2005, respectively, for its various IC testing and experimental services.

e. The Company and subsidiary paid NT$1,424 thousand and NT$23,901 thousand to UMC for indirect materials and technology service for the years ended December 31, 2006 and 2005, respectively.

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

g. ALi rented part of its NASA building to ULi and earned rental revenue in amount of NT$3,755 thousand for the year ended December 31, 2006. As of December 31, 2005, ULi deposited NT$3,478 thousand to ALi for the office lease and recorded it under the account of deposits received. Please also refer to Note 5(3) (a).

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

i. The Board of the Company in a meeting held in August 2006 resolved to sell part of its buildings and miscellaneous equipment to PII. An agreement at the selling price of NT$82,220 thousand, not including sale tax, was entered into right in the same month. The Company passed the title of the underlying facility to PII in November 2006 and incurred a loss on disposal of fixed assets of NT$18,691 thousand with payment in full by PII prior to the end of the year 2006.

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

(a) Receivables from related parties

	As of December 31,			
In thousand NTD	2006		2005	
	Amount	%	Amount	%
ULi(Remark)	$-	-	$9,785	0.21
Richwave	-	-	663	0.01
ALi	43	-	-	-
Alpha	164	-	-	-
Total	$207	-	$10,448	0.22

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

(b) Payables to related parties

	As of December 31,			
In thousand NTD	2006		2005	
	Amount	%	Amount	%
UMC	$-	-	$2,046,192	36.18
KING YUAN	196,472	4.58	206,528	3.65
Other	-	-	339	0.01
Total	$196,472	4.58	$2,253,059	39.84

6. Assets Pledged As Collateral

(1) As of December 31, 2006: None

(2) As of December 31, 2005:

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

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

7. Commitments and Contingencies

(1) Litigation

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

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

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

(2) Commitments

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

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

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

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

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

10. Others

(1) Financial Instruments

a. Fair value of financial instruments

	As of December 31,			
	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Non-derivative				
Assets				
Cash and cash equivalents	$46,838,240	$46,838,240	$43,645,496	$43,645,496
Held for trading financial assets-current (excluding derivatives)	$2,526,084	$2,526,084	$2,113,712	$2,133,837
Financial assets designated as at fair value through profit or loss	$465,133	$465,133	$-	$-
Receivables (including receivables from related parties)	$3,857,001	$3,857,001	$4,629,201	$4,629,201
Other receivables	$336,449	$336,449	$317,606	$317,606
Available-for-sale financial assets	$6,427,147	$6,427,147	$-	$-
Held-to- maturity financial assets	$162,980	$162,980	$-	$-
Financial assets carried at cost	$698,942	$-	$651,196	$-
Bond portfolios with no active market	$1,000,000	$-	$1,000,000	$-
Investment accounted for using equity method				
-Those with market value	$1,057,009	$3,512,282	$-	$-
-Those without market value	$1,034,759	$-	$51,730	$-
Refundable deposits	$25,351	$25,351	$81,905	$81,905
Restricted deposits	$-	$-	$59,080	$59,080
Liabilities				
Payables (including due to related parties)	$4,285,215	$4,285,215	$5,655,126	$5,655,126
Income taxes payables	$2,341,571	$2,341,571	$913,252	$913,252
Accrued expenses	$2,037,920	$2,037,920	$3,629,217	$3,629,217
Payables to contractors and equipment suppliers	$162,559	$162,559	$316,582	$316,582
Bonds payable	$-	$-	$961,672	$1,074,979
Guarantee deposit	$-	$-	$7,437	$7,437
Derivatives				
Assets				
Held for trading financial assets-current				
Forward exchange contracts	$897	$897	$52,016	$49,010
Held for trading financial liabilities-current				
Forward exchange contracts	$14,586	$14,586	$-	$-

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

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

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

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

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

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

II. Emerging stocks.

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

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

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

(viii) The fair values of Bonds payable were based on the quoted market price.

(ix) If an active market for held-to-maturity financial assets is available and provides reasonable quoted prices, the Company would apply the quoted market price for its fair value. While, the Company alternatively assesses the fair value for held-to-maturity financial assets by applying a valuation technique upon any active market being not available. The estimations and assumptions underlying the valuation technique applied by the Company are in consistence with those underlying the pricing techniques commonly used by financial market participants. The discount rates used by the Company in applying the valuation technique are equivalent to the rates of return on those financial instruments with terms and characteristics similar in substance, if obtainable.

(b) Losses recognized for the changes in fair value of financial assets estimated using valuation techniques were NT$12,252 thousand for the year ended December 31, 2006.

(c) Financial assets exposed to fair value risk due to fixed interest rate amounted to NT$38,383,129 thousand and NT$33,364,832 thousand as of December 31, 2006 and 2005, respectively, while financial liabilities NT$0 and NT$921,672 thousand, respectively. The financial assets exposed to cash flow risk due to variable interest rate amounted to NT$7,684,860 thousand and NT$11,604,682 thousand as of December 31, 2006 and 2005, respectively, while financial liabilities were none.

(d) Interest income recognized from financial assets and financial liabilities other than at fair value through profit or loss amounted to NT$944,614 thousand and NT$709,190 thousand as of December 31, 2006 and 2005, respectively, while interest expense NT$6,826 thousand and NT$19,207 thousand, respectively. The Company and subsidiaries recognized unrealized gains, not through earning but shareholder's equity, of NT$78,110 thousand and NT$0 for changes in fair value of available-for-sale financial assets for the years ended December 31, 2006 and 2005, respectively, while the amounts that were realized in earnings and removed from equity were nil. Impairment loss on financial assets amounted to NT$12,000 thousand and NT$48,873 thousand for the years ended December 31, 2006 and 2005, respectively.

b.

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

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

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

(b) Information of financial risks

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

Market risk

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

Credit risk

Credit risk represents the potential loss that would be incurred by the Company and its subsidiaries if the counter-party or third-party breached the contracts. It affects significant concentrations of credit risk, components, the price of contract and other receivables of financial instruments. The accrual amount of credit risk were NT$187,437 thousand and NT$243,708 thousand as of December 31, 2006 and 2005, respectively. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk, which incurs when counter-party or third-party to a financial instrument fails to discharge an obligation and the Company and its subsidiaries are caused to suffer a financial loss. Since the counter-party or third-party to the foregoing forward exchange contracts are of reputable financial institution, management believes that the Company and its subsidiaries' exposure to default by those parties is low. Credit risk of credit-linked deposits would be incurred if issuing banks breached the contracts or the debt issuer could not pay off the debts and the value of credit-linked deposits may drop to zero. Therefore, the Company and its subsidiaries minimized the credit risk by selecting counter-party who is reputable and in good financial standing.

Liquidity risk

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

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

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

Cash flow interest rate risk

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

(2) Others

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

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

(3) Intercompany relationships and significant intercompany transactions for the year ended December 31, 2006: (Please refer to the Note 5 to the consolidated financial statements for transactions between the consolidated entities, including the Company and Subsidiaries, and the unconsolidated; while, the Company's shares owned by subsidiaries were described in the Note 4. (17) to the consolidated financial statements.)

No. (Remark 1)	Company Name	Counter Party	Relationship with the Company (Remark 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Remark 3)
0	MediaTek Inc.	MediaTek Limited	1	Sales revenue	$149,699	Collection terms were month end 45 days	0.26%
		Crystal Media Technology, Inc.	2	Research and development expenses	$32,348	-	0.06%
1	MediaTek Capital Corp.	Gaintech Co. Limited	3	Receivables from related parties	$58,228	Remark 4	0.08%
2	Gaintech Co. Limited	Pixtel Media Technology Private Ltd	3	Payable to related parties	$29,545	By the contract	0.04%
			3	Administrative expenses	$113,196		0.19%
		MediaTek Sinagapore Pte. Ltd.	3	Prepayments	$46,350		0.06%
			3	Administrative expenses	$135,354		0.23%
		CrystalMedia Technology, Inc.	3	Payable to related parties	$34,243		0.04%
			3	Administrative expenses	$177,322		0.30%

No. (Remark 1)	Company Name	Counter Party	Relationship with the Company (Remark 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Remark 3)
3	MediaTek Limited	MediaTek Inc. China	3	Payable to related parties	$12,224	By the contract	0.02%
			3	Administrative expenses	$77,266		0.13%
		MedaiTek (ShenZhen) Inc.	3	Administrative expenses	$175,678		0.30%
		MediaTek (Beijing) Inc.	3	Administrative expenses	$22,773		0.04%
4	MedaiTek (ShenZhen) Inc.	MediaTek (Beijing) Inc.	3	Payable to related parties	$551	-	-

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

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

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

No. (Remark1)	Company Name	Counter Party	Relationship with the Company (Remark 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Remark 3)
2	MediaTek Limited	MediaTek Inc. China	3	Administrative expenses	$57,922	By the contract	0.11%
		MediaTek (ShenZhen) Inc.	3	Administrative expenses	$82,700		0.15%
3	ALi Corporation	ULi Electronics Inc.	3	Subtrahend of the operation cost	$6,410	By the contract	0.01%
				Sales revenue	$7,750	Remark 5	0.01%
				Rental revenue	$23,025	By the rental contract	0.04%
		ALi (BVI) Microelectronics Corporation	3	Software	$71,429	By the contract	0.11%
			3	Payables to related parties	$26,181	Collection terms were month end 30~60 days	0.04%
		T-Square Technology Inc. (Cayman)	3	Software	$70,972	By the contract	0.10%
			3	Prepayments	$16,598		0.02%
4	ALi (BVI) Microelectronics Corporation	ALi (Shanghai) Corp.	3	Software	$50,675		0.07%
		T-Square Electronics (Shanghai)	3	Software	$16,476		0.02%

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

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

Remark 1: The Company and its subsidiaries are coded as follows:
1. The Company is coded “0”.
2. The subsidiaries are coded consecutively beginning from “1”in the order presented in the table above.

Remark 2: Transactions are categorized as follows:
1. The holding company to subsidiary.
2. Subsidiary to holding company.
3. Subsidiary to subsidiary.

Remark 3: The percentage with respect to the consolidated asset/liability for transactions of balance sheet items is based on each item’s balance at period-end. For profit or loss items, cumulative balance is used as basis.

Remark 4: In June 2006, MediaTek Capital Corp. transferred all of its shares in Pixtel Media Technology Private Ltd. to Gaintech Co. Limited, due to changes in investment structure.

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