

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

**MEDIATEK INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**

**AS OF DECEMBER 31, 2008 AND 2007**

**AND FOR THE YEARS THEN ENDED**

Notice to Readers

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

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

## REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2008 and for the year then ended prepared under the R.O.C.'s Statement of Financial Accounting Standards No.7 (referred to as "Consolidated Financial Statements") are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as "Combined Financial Statements"). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

March 17, 2009

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 its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China (R.O.C.). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial position of MediaTek Inc. and its subsidiaries as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the R.O.C.

As discussed in Note 3 to the financial statements, effective from January 1, 2008, the Company adopted Accounting Research and Development Foundation Interpretation No. 96-052 and recognized employees' bonuses and remunerations to directors and supervisors as expenses rather than as a distribution of retained earnings.

Ernst & Young  
CERTIFIED PUBLIC ACCOUNTANTS  
March 17, 2008  
Taipei, Taiwan  
Republic of China

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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, 2008 and 2007**

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	2008	2007	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2008	2007
<b>Current assets</b>				<b>Current liabilities</b>			
Cash and cash equivalents	2, 4(1)	\$ 53,021,544	\$ 50,588,024	Short-term loans	4(11)	\$ -	\$ 25,000
Financial assets at fair value through profit or loss-current	2, 4(2)	993,748	3,144,085	Financial liabilities at fair value through profit or loss-current	2, 4(2)	2,956	44,704
Available-for-sale financial assets-current	2, 4(3)	3,207,472	6,276,611	Accounts payable		4,273,034	6,891,874
Held-to-maturity financial assets-current	2, 4(4)	371,530	501,574	Payables to related parties	5	633,674	644,658
Accounts receivable, net	2, 4(5)	5,428,620	7,077,379	Income tax payable	2, 4(23)	839,461	2,591,244
Receivables from related parties, net	5	-	4,374	Accrued expenses		10,630,907	1,996,335
Other receivables	4(6)	739,307	731,389	Payables to contractors and equipment suppliers		89,403	198,852
Inventories, net	2, 4(7)	5,547,299	10,540,372	Current portion of long-term liabilities	4(12)	-	2,223
Prepayments and other current assets		1,653,568	702,189	Leased payable -current	4(13)	1,392	4,933
Deferred income tax assets-current	2, 4(23)	257,254	594,462	Other current liabilities		761,526	321,057
Restricted deposits-current	6	5,535	1,563	Total current liabilities		17,232,353	12,720,880
Total current assets		71,225,877	80,162,022				
<b>Funds and investments</b>	2, 4(8)			<b>Long-term liabilities</b>			
Financial assets designated as at fair value through profit or loss-noncurrent		994,848	433,893	Long-term loans	2, 4(12), 6	-	7,712
Available-for-sale financial assets-noncurrent		3,224,681	3,779,870	Lease payables-noncurrent	4(13)	-	1,304
Held-to-maturity financial assets-noncurrent		1,762,612	641,987	Total long-term liabilities		-	9,016
Financial assets carried at cost-noncurrent		769,806	547,843				
Bond portfolios with no active market-noncurrent		1,000,000	1,000,000	<b>Other liabilities</b>			
Investments accounted for using the equity method		1,208,569	1,243,367	Accrued pension liabilities	2, 4(14)	82,166	66,368
Prepayments for long-term investments		9,111	-	Deposits received		1,022	1,022
Total funds and investments		8,969,627	7,646,960	Total other liabilities		83,188	67,390
				Total liabilities		17,315,541	12,797,286
<b>Property, plant and equipment</b>	2, 4(9), 6			<b>Shareholders' equity</b>			
Land		-	12,041	Capital			
Buildings and facilities		4,480,979	4,301,500	Common stock	4(15)	10,731,523	10,408,538
Machinery and equipment		266,945	688,934	Capital reserve			
Research and development equipment		2,843,007	1,769,967	Additional paid-in capital	4(17)	2,090,759	2,090,759
Miscellaneous equipment		819,919	438,518	Treasury stock transaction	4(17)	474,512	328,475
Total cost		8,410,850	7,210,960	Donated assets	4(17)	1,260	1,260
Less : Accumulated depreciation		(2,181,410)	(1,628,117)	Long-term investment transaction	4(8), 4(17)	150,136	119,349
Add : Construction in progress		171,562	172,284	Employee stock option	2, 3, 4(18)	40,644	-
Prepayments for equipment		103,010	166,402	Total capital reserve		2,757,311	2,539,843
Property, plant and equipment, net		6,504,012	5,921,529	Retained earnings			
				Legal reserve	4(16)	13,024,414	9,665,144
<b>Intangible assets</b>	2, 4(10)			Undistributed earnings	4(19)	55,427,112	62,971,175
Software		692,988	708,953	Other adjustments			
Goodwill		6,945,969	758,698	Cumulative translation adjustments	2	(17,915)	(400,047)
Patents, IPs and others		4,390,113	2,884,206	Unrealized gain (loss) on financial instruments	2,4(2), 4(8)	(255,574)	808,374
Total intangible assets		12,029,070	4,351,857	Treasury stock	2, 4(20)	(55,970)	(55,970)
				Total shareholders' equity attributable to parent company		81,610,901	85,937,057
<b>Other assets</b>							
Refundable deposits		103,897	368,577	Minority interests		147,962	132,191
Deferred assets	2	48,494	43,349	Total shareholders' equity		81,758,863	86,069,248
Deferred income tax assets-noncurrent	2, 4(23)	163,937	369,137				
Restricted deposits-noncurrent	6	29,490	3,103				
Total other assets		345,818	784,166				
<b>Total assets</b>		\$ 99,074,404	\$ 98,866,534	<b>Total liabilities and shareholders' equity</b>		\$ 99,074,404	\$ 98,866,534

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingo Yu

**MEDIATEK INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

**For the years ended December 31, 2008 and 2007**

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

Description	Notes	2008	2007
<b>Gross sales</b>		\$ 94,560,270	\$ 82,139,126
Less : Sales returns and discounts		(4,158,229)	(1,467,357)
Net sales	2, 4(21), 5	90,402,041	80,671,769
<b>Cost of goods sold</b>	4(22), 5	(41,819,016)	(35,340,888)
<b>Gross profits</b>		48,583,025	45,330,881
<b>Operating expenses</b>	2, 4(22), 5		
Selling expenses		(2,059,025)	(1,647,098)
Administrative expenses		(2,941,169)	(2,640,562)
Research and development expenses		(21,274,903)	(9,154,041)
Total operating expenses		(26,275,097)	(13,441,701)
<b>Operating income</b>		22,307,928	31,889,180
<b>Non-operating income and gains</b>			
Interest income		1,299,883	1,555,191
Gain on disposal of property, plant and equipment		-	219
Gain on equity investments, net	2, 4(8)	184,393	168,721
Gain on disposal of investments	2, 4(8)	-	1,757,267
Foreign exchange gain, net	2	458,172	-
Reversal of bad debts	2, 4(5)	152,470	-
Others	5	295,748	272,414
Total non-operating income and gains		2,390,666	3,753,812
<b>Non-operating expenses and losses</b>			
Interest expense		(10,045)	(65,426)
Loss on disposal of property, plant and equipment	2	(3,093)	(2,858)
Loss on disposal of investments		(39,638)	-
Foreign exchange loss, net		-	(18,242)
Inventory loss provision	2, 4(7)	(1,311,878)	(95,290)
Impairment loss	2, 4(3), 4(8), 4(10)	(1,423,139)	(375,312)
Valuation loss on financial assets		(645,864)	(5,026)
Valuation loss on financial liabilities	2, 4(2)	(2,956)	(44,704)
Others		(163,851)	(183,849)
Total non-operating expenses and losses		(3,600,464)	(790,707)
<b>Income from continuing operations before income tax</b>		21,098,130	34,852,285
<b>Income tax expense</b>	2, 4(23)	(1,923,890)	(1,462,151)
<b>Consolidated net income</b>		\$ 19,174,240	\$ 33,390,134
<b>Income Attributable to :</b>			
Shareholders of the parent		\$ 19,189,997	\$ 33,592,702
Minority interests		(15,757)	(202,568)
Consolidated net income		\$ 19,174,240	\$ 33,390,134
<b>Basic Earnings Per Share (in New Taiwan Dollars)</b>	2, 4(24)	Before tax After tax	Before tax After tax
Consolidated net income		\$ 19.81 \$ 18.00	\$ 32.79 \$ 31.41
Net loss attributable to minority interests		0.01 0.01	0.19 0.19
Net income attributable to the parent		\$ 19.82 \$ 18.01	\$ 32.98 \$ 31.60
<b>Diluted Earnings Per Share (in New Taiwan Dollars)</b>	2, 4(24)		
Consolidated net income		\$ 19.28 \$ 17.52	
Net loss attributable to minority interests		0.01 0.01	
Net income attributable to the parent		\$ 19.29 \$ 17.53	

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

## MEDIATEK INC.AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2008 and 2007

(Amounts in thousands of New Taiwan Dollars)

Description	Common stock	Capital reserve	Retained Earnings			Cumulative translation adjustments	Unrealized gain (loss) on financial instruments	Treasury stock	Total shareholder's equity attributable to parent company	Minority interests	Total shareholder's equity
			Legal reserve	Special reserve	Undistributed earnings						
Balance as of January 1, 2007	\$ 9,683,127	\$ 404,409	\$ 7,407,185	\$ 714,649	\$ 47,175,664	\$ (483,510)	\$ 2,679,976	\$ (55,970)	\$ 67,525,530	\$ -	\$ 67,525,530
Appropriation and distribution of 2006 earnings:											
Legal reserve	-	-	2,257,959	-	(2,257,959)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(714,649)	714,649	-	-	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(63,109)	-	-	-	(63,109)	-	(63,109)
Employees' bonuses	206,837	-	-	-	(1,181,926)	-	-	-	(975,089)	-	(975,089)
Shareholders' dividends	484,156	-	-	-	(15,008,846)	-	-	-	(14,524,690)	-	(14,524,690)
Share swap in investee by new issuance	34,418	2,021,070	-	-	-	-	-	-	2,055,488	-	2,055,488
Net income attributable to parent company for the year ended December 31, 2007	-	-	-	-	33,592,702	-	-	-	33,592,702	-	33,592,702
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	(1,871,602)	-	(1,871,602)	-	(1,871,602)
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	109,802	-	-	-	-	-	-	109,802	-	109,802
Adjustment arising from changes in the percentage of ownership in investees	-	4,562	-	-	-	-	-	-	4,562	-	4,562
Cumulative translation adjustments	-	-	-	-	-	83,463	-	-	83,463	-	83,463
Increase in minority interest	-	-	-	-	-	-	-	-	-	132,191	132,191
Balance as of December 31, 2007	10,408,538	2,539,843	9,665,144	-	62,971,175	(400,047)	808,374	(55,970)	85,937,057	132,191	86,069,248
Appropriation and distribution of 2007 earnings:											
Legal reserve	-	-	3,359,270	-	(3,359,270)	-	-	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(75,584)	-	-	-	(75,584)	-	(75,584)
Employees' bonuses	218,900	-	-	-	(3,418,900)	-	-	-	(3,200,000)	-	(3,200,000)
Shareholders' dividends	104,085	-	-	-	(19,880,306)	-	-	-	(19,776,221)	-	(19,776,221)
Net income attributable to parent company for the year ended December 31, 2008	-	-	-	-	19,189,997	-	-	-	19,189,997	-	19,189,997
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	(1,063,948)	-	(1,063,948)	-	(1,063,948)
Employee stock option distributed to subsidiaries' employees	-	40,644	-	-	-	-	-	-	40,644	-	40,644
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	146,037	-	-	-	-	-	-	146,037	-	146,037
Adjustment arising from changes in the percentage of ownership in investees	-	30,787	-	-	-	-	-	-	30,787	-	30,787
Cumulative translation adjustments	-	-	-	-	-	382,132	-	-	382,132	-	382,132
Increase in minority interests	-	-	-	-	-	-	-	-	-	15,771	15,771
Balance as of December 31, 2008	<u>\$ 10,731,523</u>	<u>\$ 2,757,311</u>	<u>\$ 13,024,414</u>	<u>\$ -</u>	<u>\$ 55,427,112</u>	<u>\$ (17,915)</u>	<u>\$ (255,574)</u>	<u>\$ (55,970)</u>	<u>\$ 81,610,901</u>	<u>\$ 147,962</u>	<u>\$ 81,758,863</u>

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

Chairman :Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

**MEDIATEK INC.AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2008 and 2007**  
(Amounts in thousands of New Taiwan Dollars)

Description	Note	2008	2007
<b>Cash flows from operating activities :</b>			
Consolidated net income		\$ 19,174,240	\$ 33,390,134
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		3,294,710	2,106,157
Amortization of financial assets discount or premium		(19,043)	(10,402)
Bad debt (reversal) provision		(152,470)	129,646
Inventory loss provision		1,311,878	95,290
Cash dividends from equity investees		74,604	58,830
Net gain on equity investments		(184,393)	(168,721)
Loss (gain) on disposal of investment (including interest income)		39,638	(1,765,821)
Impairment loss		1,423,139	375,312
Adjustment of valuation of financial assets and liabilities		132,230	(28,634)
Net loss on disposal of property, plant and equipment		3,093	2,639
Deferred income tax		542,067	480,057
Employee stock option distributed		40,644	-
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		731,228	(520,375)
Accounts receivable		1,790,276	(3,350,231)
Receivables from related parties		4,374	(4,167)
Other receivables		90,901	(385,107)
Inventories		3,656,655	(7,141,599)
Prepayments and other current assets		(972,054)	(491,837)
Accounts payable		(2,583,108)	2,803,131
Payables to related parties		(10,984)	448,186
Income taxes payable		(1,751,783)	249,673
Accrued expenses		8,640,573	(41,585)
Other current liabilities		306,447	5,083
Accrued pension liabilities		15,798	5,391
Net cash provided by operating activities		35,598,660	26,241,050
<b>Cash flows from investing activities :</b>			
Increase in restricted deposits		(30,359)	(4,666)
Increase in available-for-sale financial assets		(2,471,734)	(5,576,788)
Increase in available-for-sale financial asset refundable		-	14
Proceeds from disposal of available-for-sale financial assets		5,437,065	626,016
Increase in held-to-maturity financial assets		(1,612,351)	(984,648)
Proceeds from redemption of held-to-maturity financial assets		500,000	-
Proceeds from disposal of financial assets carried at cost		2,207	39,880
Disinvestment of financial assets carried at cost refundable		6,509	22,155
Increase in financial assets carried at cost		(223,553)	(105,265)
Net Changes in investments accounted for using the equity method		-	1,844,705
Proceeds from disposal of investments accounted for using the equity method		-	1,452,250
Increase in prepaid long-term investments		(72,861)	-
Purchase of property, plant and equipment		(1,704,547)	(1,696,126)
Proceeds from disposal of property, plant and equipment		38,751	5,987
Purchase of intangible assets from other enterprise	4.(10)	(10,060,691)	-
Increase in intangible assets and deferred assets		(547,557)	(3,520,633)
Decrease (increase) in refundable deposits		256,372	(343,226)
Net cash used in investing activities		(10,482,749)	(8,240,345)
<b>Cash flows from financing activities :</b>			
(Decrease) increase in short-term debts		(25,000)	25,000
(Decrease) increase in lease payable		(4,845)	6,237
Contingent consideration based on securities price		-	740,746
Increase in deposits received		-	1,022
(Decrease) increase in long-term debts		(9,935)	9,935
Cash dividends		(19,776,221)	(14,524,690)
Directors' and supervisors' remuneration		(75,584)	(63,109)
Employees' bonuses		(3,200,000)	(975,089)
Cash dividends distributed to subsidiaries holding the Company's stock		146,037	109,802
Increase in minority interests		62,315	331,162
Net cash used in financing activities		(22,883,233)	(14,338,984)
Effect of exchange rate		200,842	88,063
Net increase in cash and cash equivalents		2,433,520	3,749,784
Cash and cash equivalents at the beginning of the year		50,588,024	46,838,240
Cash and cash equivalents at the end of the year		\$ 53,021,544	\$ 50,588,024
<b>Supplemental disclosures of cash flow information :</b>			
Interest paid during the year		\$ 9,493	\$ 64,050
Income tax paid during the year		\$ 3,133,606	\$ 732,421
<b>Activities partially effected cash flows :</b>			
Purchase of property, plant and equipment		\$ 1,595,098	\$ 1,732,419
Add: decrease (increase) in payables to contractors and equipment suppliers		109,449	(36,293)
Cash paid for the purchase of property, plant and equipment		\$ 1,704,547	\$ 1,696,126
<b>Non-cash activities :</b>			
Stock dividends and employees' bonuses capitalized		\$ 322,985	\$ 690,993
Change in unrealized gain (loss) on financial instruments		\$ (1,063,948)	\$ (1,871,602)

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****1. Organization and Operation**

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

As of December 31, 2008 and 2007, total numbers of employees in company and subsidiaries' were 4,081 and 3,031, respectively.

**2. Summary of Significant Accounting Policies**

The accompanying consolidated financial statements are prepared in accordance with the requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the R.O.C. Significant accounting policies are summarized as follows.

**General Descriptions of the Consolidated Entities**

The accompanying consolidated financial statements include the accounts of the Company, all directly or indirectly majority-owned subsidiaries by the Company and those investees in which the Company's ownership percentage is less than 50% but the Company has a controlling power. The consolidated subsidiaries are listed as follows:

Company	Main Business	Percentage of Ownership As of December 31,		Note
		2008	2007	
MediaTek Investment Corp.	General investing	100.00%	100.00%	-
Hsu-Chung Investment Corp.	General investing	100.00%	-	1
Hsu-Xin Investment Corp.	General investing	100.00%	-	1
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%	2
Core Tech Resources Inc.	General investing	100.00%	100.00%	-
MediaTek Capital Corp.	General investing	100.00%	100.00%	-
AdvMatch Technology, Inc.	IC design	80.29%	73.23%	3
Aimgene Technology, Co. Ltd.	Mode manufacturing	100.00%	100.00%	4
Airoha Technology, Inc.	IC design and sales	41.78%	41.90%	5

(To be continued)



**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

		Percentage of Ownership As of December 31,		
Company	Main Business	2008	2007	Note
Airoha Technology (Samoa) Corporation	General investing	100.00%	-	6
Gaintech Co. Limited	General investing	100.00%	100.00%	-
MediaTek Inc. (HK)	General investing	100.00%	100.00%	7
MediaTek Inc. China	Technology services	100.00%	100.00%	8
MediaTek (Beijing) Inc.	Technology services	100.00%	100.00%	8
MediaTek (ShenZhen) Inc.	Technology services	100.00%	100.00%	8
MediaTek Singapore Pte. Ltd.	Technology services and sales	100.00%	100.00%	-
MTK Wireless Limited (UK)	Technology services	100.00%	100.00%	9
MediaTek Wireless Limited (Ireland)	Technology services	100.00%	100.00%	9
MediaTek Denmark ApS	Technology services	100.00%	100.00%	9
CrystalMedia Technology, Inc.	Technology services	-	100.00%	10
MediaTek USA Inc.	Technology services	100.00%	100.00%	11
Zena Technologies International Inc. (BVI)	General investing	80.00%	-	12
Zena Technologies, Inc. (USA)	Technology services	100.00%	100.00%	12
MediaTek Japan Inc.	Technology services	100.00%	100.00%	11
MediaTek Limited	Trading and general investing	100.00%	100.00%	-
K-Will Corporation (Japan)	Equipment manufacturing	-	87.00%	13
K-WILL Corporation (USA)	Equipment manufacturing and sales	-	100.00%	13
MediaTek North America, Inc.	General investing	100.00%	100.00%	14
MediaTek Wireless, Inc.(USA)	Technology services	100.00%	100.00%	15
MediaTek India Technology Pvt. Ltd.	Technology services	99.99%	99.99%	-
MediaTek Korea Inc.	Technology services	100.00%	100.00%	16

1. The Company established Hsu-Chung Investment Corp. and Hsu-Xin Investment Corp. in April 2008.
2. Wiseali Technology Inc. was in liquidation since August 2008 and was not included in the Company's 2008 consolidated financial statements.
3. AdvMatch Technology, Inc. was in liquidation since December 2008 and was not included in the Company's 2008 consolidated financial statements.
4. Aimgene Technology, Co. Ltd. was in liquidation since November 2008 and was not included in the Company's 2008 consolidated financial statements.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

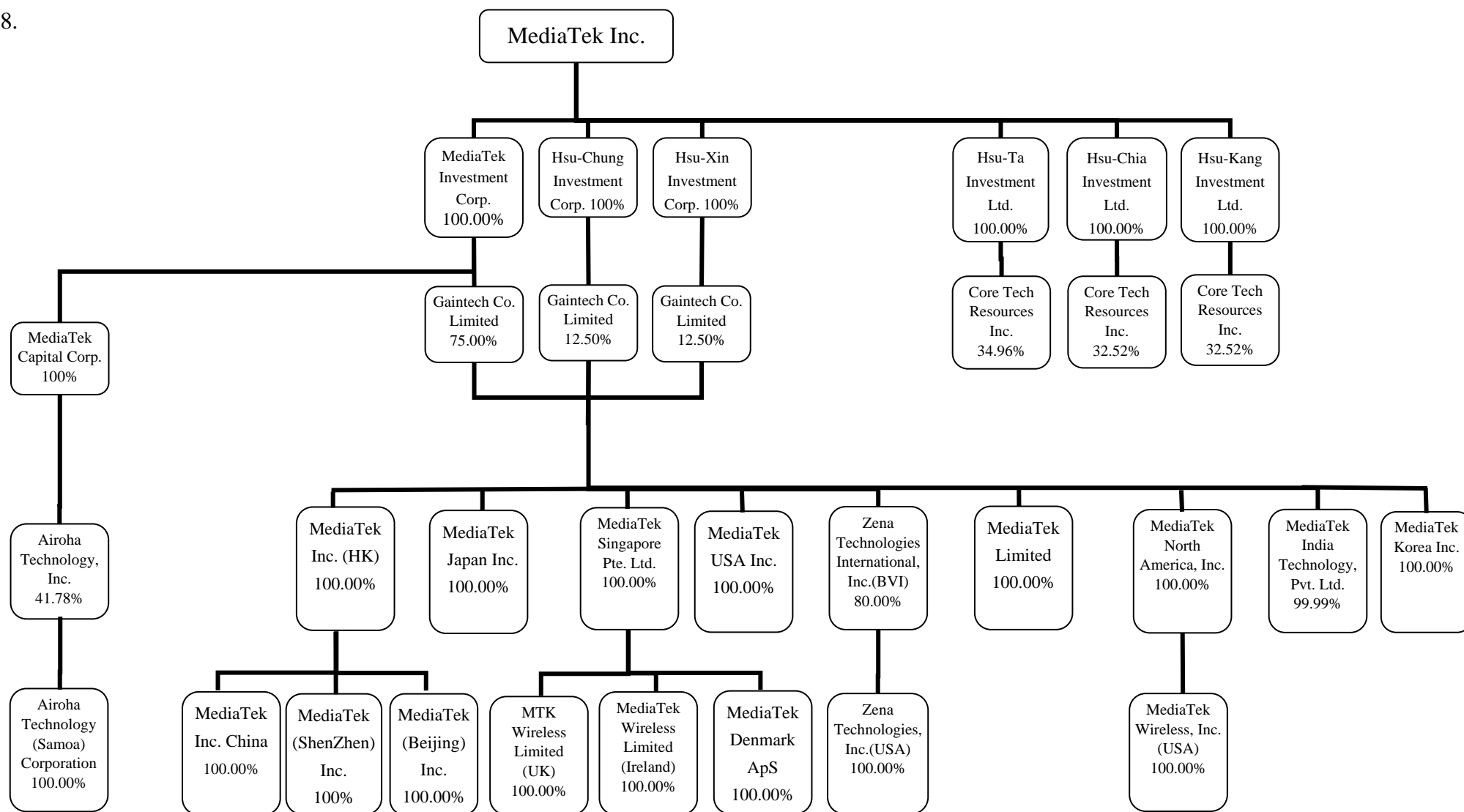
5. MediaTek Capital Corp.'s direct and indirect shareholding in Airoha Technology, Inc.'s was under 50%. However, the Company continued to include Airoha in its consolidated financial statements since the Board of Airoha has been controlled by MediaTek Capital Corp.
6. Airoha Technology (Soman) Corporation was established by Airoha Technology, Inc. in February 2008.
7. MediaTek Inc. (HK) was established by Gaintech Co. Limited in December 2007.
8. In 2008, MediaTek Limited transferred all of its shares of MediaTek (ShenZhen) Inc., MediaTek Inc. China, and MediaTek (Beijing) Inc. to MediaTek Inc. (HK) for purpose of capital re-structuring.
9. MTK Wireless Limited (UK), MediaTek Wireless Limited (Ireland) and MediaTek Denmark ApS were legally established by MediaTek Singapore Pte. Ltd. in December 2007.
10. MediaTek USA Inc. merged with CrystalMedia Technology Inc. in January 2008.
11. The Company and Gaintech Co. Limited successfully conducted a share swap by issuing new shares in exchange of 69% and acquired 31% by using cash, respectively, of NuCORE Technology Inc. ("NuCORE") in September 2007. Afterwards, NuCORE was renamed MediaTek USA Inc. For a purpose of capital restructuring, the Company and Gaintech further transferred their ownership on MediaTek USA Inc. to CrystalMedia Technology Inc., a subsidiary of Gaintech Co. Limited, in October 2007. NuCORE Technology Co., Ltd., a Japan-based subsidiary of MediaTek USA Inc., was renamed MediaTek Japan Inc. thereafter. In January 2008, MediaTek USA Inc. merged with CrystalMedia Technology Inc.
12. In August 2008, Zena Technologies Inc. (USA) was established by Zena Technologies International Inc. (BVI), which was invested by Gaintech Co. Limited.
13. K-Will Corporation (Japan) was acquired by Gaintech Co. Limited in September 2007. As a result, the ownership of K-WILL Corporation (USA), a subsidiary of K-Will Corporation (Japan), became a consolidated subsidiary of the Company since then. Afterwards, Gaintech Co. Limited sold K-Will Corporation (Japan) in December 2008, K-WILL Corporation (USA), the subsidiary of K-Will Corporation (Japan) was not included in the Company's 2008 consolidated financial statements.
14. MediaTek North America, Inc. was established by Gaintech Co. Limited in December 2007.
15. MediaTek Wireless, Inc.(USA) was established by MediaTek North America, Inc. in December 2007.
16. MTK Korea Inc. has been renamed MediaTek Korea Inc. since November 2008.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The following diagram presented information regarding the relationship and ownership percentages among the Company and subsidiaries as of December 31, 2008.



**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Principles of Consolidation

- A. The consolidated financial statements were prepared in accordance with SFAS No. 7. The transactions between the consolidated entities were appropriately eliminated in the consolidated financial statements.
- B. Investees in which the Company and subsidiaries hold more than 50% of voting rights, including those that are exercisable or convertible, are accounted for under the equity method and shall be consolidated, since the Company and subsidiaries are considered to possess control. An entity shall also be consolidated if any of the following circumstances exists:
- a. The total amount of voting rights held by the investee exceeds 50% due to agreement with other investors;
  - b. As permitted by law, or by contract agreements, the Company controls an entity's finances, operations and personnel affairs;
  - c. The Company has authority to appoint or discharge more than half members of board of directors (or equivalents), by whom the investee is controlled;
  - d. The Company leads and controls more than half of the members of the board of directors (or equivalents), by whom the investee is controlled;
  - e. Other indications of control possession.
- C. A non-current 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 that when certain criterion would be met.
  - e. The asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
  - f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

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

- A. The Company maintains its accounting records in New Taiwan dollars ("NT Dollars" or "NT\$"), the national currency of the R.O.C. Transactions denominated in foreign currencies are recorded in NT Dollars using the exchange rates in effect at the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising from 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 from the retranslation of non-monetary assets and liabilities carried at fair value are included in earnings for the period except for differences arising from the retranslation of non-monetary assets and liabilities of which gains and losses are recognized directly in equity. For such non-monetary assets and liabilities, any exchange component of that gain or loss is also recognized directly in equity. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in the statements of operations.
- B. The assets and liabilities of the foreign subsidiaries are translated into NT Dollars, with the local currency of each foreign subsidiary as its functional currency, at current exchange rates in effect at the balance sheet date. Shareholders' equity accounts should be translated at the historical rate except for the beginning balance of the retained earnings, which is carried by the translated amount of the last period. Dividends are translated at the spot rate of the declared date. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. Translation gains and losses are included as a component of shareholders' equity. The accumulated exchange gains or losses resulting from the translation are recorded as cumulative translation adjustments under shareholders' equity.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

*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 value from fluctuations 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 on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets are 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 when the Company loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. The Company loses such control if it realizes the rights to benefits specified in the contract, the rights expire, or the Company surrenders those rights.

If a financial assets is transferred but the transfer does not satisfy the conditions for loss of control, the transferor accounts for the transaction as a secured borrowing.

The Company should derecognize an entire or a part of financial liability when the obligation specified in the contract is discharged, cancelled, or it expires.

B. Upon initial recognition of financial assets or financial liabilities, 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

Financial assets or financial liabilities at fair value through profit or loss include financial assets or liabilities held for trading and financial assets and liabilities designated upon initial recognition 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.

Apart from derivatives and financial instruments designated as at fair value through profit or loss, financial instruments may be reclassified out of the fair value through profit or loss category if the financial instruments are no longer held for the purpose of selling them in the near term, and either of the following requirements is met:

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- (a) Financial asset that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- (b) Financial instruments that would not have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

The financial instrument shall be reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of the financial instrument on the date of reclassification becomes its new cost or amortized cost, as applicable. Financial instrument shall not be reclassified into fair value through profit or loss category after initial recognition.

b. Bond portfolios with no active market

These are bond portfolios with fixed or determinable payments which are not quoted in an active market; or preference shares which are not quoted in an active market that issuer has an obligation to redeem the preference shares in a 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 decrease 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 what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

c. Financial assets carried at cost

These are not measured at fair value because the fair value cannot be reliably measured, they are either holdings in unquoted equity instrument or emerging stocks that have no material influence or derivative assets that are linked to and must be settled by delivery of the abovementioned unquoted equity instruments. If there is objective evidence that an impairment loss has incurred on an unquoted equity instrument, an impairment loss is recognized. Such impairment loss shall not be reversed.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

d. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Company has both the positive intention and ability to hold the financial assets to maturity. Investments intended to be held to maturity are measured at amortized cost. The Company recognizes an impairment loss if objective evidence of such impairment loss exists. However, if in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

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. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity. When the investment is derecognized, the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

If there is objective evidence which indicates that the investment 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 profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

An available-for-sale financial asset that would have met the definition of loans and receivables may be reclassified as the bond portfolios with no active market if the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The financial instrument shall be reclassified at its fair value on the date of reclassification. Any gain or loss already recognized as adjustment to stockholder's equity shall be amortized and charge to current income. The fair value of the financial instrument on the date of reclassification becomes its new cost or amortized cost, as applicable.

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



**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

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. Cost is determined based on the weighted average 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 a gross basis to the entire inventory. Inventories that are not sold or moved for further production within 60 days are deemed to be slow-moving items and certain allowance is set aside to reflect the potential loss from stock obsolescence.

Investment Accounted for Using the 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 net equity value of the investee (“investment premium”) at the date of acquisition is amortized over 5 years. Effective from January 1, 2006, pursuant to the newly revised R.O.C. SFAS No. 25 “Business Combinations - Accounting Treatment under Purchased Method”, investment premiums, representing goodwill, are no longer amortized but are assessed for impairment at least on an annual basis. In some cases, the fair value of the net identifiable assets of the investee will exceed the investment cost, that excess represents investment discount. Investment discounts generated before January 1, 2006, continue to be amortized over the remaining period. Investment discounts 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 in profit or loss.
- B. Adjustment to capital reserve and long-term investment 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 the Company ceases to have significant influence over the investee shall be regarded as its cost on initial measurement as a financial asset.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- C. Unrealized gains and losses arising from intercompany transactions are deferred and recognized when realized.
- D. For equity investees in which the Company does not possess control, the Company recognizes its investee's losses only to the extent of the Company's long-term investment on that investee. 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 balance for the long-term investment shall first be offset by 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. Once the investee company begins to generate profit, such profit is allocated to the Company until all the losses previously absorbed by the Company have been recovered.
- 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 carried at cost less accumulated depreciation and accumulated impairment. Depreciation is computed on a straight-line basis over the following useful lives:
- |                                    |         |       |
|------------------------------------|---------|-------|
| Buildings and facilities           | 3 to 50 | Years |
| Machinery and equipment            | 3 to 6  | Years |
| Research and development equipment | 2 to 5  | Years |
| Miscellaneous equipment            | 2 to 10 | Years |
- B. Improvements and replacements are capitalized and depreciated over their estimated useful lives while ordinary repairs and maintenance are expensed as incurred.
- C. When property, plant and equipment are disposed of, their original cost, accumulated depreciation and accumulated impairment are written off and related gains or losses are included as non-operating income or expenses.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

*Intangible Assets*

- A. Software (design software), patents, IPs and other separately identifiable intangibles with finite lives are stated at cost and amortized on a straight-line basis over the following useful lives:

Software (design software)	2 to 6 Years
Patents, IPs and Others	3 to 5 Years

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

- B. Expenditures related to research activities as well as those expenditures not meeting the criteria for capitalization are expensed when incurred. Expenditures related to development activities meeting the criteria for capitalization are capitalized.
- C. Rental asset is carried at the lower of market value or the discounted present value of guaranteed residual value and full expected rental payment (minus the cost shared by lesser). The expected useful life is used for amortization on a straight-line basis when the Company has granted an option bargain price at the end of lease term while the lease duration is used otherwise.

*Deferred Assets*

Deferred assets, including subsidy for electric wire, are amortized on a straight-line basis over 2 to 5 years.

*Asset Impairment*

In accordance with the R.O.C. SFAS No. 35 “Accounting for Assets Impairment”, the Company is required to perform (1) impairment testing on goodwill annually; (2) impairment testing for intangible assets which have indefinite lives or are not available for use annually; and (3) evaluating 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. Impairment losses shall be recognized when the carrying amount exceeds the recoverable amount. Recognized losses on goodwill impairment shall not be reversed subsequently. For non-goodwill assets impaired in prior periods, the Company assesses at the balance sheet date if any indication that the impairment loss no longer exists or may have diminished. If there is any

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

such indication, the Company recalculates the recoverable amount of the asset, and if the recoverable amount has increased as a result of the increase in the estimated service potential of the assets, the Company reverses the impairment loss so that the resulting carrying amount of the asset does not exceed the amount (net of amortization or depreciation) that would otherwise result had no impairment loss been recognized for the assets in prior years. However, the reversal of impairment loss for goodwill should not be recognized.

*Capital Expenditures vs. Operating Expenditures*

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

*Revenue Recognition*

The Company recognizes revenue when the goods have been delivered, the significant risks and rewards of ownership of the goods have been transferred to the buyer, the price is fixed or determinable, and collectibility is reasonably assured. Provisions for estimated sales returns and other allowances are recorded in the period the related revenue is recognized, based on any known factors that would significantly affect the level of provisions.

*Employee Retirement Benefits*

- A. In accordance with the Labor Standards Law (the "Law") of the R.O.C., the Company makes monthly contribution equal to 2% of the wages and salaries paid during the period to a pension fund maintained with the Central Trust of China. The fund is administered by the Employees' Retirement Fund Committee and is deposited in the committee's name. The pension fund is not included in the financial statements of the Company.
- B. The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Law can choose to remain with the pension mechanism under the Law or to change for the Act. Under the Act, the rate of an employer monthly contribution to the pension fund should be at least 6% of the employee's monthly wages.
- C. For employees under a defined benefit pension plan the Company and subsidiaries account for the pension liabilities under the R.O.C. SFAS No. 18 "Accounting for Pensions". The minimum pension liability was recorded for the excess of accumulated pension obligations over the fair value of plan assets. Net transition obligations from the plan assets are amortized using the straight-line method over the employees' expected average remaining service period of 15~23 years. For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- D. The Company's foreign subsidiaries under a defined contribution pension plan make monthly contributions to pension funds in accordance with the local related regulations and laws. The monthly contribution is recorded as an expense at the respective months when incurred.

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. Deferred income tax liabilities are recognized for taxable temporary differences; while deferred income tax assets are recognized for deductible temporary differences, tax losses and investment tax credits. Valuation allowance on deferred tax assets is provided to the extent that it is more than 50% probable that it will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.
- B. Income tax credit is accounted for in accordance with the R.O.C. SFAS No. 12 "Accounting for Income Tax Credit". Income tax credits resulting from the acquisition of equipment, research and development expenditures and employee training shall be recognized using the flow-through method.
- C. The Company and its domestic subsidiaries' income taxes (10%) on undistributed earnings are recorded as expenses in the year when the stockholders have resolved that the earnings shall be retained.
- D. Income Basic Tax Act took effect on January 1, 2006. The alternative minimum tax ("AMT") imposed under the Income Basic Tax Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the Income Basic Tax Act. The tax effect of such amounts was taken into consideration in determining the realization of deferred income tax assets.

Employee Stock Option

The Company used the intrinsic value method to recognize compensation cost for its employee stock options, which are classified as equity-settled share-based payment transaction, issued between 2004 and 2007, in accordance with Accounting Research and Development Foundation interpretation Nos. 92-070~072. For options granted on or after January 1, 2008, the Company recognizes compensation cost using the fair value method in accordance with R.O.C. SFAS No. 39 "Accounting for Share-Based Payment".

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

According to R.O.C. SFAS No. 39, for transactions measured by reference to the fair value of the equity instruments granted, the Company shall measure the fair value of equity instruments granted at the measurement date, based on market prices which the Company shall use an applicable valuation technique to estimate.

For equity-settled share-based payment transaction, in accordance with R.O.C. SFAS No. 39, the Company shall measure the goods or services received, and the corresponding increase in stockholder's equity. If there is no vesting condition set for equity instrument granted, it shall be considered vested immediately. In this case, on grant date the Company shall recognize the services received in full, with corresponding increase in shareholder's equity. If the equity instruments granted do not vest until the counterparty completes a specified period of service, it shall account for those services as they are rendered by the counterparty during the vesting period, with a corresponding increase in shareholder's equity.

Vesting condition, other than market condition, shall not be taken into account when estimating the fair value of the share or share options at the measurement date. Instead, vesting conditions shall be taken into account by adjusting the number of options. The Company shall recognize an amount for goods or services received during the vesting period based on the best available estimate of the number of options expected to vest and shall revise the estimate, if necessary, if subsequent information indicates that the number of options expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal to the number of options ultimately vested. However, for grants of options with market condition, irrespective of whether that market condition is satisfied, the Company shall recognize the goods or services received when all other vesting conditions are satisfied.

*Employee Bonuses and Remunerations Paid to Directors and Supervisors*

In accordance with Accounting Research and Development Foundation Interpretation No. 96-052 "Accounting for Employees' Bonuses and Remunerations to Directors and Supervisors", effective from January 1, 2008, employee bonuses and remunerations paid to directors and supervisors are charged to expense at fair value and are no longer accounted for as an appropriation of retained earnings.

*Earnings Per Share*

The Company's EPS is computed according to R.O.C. SFAS No. 24 "Earnings Per Share". Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the current reporting period. Diluted earnings (loss) per share is computed by taking basic earnings (loss) per share into consideration plus additional common shares that would have been outstanding if the dilutive share equivalents had been issued.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Net income (loss) is also adjusted for interest and other income or expenses derived from any underlying dilutive share equivalents. The weighted-average of outstanding shares is adjusted retroactively for stock dividends. According to Accounting Research and Development Foundation interpretation Nos. 97-169, bonus share issues shall not be retroactively adjusted.

*Treasury Stock*

- A. The Company's shares owned by subsidiaries were accounted for as treasury stock in accordance with the R.O.C. SFAS No. 30 "Accounting for Treasury Stock". Cash dividends distributed to the Company's subsidiaries are deducted from investment income account and credited to capital reserves-treasury stock transaction.
- B. Treasury stock transactions are accounted for under the cost method. The acquisition cost of shares is recorded under the caption of treasury stock, a contra shareholders' equity account.
- C. When treasury stock is sold for more than its acquisition cost, the difference is credited to capital reserve-treasury stock transaction. If treasury stock is sold for less than its acquisition cost, the difference is charged to the same capital reserve account to the extent that the capital reserve account is reduced to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.
- D. When treasury stock is retired, the treasury stock account is credited and all capital account balances related to the treasury shares, including additional paid in capital-share issuance in excess of par and paid in capital, is debited on a proportionate basis. Any difference, if on credit side, is recorded in capital reserve-treasury stock transaction; if on debit side, it is recorded against retained earnings.

*Derivative Financial Instruments-Held for Trading*

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

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****3. Reasons and Effects for Change in Accounting Principles**

- A. Effective from January 1, 2008, the Company adopted the newly released R.O.C. SFAS No.39 "Accounting for Share-Based Payment". The adoption decreased the Company's net income by NT\$39,843 thousand and basic earnings per share by NT\$0.04 for the year ended December 31, 2008.
- B. Effective from January 1, 2008, the Company adopted the newly released Accounting Research and Development Foundation Interpretation No. 96-052 to account for employees' bonuses and remunerations paid to directors and supervisors. The adoption decreased the Company's net income by NT\$6,327,236 thousand and basic earnings per share by NT\$5.94 for the year ended December 31, 2008.
- C. Effective from July 1, 2008, the Company adopted the second amendment of R.O.C. SFAS No. 34 "Accounting for Financial Instruments" and reclassified certain of its financial assets and liabilities in accordance with the new standards. Such a change in accounting principles increased net income by NT\$29,400 thousand and basic earnings per share by NT\$0.03 for the year ended December 31, 2008.
- D. On January 1, 2007, the Company adopted the newly released R.O.C. SFAS No. 37, "Accounting for Intangible Assets". The accounting change had no material effect on total assets as of December 31, 2007 and on net income and earnings per share for the year then ended.

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

	As of December 31,	
	2008	2007
Petty cash	\$1,941	\$1,090
Savings and checking accounts	8,225,989	6,974,020
Time deposits	44,783,604	34,172,572
Cash equivalents- bonds-Repo	10,010	9,440,342
Total	<u>\$53,021,544</u>	<u>\$50,588,024</u>

- a. As of December 31, 2008, the Company and subsidiaries were committed to selling the bonds-Repo back to the brokers in January 2009.
- b. Cash and cash equivalents were not pledged as of December 31, 2008 and 2007.



**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

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

a.

	As of December 31,	
	2008	2007
Held for trading financial assets		
Mutual fund	\$-	\$1,045,667
Financial debentures	147,675	150,770
Forward exchange contracts	32,587	44,130
Subtotal	180,262	1,240,567
Financial assets designated as at fair value through profit or loss		
Credit-linked deposits	565,536	943,744
Exchange rate-linked deposits	-	248,215
Interest rate-linked deposits	247,950	-
Other deposits	-	711,559
Subtotal	813,486	1,903,518
Total	\$993,748	\$3,144,085

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

## b. Reclassification of financial instruments

## (a) Reason and amount for reclassification of financial assets:

Held-for-trading financial assets:

The Company's financial assets classified as held-for-trading are no longer for near-term trading, but did not meet the definition of loans and receivables. However, based on the relevant guidance issued by International Accounting Board, Financial Supervisory Commission, Executive Yuan, and Accounting Research and Development Foundation, the Company believes that the economy condition during third quarter had constituted "the rare circumstances" described by the reclassification amendments in R.O.C. SAFS No. 34, thus the Company reclassified some investments originally classified as held-for-trading, which amounted to NT\$691,600 thousand, into available for sale category.

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(b) Book value and fair value of financial instrument after reclassification:

	As of December 31, 2008	
	Book value	Fair value
Available for sale financial assets	\$662,200	\$662,200

(c) Gain or loss on reclassified financial assets recognized arising from variance of fair value:

For the years ended December 31, 2008 and 2007, the Company recognized losses of NT\$29,400 thousand and NT\$32,900 thousand, respectively, on the financial instruments reclassified during the third quarter of 2008.

(d) The pro-forma gain or loss assuming no financial assets had been reclassified was computed as follows:

	Financial assets originally classified as held-for-trading	
	Loss would have been recognized if not reclassified	Loss recognized after reclassification
For the year ended December 31, 2008	(\$58,800)	(\$29,400)

c.

	As of December 31,	
	2008	2007
Held for trading financial liabilities-current		
Forward exchange contracts	\$2,956	\$33,076
Options	-	4,864
Cross currency swap contracts	-	6,764
Total	\$2,956	\$44,704

(a) Forward exchange contracts

The Company and subsidiaries entered into derivative contracts during the years ended December 31, 2008 and 2007 to manage exposures to foreign exchange rate changes. The derivative contracts entered into by the Company did not meet the criteria of hedge accounting prescribed by SFAS No. 34. Therefore, they were recorded as the financial assets or liabilities at fair value through profit or loss. Please refer to note 10 to the financial statements for the disclosure of relative risk information.

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

As of December 31, 2008 and 2007, forward exchange contracts outstanding were as follows:

## i. As of December 31, 2008:

Held-for-trading financial assets:

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange	Sell USD	January 2009~February 2009	USD100,000

Held-for-trading financial liabilities

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange	Sell USD	February 2009	USD15,000

## ii. As of December 31, 2007:

Held-for-trading financial assets:

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange	Sell USD	January 2008	USD60,259

Held-for-trading financial liabilities

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

For the years ended December 31, 2008 and 2007, losses arising from the forward exchange contracts were NT\$493,627 thousand and NT\$65,360 thousand, respectively.

## (b) Options

i. For the year ended December 31, 2008, the loss arising from the options was NT\$3,808 thousand.

ii. As of December 31, 2007, option contracts outstanding were as follows:

Held for trading financial assets:

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Options	Sell USD	January 2008	USD10,000

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**Held for trading financial liabilities:

<u>Financial Instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>
Options	Sell USD	January 2008	USD10,000

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

## (c) Cross currency swap contracts

i. For the year ended December 31, 2008, the loss arising from the cross currency swap contracts was NT\$943 thousand.

ii. As of December 31, 2007, cross currency swap contracts outstanding was as follow:

Held for trading financial liabilities:

<u>Financial Instruments</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>	<u>Range of Interest Rates Paid</u>	<u>Range of Interest Rates Received</u>
Cross currency swap contracts	January 2008	USD50,000	5.2%	1.7%

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

## (3) Available-for-sale Financial Assets-current

	<u>As of December 31,</u>	
	<u>2008</u>	<u>2007</u>
Funds	\$1,559,000	\$3,902,882
Bonds	1,648,472	2,373,729
Total	<u>\$3,207,472</u>	<u>\$6,276,611</u>

The Company and subsidiaries assessed that their available-for-sale financial assets-current have been impaired, and therefore recognized impairment loss in amount of NT\$238,530 thousand.

## (4) Held-to-maturity Financial Assets-current

	<u>As of December 31,</u>	
	<u>2008</u>	<u>2007</u>
Financial Debentures	\$247,199	\$501,574
Corporate bonds	124,331	-
Total	<u>\$371,530</u>	<u>\$501,574</u>

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(5) Accounts Receivable-Net**

	As of December 31,	
	2008	2007
Accounts receivable	\$5,594,149	\$7,395,293
Less: Allowance for doubtful accounts	(165,529)	(317,914)
Net	<u>\$5,428,620</u>	<u>\$7,077,379</u>

**(6) Other Receivables**

	As of December 31,	
	2008	2007
Interest receivable	\$209,106	\$207,236
VAT refundable	339,553	516,941
Others	190,648	7,212
Total	<u>\$739,307</u>	<u>\$731,389</u>

**(7) Inventories-Net**

	As of December 31,	
	2008	2007
Raw materials	\$21,223	\$91,237
Work in process	3,424,494	5,273,777
Finished goods	3,832,117	5,637,236
Subtotal	7,277,834	11,002,250
Less: Allowance for inventory obsolescence	(1,730,535)	(461,878)
Net	<u>\$5,547,299</u>	<u>\$10,540,372</u>

Inventories were not pledged as of December 31, 2008 and 2007.

**(8) Funds and Investments**

As of December 31, 2008				
Investee Company	Types	Shares/ units	Amounts	Ownership
<u>Financial assets designated as at fair value through</u>				
<u>profit or loss-noncurrent</u>				
Dynamic Credit Protection Notes	Credit-linked deposit	-	\$47,387	-
Csi Best of 3 Cppi Portfolios USD 5yrs Principal Protected Note	Credit-linked deposit	-	234,530	-
Foxconn Credit-Linked Deposit	Credit-linked deposit	-	51,442	-

(To be continued)

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

Investee Company	As of December 31, 2008			
	Type	Share/unit	Amount	Ownership
Pimco USD Principal Protection Note	Bond	1,000	320,478	-
GS Globalization Basket Note	Bond	-	152,064	-
GS Inflation Shield Note	Bond	-	131,689	-
Open Design Microelectronics Corporation	Bond	-	40,746	-
Imera System Inc. Note and Warrant	Bond	-	16,512	-
Subtotal			994,848	
<u>Available-for-sale financial assets-noncurrent</u>				
Pixart Imaging Inc.	Common share	1,284,513	146,435	1.03%
IIT Private Equity Real Estate Fund	Mutual fund	4,685,006	50,554	-
Cathay No.1 Real Estate Investment Trust	Mutual fund	70,000,000	662,200	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	442,000	-
Chinatrust 2006-1 Collateralized Loan		608		
Obligation-D	Securities		598,640	-
Chinatrust 2006-1 Collateralized Loan		246		
Obligation-E	Securities		245,238	-
Chinatrust 92-2 Financial Debenture	Financial			
	debenture	2	202,989	-
Nanya 96-1 Corporate Bonds	Bond	250	246,445	-
ING BNP Paribas Mjsd Perp	Bond	-	80,360	-
RBC 30yrs Nc 3m Zero Callable Note	Bond	-	289,134	-
15 Years 5.2% USD Callable Fixed Coupon				
Note	Bond	-	260,686	-
Subtotal			3,224,681	
<u>Held-to-maturity financial assets-noncurrent</u>				
Cathay Real Estate Investment Trust -Tun				
Nan C	Securities	20	100,000	-
Chinatrust 96-2 Second Financial Debenture	Financial			
with No Mortgage	debenture	25	250,000	-

(To be continued)

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

Investee Company	As of December 31, 2008			
	Type	Share/unit	Amount	Ownership
Taiwan Power 93-1 the Fourth Corporate Bond-E	Bond	20	98,771	-
Nanya 94-2 the Second Corporate Bond-C	Bond	400	397,295	-
Taiwan Power 92-2 the Third Corporate Bond-K	Bond	25	124,330	-
Mega 41P1 Second Financial Debenture	Financial debenture	20	188,364	-
Gvec CBO Series 2006-B Bonds	Bond	-	165,125	-
AIG FRN	Bond	-	158,015	-
Gevcr II 36-Month Debentures	Bond	850	280,712	-
Subtotal			1,762,612	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Browave Corporation	Common share	580,000	-	1.06%
Communication V.C. Corp.	Common share	7,200,000	(420)	14.41%
			(Note)	
Legend Tech. V.C. Inc. Corp.	Common share	952,168	(2,620)	6.33%
			(Note)	
Inprocomm Inc.	Common share	1,080,000	-	-
Tenor Electronics Corporation	Common share	4,012,500	-	13.88%
Alpha Imaging Technology Corp.	Common share	7,850,969	179,485	15.63%
Via Optical Solution, Inc.	Common share	77	-	-
Andes Technologies, Inc.	Common share	8,000,000	-	12.70%
Integrated System Solution Corp.	Common share	1,882,746	-	2.90%
Young Fast Optoelectronics Co., Ltd.	Common share	627,920	66,000	0.59%
Prime sensor Technology Inc.	Common share	2,250,000	22,500	15.00%
Sino Photonics	Common share	134,400	-	9.88%
V Web Corp.	Preferred share	1,250,000	-	3.51%
Wi Harper Inc Fund Vi Ltd.	Preferred share and Common share	32,970	99,075	4.92%
Genesis Venture	Common share	4,000,000	132,100	18.03%
(To be continued)				

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

Investee Company	As of December 31, 2008			
	Type	Share/unit	Amount	Ownership
JAFCO V2-(D) FUND	Capital	-	126,807	-
JAFCO V3-(B) FUND	Capital	-	51,107	-
JAFCO ASIA (FATF4)	Capital	-	29,722	-
Pacific Growth Ventures, L.P.	Capital	-	66,050	-
Subtotal			769,806	
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Series B			
	Preferred stock	25,000,000	1,000,000	-
<u>Long-term investments accounted for using the equity method</u>				
ALi Corporation	Common share	64,035,703	1,208,569	21.14%
<u>Prepayment for long-term investment</u>				
Nozomi Fund		-	9,111	-
Total			\$8,969,627	

Investee Company	As of December 31, 2007			
	Types	Shares/units	Amounts	Ownership
<u>Financial assets designated as at fair value through profit or loss-noncurrent</u>				
Dynamic Credit Protection Notes	Credit-linked deposit	-	\$51,948	-
Pimco USD Principal Protection Note	Bond	1,000	325,695	-
Open Design Microelectronics Corporation	Bond	-	40,028	-
Imera System INC. Note and Warrant	Bond	-	16,222	-
Subtotal			433,893	
<u>Available-for-sale financial assets-noncurrent</u>				
Pixart Imaging Inc.	Common share	4,560,109	1,119,182	3.90%
			(Note)	
Stocks	Common share	10,224	828	-
IIT Private Equity Real Estate Fund	Mutual fund	4,810,274	50,543	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	500,000	-
Chinatrust 2006-1 Collateralized Loan Obligation-D	Securities	608	565,015	-

(To be continued)



**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

Investee Company	As of December 31, 2007			
	Type	Share/unit	Amount	Ownership
Chinatrust 2006-1 Collateralized Loan Obligation-E	Securities	246	243,097	-
ING Lehman Bros Cap Perp	Bond	-	149,247	-
ING BNP Paribas Mjsd Perp	Bond	-	95,757	-
15 Year 5.2% USD Callable Fixed Coupon Note	Bond	-	255,443	-
RBC Logan III	Bond	-	36,725	-
RBC 20Yrs NC 1YR Zero Callable Note	Bond	-	163,837	-
RBC 30Yrs NC 3M Zero Callable Note	Bond	-	275,766	-
20Yrs NC 3M Zero Callable Note	Bond	-	162,215	-
15Yrs NC 3M Zero Callable Note	Bond	-	162,215	-
Subtotal			3,779,870	
<u>Held-to-maturity financial assets- noncurrent</u>				
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	100,000	-
Chinatrust 96-2 Second Corporate Bond with No Mortgage	Financial debenture	25	250,000	-
Gvec CBO Series 2006-B Bonds	Bond	-	162,215	-
Eonex Technologies, Inc. Bonds	Bond	372	129,772	-
Subtotal			641,987	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Browave Corporation	Common share	623,032	-	1.14%
Communication V.C. Corp.	Common share	8,000,000	(420)	14.41%
			(Note)	
Legend Tech. V.C. Inc. Corp.	Common share	1,700,300	(2,620)	6.33%
			(Note)	
Inprocomm Inc.	Common share	1,080,000	-	14.81%
Tenor Electronics Corporation	Common share	4,012,500	-	13.88%
Alpha Imaging Technology Corp.	Common share	7,406,575	179,485	17.32%
VIA Optical Solution, Inc.	Common share	77	-	-
Andes Technologies, Inc.	Common share	8,000,000	-	12.70%
Integrated System Solution Corp.	Common share	2,087,746	-	3.21%

(To be continued)

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

Investee Company	Types	As of December 31, 2007		
		Share/unit	Amounts	Ownership
SINO Photonics	Common share	960,000	-	9.88%
V WEB Corp.	Preferred share	1,250,000	-	3.51%
Wi Harper Inc Fund Vi Ltd.	Preferred share and Common share	32,970	97,329	4.92%
Genesis Venture	Common share	4,000,000	129,772	18.03%
JAFCO V2-(D) FUND	Capital	-	124,572	-
JAFCO V3-(B) FUND	Capital	-	6,748	-
JAFCO ASIA (FATF4)	Capital	-	12,977	-
Subtotal			547,843	
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Series B Preferred stock	25,000,000	1,000,000	-
<u>Long-term investments accounted for using the equity method</u>				
ALi Corporation	Common share	62,170,586	1,177,762	21.48%
Star semiconductor Corporation	Common share	7,650,000	65,605	36.89%
Subtotal			1,243,367	
Total			\$7,646,960	

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

- b. For the years ended December 31, 2008 and 2007, the Company recognized investment gain accounted for under the equity method in the amount of NT\$184,393 thousand and NT\$168,721 thousand, respectively, based on the audited financial statements of the investee companies.
- c. In 2008 and 2007, the Company sold shares of Pixart at the prices of NT\$521,686 thousand and NT\$558,055 thousand, respectively, and recognized a disposal gain of NT\$494,077 thousand and NT\$546,993 thousand, respectively.
- d. In 2008, the Company sold shares of HON HAI Technology and other listed stocks at the price of NT\$876 thousand and recognized a gain of NT\$348 thousand.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- e. In 2007, the Company's subsidiary sold shares of Alpha Imaging Technology Corp. and Taifatech Inc. at the prices of NT\$1,452,250 thousand and NT\$39,880 thousand respectively. Gains and losses arising from such disposal were NT\$1,206,302 thousand and NT\$120 thousand, respectively.
- f. In 2007, as ALi Corporation, an equity investee of the Company, issued new shares for the purposes of convertible bonds conversion, exercise of employees' stock options and capitalization of employees' bonus, the Company's holding interest in ALi Corporation has been changed. As a result, the Company recognized an increase in capital reserve of NT\$8,159 thousand.
- g. The Company and subsidiaries assessed their investments in Yuantonix, Inc., Browave Corporation, Communication V.C. Corp., Legend Tech. V.C. Inc. Corp, Tenor Electronics Corporation, VIA Optical Solution, Inc., Andes Technologies, Inc., ARAFTEK (liquidated), IPC (liquidated), SINO Photonics, V Web Corp., Venglobal International Fund (liquidated) were impaired and recognized impairment losses in the aggregate amount of NT\$375,312 thousand in 2007. In 2008, the Company and subsidiaries sold partial investments in Integrated System Solution Corp. and Browave Corporation. Gains arising from such disposal were NT\$2,207 thousand. In November, 2008, the investee company- Star semiconductor Corporation has been dissolved.
- h. In 2008, the Company and subsidiaries determined that part of available-for-sale financial assets-noncurrent, financial assets carried at cost-noncurrent, and held-to-maturity financial assets- noncurrent were impaired and, therefore, recognized an impairment loss in the amount of NT\$534,609 thousand.
- i. In 2008, the Company invested in Nanya 96-1 Corporate Bonds and Chinatrust 92-2 Financial Debenture which were classified as available-for-sale financial assets. The investment cost and face value amounted to NT\$445,347 thousand and NT\$450,000 thousand, respectively.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- j. In 2008, the Company and subsidiaries invested in Taiwan Power 93-1 the Fourth Corporate Bond-E, Nanya 94-2 the Second Corporate Bond-C, Taiwan Power 92-2 the Third Corporate Bond-K and Mega 41P1 Second Financial Debenture, GEVCR II 36-Month Debentures and AIG FRN which were classified as held-to-maturity financial assets. The investment cost and face value amounted to NT\$1,244,193 thousand and NT\$1,270,838 thousand, respectively.
- k. In June 2007 and December 2007, the Company invested in Cathay Real Estate Investment Trust -Tun Nan C and Chinatrust 96-2 second financial debenture with no mortgage. The investment cost and face value amounted to NT\$350,000 thousand and NT\$350,000 thousand, respectively.
- l. In December 2005, our investment in series B preferred stocks ("Preferred B") of Chinatrust Financial Holding Company was increased by NT\$1,000,000 thousand. Terms and conditions of the stock are listed as follows:
- (a) Duration : 7 years.
  - (b) Par value : \$10 per share.
  - (c) Issuing price : \$40 per share.
  - (d) Dividends:  
Dividend is at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.
  - (e) Redemption at maturity:  
Preferred B is a 7-year preferred stock. Redemption price at maturity is at 100% of the issuing price, i.e. NT\$40 per share.

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

- m. Funds and investments mentioned above were not pledged as of December 31, 2008 and 2007.

**(9) Property, Plant and Equipment**

- a. No interest was capitalized for the years ended December 31, 2008 and 2007.
- b. Please refer to the Note 6 to the financial statements for property, plant, equipment and leased assets pledged as collaterals.

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(10) Intangible Assets**

a.	For the year ended December 31, 2008		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$1,344,625	\$5,447,243	\$6,791,868
Increase - separately acquired	678,102	24,819	702,921
Increase - acquired through business combination	-	3,243,480	3,243,480
Decrease - elimination and others	(5,574)	(116,876)	(122,450)
Balance at end of period	2,017,153	8,598,666	10,615,819
Accumulated amortization			
Balance at beginning of period	(635,672)	(2,563,037)	(3,198,709)
Increase -amortization	(688,493)	(1,645,516)	(2,334,009)
Balance at end of period	(1,324,165)	(4,208,553)	(5,532,718)
Net	\$692,988	\$4,390,113	\$5,083,101

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

b. In January 2008, the Company acquired Analog Devices, Inc.'s cellular radio and baseband chipset operations for NT\$10,060,691 thousand (USD 310,182 thousand). According to R.O.C. SFAS No. 25 "Business Combinations-Purchase Accounting", the Company recorded goodwill of NT\$6,817,211 thousand and patents, IPs and other intangibles of NT\$3,243,480 thousand, respectively.

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- c. For the year ended December 31, 2008, the Company's subsidiary assessed that goodwill has been impaired, and therefore recognized impairment loss in amount of NT\$650,000 thousand.

**(11) Short-term Debts**

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

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

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

- c. Please refer to Note 6 to the financial statements for assets pledged as collaterals.

**(12) Long-term Debts**

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

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

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Note:

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

b. Please refer to Note 6 to the financial statements for assets pledged as collaterals.

**(13) Lease Payable**

Lease payable of the Company's subsidiary, MediaTek USA Inc., was shown as follows:

Leaser	As of December 31	
	2008	2007
Magma Design Automation, Inc.	\$1,803	\$8,854
Less: Un-amortization lease payable discount	(411)	(2,617)
Net	1,392	6,237
Less : current portion	(1,392)	(4,933)
Leased payable-noncurrent	\$-	\$1,304

**(14) Accrued Pension Liabilities****a. Defined Benefit Plans**

- (a) The Company and subsidiaries' pension fund contributed to a fiduciary account in Bank of Taiwan amounted to NT\$44,069 thousand and NT\$43,032 thousand as of December 31, 2008 and 2007, respectively. The total pension expenses amounted to NT\$16,921 thousand and NT\$6,376 thousand for the years ended December 31, 2008 and 2007, respectively.

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

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

	For the year ended December 31,	
	2008	2007
Service cost	\$1,680	\$1,191
Interest cost	7,641	3,812
Expected return on plan assets	(1,268)	(1,127)
Amortization	8,083	1,786
Over-accrual	-	-
Other	785	714
Net pension cost	<u>\$16,921</u>	<u>\$6,376</u>

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

	As of December 31,	
	2008	2007
Benefit obligations		
Vested benefit obligation	\$-	\$-
Non-vested benefit obligation	(98,129)	(80,309)
Accumulated benefit obligation	(98,129)	(80,309)
Effect of projected future salary increase	(72,274)	(174,388)
Projected benefit obligation	(170,403)	(254,697)
Fair value of plan assets	44,069	43,032
Funded status of pension plan	(126,334)	(211,665)
Unrecognized net transitional obligation	795	883
Unrecognized loss	43,596	145,392
Over-accrual	(223)	(978)
Accrued pension liabilities	<u>\$(82,166)</u>	<u>\$(66,368)</u>

(d) The vested benefit was nil as of December 31, 2008 and 2007.

(e) The underlying actuarial assumptions

	For the year ended December 31,	
	2008	2007
Discount rate	2.50%	3.00%
Rate of increase in future compensation levels	2.00%	5.00%
Expected long-term rate of return on plan assets	2.50%	3.00%



**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

b. Defined Contribution Pension Plan

The Company and subsidiaries adopted defined contribution pension plans and made periodical contributions to pension funds in accordance with related statutory regulations and laws. Pension expenses amounted to NT\$224,544 thousand and NT\$119,328 thousand for the years ended December 31, 2008 and 2007, respectively.

(15) Common Stock

As of January 1, 2007, 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 shares and 968,312,683 shares, respectively, each share at par value of NT\$10.

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

On March 21 and April 19, 2007, the Board of Directors resolved to issue 3,441,733 shares, each at par value of NT\$10, in exchange of 69% of the ownership of NuCORE. The exchange date was set on September 4, 2007 which had been approved by the government in September, 2007.

Based on the resolution of shareholders' general meeting on June 13, 2008, the Company resolved to issue 32,298,537 new shares at par value of NT\$10 for the capitalization of shareholders' dividends of NT\$104,085 thousand and employees' bonus of NT\$218,900 thousand. The record date was set on July 22, 2008 and the government approval has been successfully obtained.

As of December 31, 2008, the authorized and issued common shares of the Company amounted to NT\$12,000,000 thousand and NT\$10,731,523 thousand, divided into 1,200,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,073,152,299 shares, respectively, each share at par value of NT\$10.

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(16) Legal Reserve**

According to the R.O.C. Company Law, 10% of the Company's net income after tax shall be appropriated to 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 net assets, 50% of such reserve may be distributed to the Company's shareholders through the issuance of additional common share.

**(17) Capital Reserve**

	As of December 31,	
	2008	2007
Additional paid-in capital	\$2,090,759	\$2,090,759
Treasury stock transaction	474,512	328,475
Donated assets	1,260	1,260
Long-term equity investment	150,136	119,349
Employee stock option	40,644	-
Total	<u>\$2,757,311</u>	<u>\$2,539,843</u>

According to the R.O.C. Company Law, capital reserve can only be used for making up losses or reclassifying to paid-in capital using only balances in additional paid-in capital or donated assets. The Company shall not use capital reserve to make up its loss unless legal reserve is insufficient for making up such losses.

The Company had paid cash dividends in the amount of NT\$146,037 thousand and NT\$109,802 thousand to the subsidiaries who owned the Company's common shares for the years ended December 31, 2008 and 2007, respectively. Since the Company's shares held by subsidiaries are treated as treasury stocks, the cash dividends paid to the Company's subsidiaries are accounted for as an adjustment to capital reserve; under the category of treasury stock transactions.

In September 2007, paid-in capital in excess of par was increased by NT\$1,280,324 thousand due to a share swap of 69% ownership of NuCORE. The contingent consideration received by the Company under this transaction was NT\$740,746 thousand, which was recorded as an adjustment to paid-in capital in excess of par-common stock. Please refer to note 4(15) to the financial statements for more details.

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

## (18) Employee Stock Options

a. The Company and subsidiaries have adopted certain employee stock option plans.

Information with respect to each stock option plan was as follows:

Plan	Grant Date	Units Granted (in thousands)	Exercisable Period	Restrict Period	Exercise Price (in NTD)
<u>The Company</u>					
First employee stock option plan in 2007	2008.03.31	1,134	2008.03.31~2018.03.31	Note 1	\$388
Second employee stock option plan in 2007	2008.08.28	1,640	2008.08.28~2018.08.28	Note 1	371
<u>Airoha Technology Corp</u>					
First employee stock option plan in 2006	2006.06.02	4,660	2006.06.02~2011.06.02	Note 2	29
Second employee stock option plan in 2006	2007.05.31	340	2007.05.31~2012.05.31	Note 1	29
First employee stock option plan in 2008	2008.03.20	480	2008.03.20~2013.03.20	Note 1	29
Second employee stock option plan in 2008	2008.09.12	148	2008.09.12~2013.09.12	Note 1	15
<u>AdvMatch Technology, Inc. (Note 4)</u>					
First employee stock option plan in 2007	2007.12.30	215	2007.12.30~2011.12.30	Note 3	10

Note:

1. The plan may be exercisable at certain percentage starting 2 years from the date of grant.
2. 1,000 employee stock options of the plan may be exercisable starting from grant date while the rest of the plan may be exercisable starting 2 years from the date of grant.
3. The plan may be exercisable starting 1 year from the date of grant.
4. AdvMatch Technology, Inc.'s went into liquidation in December 2008.

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- b. In December 2007, the Company was authorized by the Financial Supervisory Commission, Executive Yuan, to issue employee stock options with a total number of 5,000,000 units, each option eligible to subscribe for one common share. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company's shareholding with voting rights, directly or indirectly, is more than fifty percent. The options are valid for ten years and exercisable at certain percentage subsequent to the second anniversary of the granted date. Under the terms of the plan, the options are granted at an exercise price equal to the closing price of the Company's common share listed on the TWSE on the grant date. The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash or the appropriations of earnings) in accordance with the plan.

The compensation cost was recognized under the fair value method and the Black-Scholes Option Pricing model was used to estimate the fair value of options granted. The investment loss on equity investment arising from employee stock option compensation cost was NT\$40,644 thousand. Detailed information to the weighted-average assumptions are disclosed as follows:

	Employee stock option
Expected dividend yield	4.70%~6.63%
Expected volatility	42.12%~50.06%
Risk free interest rate	2.30%~2.49%
Expected life	6.5 years

The respective information of the units and weighted average exercise price for stock option plans of the Company is disclosed as follows:

	For the year ended December 31, 2008	
	Options (Unit)	Weighted-average exercise price (NTD)
Employee stock option plans		
Outstanding at beginning of year	-	\$-
Granted	2,774,404	378
Exercised	-	-
Forfeited (Expired)	(97,869)	381
Outstanding at end of period	2,676,535	378
Exercisable at end of year	-	
Weighted average fair value of options granted during the year (in NTD)	\$109	

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

The information on the Company's outstanding stock options as of December 31, 2008, is disclosed as follows:

	Range of Exercise Price (NTD)	Outstanding stock options			Exercisable stock options	
		Options (Unit)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per share (NTD)	Options (Unit)	Weighted-average Exercise Price per share (NTD)
Stock option plan of 2007	\$371~388	<u>2,676,535</u>	6	\$378	<u>-</u>	\$-

- c. For options granted on or after January 1, 2008, Airoha Technology Corp. recognizes compensation costs using the intrinsic value method in compliance with Order VI-0960065898 issued by the Financial Supervisory Commission under the Executive Yuan. Compensation expenses incurred were NT\$0 thousand for the year ended December 31, 2008. For options granted in 2006 and 2007, Airoha Technology Corp. and AdvMatch Technology, Inc. recognized compensation costs using the intrinsic value method in compliance with Accounting Research and Development Foundation interpretation No. 92-070, 071 and 072. Compensation expenses incurred were NT\$4,712 thousand and NT\$2,749 thousand for the year ended December 31, 2008 and 2007, respectively.

The Company and subsidiaries used the following assumptions to calculate the pro-forma fair value of options granted:

	First employee stock option plan in 2006	Second employee stock option plan in 2006
Airoha Technology Corp.		
Expected dividend yield	-%	-%
Risk free interest rate	2.11%	2.22%
Expected life	5 years	5 years
	First employee stock option plan in 2007	
AdvMatch Technology, Inc.		
Expected dividend yield	-%	
Risk free interest rate	2.73%	
Expected life	2.5 years	

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Units and weighted average exercise prices of stock option plans of Airoha Technology Corp. were disclosed as follows:

	For the year ended December 31,			
	2008		2007	
Employee stock option plans	Units (in thousands)	Weighted- average exercise price (NTD)	Units (in thousands)	Weighted- average exercise price (NTD)
Outstanding at beginning of period	4,443	\$29	4,628	\$29
Granted	628	25.7	340	29
Exercised	(99)	29	(370)	29
Expired	(340)	29	(155)	29
Outstanding at end of period	4,632	28.55	4,443	29
Exercisable at end of year	2,221		630	
Weighted-average fair value of options granted during the period (in NTD)	\$-		\$38.86	

	Outstanding stock options			Exercisable stock options		
	Range of Exercise Price (NTD)	Units (in thousand)	Weighted- average Expected Remaining Years	Weighted- average Exercise Price (NTD)	Units (in thousand)	Weighted- average Exercise Price per share (NTD)
Stock option plan of 2006	\$29	4,117	2.49	\$29	2,221	\$29
Stock option plan of 2008	\$15~29	515	4.36	24.98	-	-
		4,632			2,221	

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Units and weighted average exercise prices for stock option plans of AdvMatch Technology, Inc. were disclosed as follows:

Employee stock option plans	For the year ended December 31, 2008	
	Units (in thousands)	Weighted-average exercise price (NTD)
Outstanding at beginning of year	215	\$10
Granted	-	-
Exercised	-	-
Forfeited (Expired)	(16)	10
Outstanding at end of period	199	10
Exercisable at end of year	-	
Weighted average fair value of options granted during the year (in NTD)	\$-	

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

		For the year ended December 31,	
		2008	2007
Consolidated net income			
attributable to parent	Net income	\$19,189,997	\$33,592,702
company's shareholders			
	Pro-forma net income	19,186,448	33,586,686
Basic EPS (in NTD)	Earnings per share	18.01	31.60
	Pro-forma earnings per share	18.01	31.59
Consolidated net loss			
attributable to minority	Net loss	(15,757)	(202,568)
interests			
	Pro-forma net loss	(20,679)	(210,910)
Basic EPS (in NTD)	Earnings per share	(0.01)	(0.19)
	Pro-forma earnings per share	(0.02)	(0.20)

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

**(19) Earnings Distribution and Dividends Distribution Policy**

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

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income after tax;
- (d) Special reserve in compliance with the Company Law or the Securities and Exchange Law;
- (e) Remuneration for directors and supervisors to a maximum of 0.5% of the remaining current year's earnings after deducting for item (a) through (d). Remuneration for directors and supervisors' services is limited to cash payments.
- (f) The remaining after all above appropriations and distributions, combining with undistributed earnings from prior years, shall be fully for shareholders' dividends and employees' bonuses and may be retained or distributed proportionally. The portion of employees' bonuses may not be less than 1% of total earnings resolved to distribute for shareholders' dividends and employees' bonuses. Employees' bonuses may be distributed in the form of shares or cash, or a combination of both. The criteria for qualifying for employees' bonuses are at the discretion of Board. Employees serving the subsidiaries of the Company are also entitled to the bonuses.

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

According to the regulations of Taiwan SFC, the Company is required to appropriate a special reserve in the amount equal to the sum of debit elements under shareholders' equity, such as unrealized loss on financial instruments and negative cumulative translation adjustment, at every year-end. Such special reserve is prohibited from distribution. However, if any of the debit elements is reversed, the special reserve in the amount equal to the reversal may be released for earnings distribution or making up for losses.

During the year ended December 31, 2008, the amounts of the employees' bonuses and remunerations to directors and supervisors were estimated at NT\$6,403,395 thousand and NT\$50,993 thousand, respectively. Employee bonuses were estimated based on 25% of net income for the year ended December 31, 2008(excluding the impact of expensing employees' bonuses and the related income tax effect) while remunerations to directors and supervisors



**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

were estimated based on the Company's Articles of Incorporation. Estimated amount of employee bonuses and remunerations paid to directors and supervisors were charged to current income as operating expenses. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, the Company shall recognize the change as an adjustment to income of the financial year ending 2009.

**(20) Treasury Stock**

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

Owner	January 1, 2008		Additions		December 31, 2008		
	Shares	Amount	Shares	Amount	Shares	Amount	Market Value
MediaTek			76,861				
Capital Corp.	<u>7,686,143</u>	<u>\$55,970</u>	<u>(Note)</u>	<u>\$-</u>	<u>7,763,004</u>	<u>\$55,970</u>	<u>\$1,711,742</u>

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

Note : Bonus shares granted

**(21) Net Operating Revenue**

	For the year ended December 31,	
	2008	2007
Revenues from sales of multimedia and cell phone chipsets	\$93,985,626	\$81,577,413
Other operating revenue	574,644	561,713
Subtotal	94,560,270	82,139,126
Less: Sales returns and sales discounts	(4,158,229)	(1,467,357)
Net Operating Revenue	<u>\$90,402,041</u>	<u>\$80,671,769</u>

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(22) Personnel, Depreciation and Amortization Expenses**

	For the year ended December 31,					
	2008			2007		
	Recorded under cost of goods sold	Recorded under operating expense	Total	Recorded under cost of goods sold	Recorded under operating expense	Total
Personnel Expense						
Salaries & wage expense	\$104,638	\$12,823,213	\$12,927,851	\$97,643	\$4,645,167	\$4,742,810
Insurance	4,694	1,241,746	1,246,440	3,833	176,649	180,482
Pension	4,500	236,965	241,465	3,327	122,377	125,704
Other expenses	1,312	955,109	956,421	1,073	83,659	84,732
Total	<u>\$115,144</u>	<u>\$15,257,033</u>	<u>\$15,372,177</u>	<u>\$105,876</u>	<u>\$5,027,852</u>	<u>\$5,133,728</u>
Depreciation	<u>\$4,214</u>	<u>\$944,936</u>	<u>\$949,150</u>	<u>\$6,205</u>	<u>\$641,036</u>	<u>\$647,241</u>
Amortization	<u>\$676</u>	<u>\$2,344,884</u>	<u>\$2,345,560</u>	<u>\$2,611</u>	<u>\$1,456,305</u>	<u>\$1,458,916</u>

**(23) Income Tax**

a. Income tax payable and income tax expense are reconciled as follows:

	For the year ended December 31,	
	2008	2007
Income tax payable	\$428,128	\$1,411,735
10% surtax on undistributed earnings	687,854	406,777
Investment tax credits	(531,928)	(812,798)
Deferred income tax effects		
Investment tax credits	(5,170,638)	(258,814)
Valuation allowance	6,085,908	1,177,755
Others	(372,862)	(438,884)
Others	797,428	(23,620)
Income tax expense from continuing operations	<u>\$1,923,890</u>	<u>\$1,462,151</u>

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

## b. Temporary differences generated from deferred income tax assets (liabilities):

	As of December 31,			
	2008		2007	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets				
Recognition of unrealized allowance for inventory obsolescence	\$1,373,720	\$29,853	\$428,440	\$20,563
Allowance for doubtful debt in excess of deductible limit	32,864	647	263,472	11,137
Unrealized technology license fee	-	-	361,350	13,859
Unrealized loss on valuation of financial assets	-	-	38,360	2,903
Unrealized loss on asset impairment	314,288	75,780	329,308	81,692
Others		198,189		614,857
Loss carryforwards-domestic		58,887		91,981
-foreign		932,032		41,581
Investment tax credits-domestic		8,466,657		3,420,077
-foreign		314,464		190,406
Total deferred income tax assets		10,076,509		4,489,056
Valuation allowance for deferred income tax assets		(9,598,018)		(3,512,110)
Net deferred income tax assets		478,491		976,946
Deferred income tax liabilities				
Unrealized foreign exchange gain	(10,305)	(203)	(15,608)	(637)
Unrealized gain on valuation of financial assets	(29,631)	(583)	-	-
Others		(56,514)		(12,710)
Total deferred income tax liabilities		(57,300)		(13,347)
Net deferred income tax assets and liabilities		\$421,191		\$963,599

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

	As of December 31,	
	2008	2007
Deferred income tax assets-current	\$387,621	\$661,741
Valuation allowance for deferred income tax assets-current	(113,787)	(66,642)
Net deferred income tax assets-current	273,834	595,099
Deferred income tax liabilities-current	(16,580)	(637)
Net deferred income tax assets and liabilities-current	\$257,254	\$594,462

	As of December 31,	
	2008	2007
Deferred income tax assets-noncurrent	\$9,688,888	\$3,827,315
Valuation allowance for deferred income tax assets-noncurrent	(9,484,231)	(3,445,468)
Net deferred income tax assets-noncurrent	204,657	381,847
Deferred income tax liabilities-noncurrent	(40,720)	(12,710)
Net deferred income tax assets and liabilities-noncurrent	\$163,937	\$369,137

- c. Pursuant to Article 9-2 of the "Statute for Upgrading Industries", the Company is qualified as a technical service industry and is therefore entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. The Company has elected the tax exemption periods from January 1, 2004 through December 31, 2008, January 1, 2005 through December 31, 2009, and January 1, 2007 through December 31, 2011.
- d. The Company and subsidiaries are not allowed to file consolidated income tax returns.
- e. The Company's income tax returns for the years from 2002 to 2005 have been assessed by the tax authorities and NT\$1,835,978 thousand of additional income tax payable was imposed. The discrepancy between the Company's tax return filing and the result of tax authority's assessment was mainly due to different interpretations on calculating exempted income. After assessing the potential outcome, the Company has fully accrued the

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

additional tax liability. Although the Company has vigorously filed several administrative appeals to tax authority and Courts, the Company has paid the amount in full.

- f. The Company and domestic subsidiaries' available investment tax credits as of December 31, 2008 were as follows:

Total credit amount	Unused amount	Year expired
\$21,221	\$21,221	2009
1,338,008	538,814	2010
2,448,973	2,448,973	2011
5,457,649	5,457,649	2012
<u>\$9,265,851</u>	<u>\$8,466,657</u>	

- g. As of December 31, 2008, net operating loss (NOL) that can be carried forward to reduce the Company's domestic consolidated subsidiaries' taxable income were as follows:

NOL incurred	Unused amount	Year expired
\$104,597	\$87,552	2013
103,391	103,391	2014
44,605	44,605	2015
<u>\$252,593</u>	<u>\$235,548</u>	

- h. Integrated income tax information

	As of December 31,	
	2008	2007
Balance of the imputation credit account (ICA)	<u>\$2,207,442</u>	<u>\$972,323</u>
	2008	2007
	4.81%(Note)	5.08%
Expected (Actual) creditable ratio	<u>4.81%(Note)</u>	<u>5.08%</u>

Note: The ratio was computed based on the amount of actual available shareholders' tax credits plus estimated income tax payable as of December 31, 2008.

- i. Information related to undistributed retained earnings

	As of December 31,	
	2008	2007
Prior to 1998	\$-	\$-
After 1997	55,427,112	62,971,175
Total	<u>\$55,427,112</u>	<u>\$62,971,175</u>

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(24) Earnings Per Share**

The Company's capital structure is classified as complex capital structure after the issuance of employee stock options in 2008. The shares of employee stock options (if exercised) have no dilutive effect. However, the shares of employee bonuses as expense have a dilutive effect. Basic earnings per share and dilutive earnings per share were disclosed as follows:

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

Contents	For the year ended December 31,	
	2008	2007
Weighted-average shares outstanding, ending		
(Less the Company's share owned by its subsidiary)	1,065,389,295	1,063,069,661
Effect of dilutive potential common shares:		
Bonus to employees	29,040,340	-
Weighted-average of dilutive shares outstanding	1,094,429,635	1,063,069,661

	Amount(Numerator)			Earnings per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
<u>For the year ended December 31, 2008</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	<u>\$21,113,887</u>	<u>\$19,189,997</u>	<u>1,065,389,295</u>	<u>\$19.82</u>	<u>\$18.01</u>
Diluted EPS					
Net income	<u>\$21,113,887</u>	<u>\$19,189,997</u>	<u>1,094,429,635</u>	<u>\$19.29</u>	<u>\$17.53</u>
Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	<u>\$(15,757)</u>	<u>\$(15,757)</u>	<u>1,065,389,295</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>
Diluted EPS					
Net loss	<u>\$(15,757)</u>	<u>\$(15,757)</u>	<u>1,094,429,635</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

	<u>Amount(numerator)</u>			<u>Earning per share</u>	
	<u>Before tax</u>	<u>After tax</u>	<u>Shares (Denominator)</u>	<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2007</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	<u>\$35,054,853</u>	<u>\$33,592,702</u>	<u>1,063,069,661</u>	<u>\$32.98</u>	<u>\$31.60</u>
Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	<u>\$(202,568)</u>	<u>\$(202,568)</u>	<u>1,063,069,661</u>	<u>\$(0.19)</u>	<u>\$(0.19)</u>

**5. Related Party Transactions****(1) Related Parties and Relations**

<u>Related parties</u>	<u>Relations</u>
King Yuan Electronics Co., Ltd. (“King Yuan”)	The chairmen of the Company and the chairman of King Yuan are close relatives
ALi Corporation (“ALi”)	Equity investee
Alpha Imaging Technology Corp. (“Alpha”)	A subsidiary of the Company served as Alpha’s director(Note)
JMicron Technology Corporation (“JMicon”)	The Company’s chairman doubles as JMicon’s chairman
All numbers of directors, supervisors and key managers	The Company’s major managers

Note 1: Due to the disposal of the Company’s indirect holdings in Alpha on January 2007, the Company no longer treated Alpha as an equity investee since then.

**(2) Major Transactions with related parties****a.Sales**

	<u>For the year ended December 31,</u>			
	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>% of net sales</u>	<u>Amount</u>	<u>% of net sales</u>
Alpha	\$5,002	0.01	\$10,993	0.02
Ali	-	-	18,994	0.02
Total	<u>\$5,002</u>	<u>0.01</u>	<u>\$29,987</u>	<u>0.04</u>

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Sales prices to the above related parties were similar to those to third-party customers. For the years ended 31 December, 2008 and 2007, the trade credit terms for both the abovementioned related parties and third-party customers were 45 to 60 days. Third-party customers may prepay their accounts in advance.

## b. IC testing, experimental services and manufacturing technology services

		For the year ended December 31,	
		2008	2007
King Yuan	IC testing and experimental services	\$3,619,140	\$2,529,825

## c. The Company earned rental income in the amount of NT\$7,993 thousand and NT\$6,014 thousand by leasing out part of its office to JMicon for the years ended December 31, 2008 and 2007, respectively. A deposit of NT\$876 thousand was received from JMicon due to this office space lease.

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

## a. Receivables from related parties

		As of December 31,	
		2008	2007
		Amount	%
Alpha		\$-	-

## b. Payables to related parties

		As of December 31,	
		2008	2007
		Amount	%
King Yuan		\$633,674	12.91

## (4) Remunerations paid to major managers

		For the year ended December 31,	
		2008	2007
Salaries, reward, compensation, special allowance and bonus		\$157,168(Note)	\$594,077

Note: The appropriation of the 2008 earnings is not shown since the actual amount will not be finalized until the shareholders' meeting in 2009.

The Company's major managers include all directors, supervisors and key managers. The information about the compensation of directors and management personnel is available in the annual report for the shareholders' meeting.



**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****6. Assets Pledged As Collateral**

(1) As of December 31, 2008:

	Net book value	Secured financial institutions	Contents (Purpose)
Restricted deposits-current	\$1,800	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,735	Danske Bank	Credit guarantee
Restricted deposits-noncurrent	3,202	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	26,288	City Bank	Lease guarantee
Total	<u>\$35,025</u>		

(2) As of December 31, 2007:

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

**7. Commitments and Contingencies**

Operating Lease:

(1) The Company has entered into certain lease agreements for land with the Administrative Bureau of HSIP for its need of operations. Related rent to be incurred in the future is as follows:

Lease Period	Amount
2009.01.01~2009.12.31	\$25,171
2010.01.01~2010.12.31	25,171
2011.01.01~2011.12.31	25,171
2012.01.01~2012.12.31	25,171
2013.01.01~2013.12.31	25,171
2014.01.01~2027.12.31	258,388
Total	<u>\$384,243</u>

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- (2) The Company's subsidiaries MUS and MWS have entered into certain lease agreements for offices for operations. Related rent to be incurred in the future would be as follows:

Lease Period	Amount
2009.01.01~2009.12.31	\$86,756
2010.01.01~2010.12.31	89,171
2011.01.01~2011.12.31	92,287
2012.01.01~2012.12.31	85,719
2013.01.01~2013.12.31	49,986
2014.01.01~2015.12.31	104,189
Total	<u>\$508,108</u>

**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,			
	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
Assets				
Cash and cash equivalent	\$53,021,544	\$53,021,544	\$50,588,024	\$50,588,024
Held-for-trading financial assets-current (excluding derivatives)	\$147,675	\$147,675	\$1,196,437	\$1,196,437
Financial assets designated as at fair value through profit or loss	\$1,808,334	\$1,808,334	\$2,337,411	\$2,337,411
Receivables (including receivables from related parties)	\$5,428,620	\$5,428,620	\$7,081,753	\$7,081,753
Other receivables	\$739,307	\$739,307	\$731,389	\$731,389
Available-for-sale financial assets	\$6,432,153	\$6,432,153	\$10,056,481	\$10,056,481
Held-to-maturity financial assets	\$2,134,142	\$2,118,140	\$1,143,561	\$1,151,287
(To be continued)				

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

	As of December 31,			
	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets carried at cost	\$769,806	\$-	\$547,843	\$-
Bond portfolios with no active market	\$1,000,000	\$1,084,628	\$1,000,000	\$1,100,598
Investments accounted for using the equity method				
-with market value	\$1,208,569	\$1,299,924	\$1,177,762	\$3,867,036
-without market value	\$-	\$-	\$65,605	\$-
Refundable deposits	\$103,897	\$103,897	\$368,577	\$368,577
Restricted deposits	\$35,025	\$35,025	\$4,666	\$4,666
<b>Liabilities</b>				
Short-term loans	\$-	\$-	\$25,000	\$25,000
Payable (including related parties)	\$4,906,708	\$4,906,708	\$7,536,532	\$7,536,532
Income tax payable	\$839,461	\$839,461	\$2,591,244	\$2,591,244
Accrued expenses	\$10,630,907	\$10,630,907	\$1,996,335	\$1,996,335
Payables to contractors and equipment suppliers	\$89,403	\$89,403	\$198,852	\$198,852
Long-term loans (including current portion)	\$-	\$-	\$9,935	\$9,935
Leased Payable (including current portion)	\$1,392	\$1,392	\$6,237	\$6,237
Deposit received	\$1,022	\$1,022	\$1,022	\$1,022
<b>Derivatives</b>				
<b>Assets</b>				
Held-for-trading financial assets				
-Forward exchange contracts	\$32,587	\$32,587	\$31,034	\$31,034
-Options	\$-	\$-	\$13,096	\$13,096
<b>Liabilities</b>				
Held-for-trading financial liabilities				
-Forward exchange contracts	\$2,956	\$2,956	\$33,076	\$33,076
-Cross currency swap contracts	\$-	\$-	\$6,764	\$6,764
-Options	\$-	\$-	\$4,864	\$4,864

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- (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 approximate their carrying values at the reporting date due to their short maturities. This method was applied to cash and cash equivalents, receivables, other receivables, short-term loans, payables, income taxes payables, accrued expenses and payables to contractors and equipment suppliers.
  - (ii) The fair values of the Company's refundable deposits, deposits received and restricted deposits approximate their carrying value because the Company predicts the future cash inflows or outflows will be of similar amounts to the carrying values.
  - (iii) The fair value of held for trading financial assets and available-for-sale financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
  - (iv) The fair values of held-to-maturity financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques. Such techniques use rates of returns from similar financial instruments as discount rates.
  - (v) Financial assets carried at cost: Holdings in the following stocks that have no material influence, or derivatives linked to and settled in those stocks:
    - I. Stocks not listed on the Taiwan Stock Exchange or the GreTai.
    - II. Emerging stocks.
  - (vi) The bond portfolios with no active market have no quoted price from active market but have fixed or determinable payments. Fair values are estimated using the discounted cash flow method.
  - (vii) The fair value of investments accounted for under the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- (viii) The book values of long term liabilities (including current portion of long term liabilities) approximate their fair values because the interest rates of the long term liabilities are based on floating rates and, hence, have been adjusted to reflect the interest rates offered in the current market.
- (ix) Fair value of lease payable (including current portion) is evaluated by discounting expected future cash flows.
- (x) The fair value of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
- (b) Losses recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$55,800 thousand and NT\$12,416 thousand for the years ended December 31, 2008 and 2007, respectively.
- (c) As of December 31, 2008 and 2007, financial assets exposed to fair value risk from fixed interest rate were NT\$52,239,104 thousand and NT\$43,930,655 thousand, respectively. Financial assets exposed to cash flow risk from variable interest rate were NT\$251,650 thousand and NT\$7,530,000 thousand, respectively, while financial liabilities were NT\$0 and NT\$34,935 thousand, respectively.
- (d) Interest income recognized from financial assets and financial liabilities that are not at fair value through profit or loss amounted to NT\$1,167,862 thousand and NT\$1,136,372 thousand and the interest expense amounted to NT\$10,045 thousand and NT\$65,426 thousand for the years ended December 31, 2008 and 2007, respectively. The Company recognized an unrealized loss of NT\$368,943 thousand and NT\$130,923 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2008 and 2007, respectively, and the amounts that were recycled from equity to (loss) or profit were NT\$(167,628) thousand and NT\$43 thousand for the years ended December 31, 2008 and 2007, respectively. The Company also recognized an unrealized gain of NT\$862,633 thousand and NT\$1,740,636 thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for under the equity method for the years ended December 31, 2008 and 2007, respectively.
- (e) The impairment loss on financial assets amounted to NT\$773,139 thousand and NT\$375,312 thousand for the years ended December 31, 2008 and 2007, respectively.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

b.

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

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

The Company subsidiaries entered into forward exchange contracts. Forward contracts were used to hedge assets and liabilities denominated in foreign currency. However, as these derivatives did not meet the criteria for hedge accounting, they were recognized as current financial assets/liabilities at fair value through profit or loss.

**(b) Information of financial risks**

The Company and subsidiaries manages its exposure to key financial risks, including market risk, credit risk, liquidity risk and cash flow risk from variable interest rate in accordance with the Company's financial risk management policy. The management policy was summarized as follows:

**Market risk**

Market risk mainly includes currency risk. It comes from the purchases or sales activities which are not denominated in the Company and subsidiaries' functional currency. The Company and subsidiaries review their assets and liabilities denominated in foreign currency and enter into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains on loss made on the hedged item. Had the USD moved against NTD by increasing 1 cent, the fair value of the forward exchange contracts would decrease by NT\$1,150 thousand and NT\$2,113 thousand as of December 31, 2008 and 2007, respectively. Credit-linked deposits are affected by interest rates. When interest rate increases, the

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

market value may decrease and may even be below the initial investment cost, and vice versa. The fair value of exchange rate-linked deposits is affected by interest rate fluctuation. The fair value of mutual fund, government bonds and corporate bonds will be exposed to fluctuations from other market factors as well as movement in interest rates.

Credit risk

The Company's exposure to credit risk arises from potential default of the counter-party or other third-party. The level of exposure depends on several factors including concentrations of credit risk, components of credit risk, the price of contract and other receivables of financial instruments. The Company's credit risk mainly comes from the collectibility of accounts receivable while receivable balances are monitored on an ongoing basis and an allowance for doubtful receivables is provided. Thus, the net book value of accounts receivable are properly evaluated and reflect the credit risk the Company expose to. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk, which arises when counter-party or third-party to a financial instrument fails to discharge an obligation and the Company suffer a financial loss as a result.

Since the counter-party or third-party to the foregoing forward exchange contracts are all reputable financial institutions, management believes that the Company's exposure to default by those parties is minimal. Credit risk of credit-linked deposits, exchange rate-linked deposits arises if the issuing banks breached the contracts or the debt issuer could not pay off the debts; the maximum exposure is the carrying value of credit-linked deposits. Therefore, the Company minimized the credit risk by only transacting with counter-party who is reputable, transparent and in good financial standing.

Liquidity risk

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

Except for financial assets measured at cost, investments in bonds with no active market and long-term investments accounted for using the equity method that may have significant liquidity risks resulted from lack of an active market, the equity securities, bonds and funds held by the Company are traded in active markets and can be sold promptly at the prices close to their fair values. Since the Company intends to and is

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

able to hold financial bonds and real estate investment trust to maturity, the liquid risk is low. Since the exchange rates of forward exchange contracts are fixed at the time the contracts are entered into and the Company does hold and anticipates to hold sufficient financial assets denominated in USD, no significant additional cash requirement is anticipated.

The liquidity risk for structured investments arises when the Company decides to have the instrument redeemed or called prior to its maturity, which must be at the market prices determined by the issuing bank; therefore the Company is exposed to potential liquidity risk. The Company minimized such risk by prudential evaluation when entering into such contract.

Cash flow risk from variable interest rate

The Company's main financial instruments exposed to cash flow risk are the investments in time deposits with variable interest rates. However, since the duration of the time deposit is short, the fluctuation in interest rates has no significant impact. As such the cash flow risk is minimal.

(2) Other information

- a. Certain accounts in the financial statements of the Company as of December 31, 2007 have been reclassified to conform to the presentation of the current period.



**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- b. Inter-company relationships and significant inter-company transactions for the year ended December 31, 2008 are as follows: (For the Company's shares owned by subsidiaries, please refer to the Note 4.(20) to the consolidated financial statements.)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Account receivable-related party	\$20,325	By the contract	0.02%
			1	Sales Revenue	\$412,553		0.46%
		MediaTek Wireless Limited (Ireland)	1	Other receivable	\$1,025	-	0.00%
		MTK Wireless Limited (UK)	1	Other receivable	\$2,152		0.00%
		MediaTek Denmark ApS	1	Other receivable	\$2,683		0.00%
		MediaTek Wireless, Inc. (USA)	1	Other receivable	\$836		0.00%
		Airoha Technology Corp.	1	Other receivable	\$3,066		0.00%
			1	Rent revenue	\$12,318		0.01%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivable	\$12,294		0.01%
		K-Will Corporation (Japan).	3	Administrative expenses	\$101,529		0.11%
		MediaTek India Technology Pvt. Ltd.	3	Prepayments	\$283		0.00%
			3	Administrative expenses	\$54,074		0.06%
2	MediaTek Limited	MediaTek (ShenZhen) Inc.	3	Administrative expenses	\$8,829		0.01%
3	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Account payable-related party	\$523,064	By the contract	0.53%
			3	Research and development expenses	\$1,576,556		1.74%
		MediaTek Denmark ApS	3	Account payable-related party	\$169,868		0.17%
			3	Research and development expenses	\$360,908		0.40%
		MediaTek Wireless Limited (Ireland)	3	Account payable-related party	\$68,786		0.07%
			3	Research and development expenses	\$105,647		0.12%
		MTK Wireless Limited (UK)	3	Account payable-related party	\$192,862		0.19%
			3	Research and development expenses	\$594,467		0.66%

(To be continued)

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

No (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
3	MediaTek Singapore Pte. Ltd.	MediaTek USA Inc.	3	Account payable-related party	\$330,877	By the contract	0.33%
			3	Research and development expenses	\$1,280,787		1.42%
			3	Selling expense	\$17,837		0.02%
		MediaTek Japan Inc.	3	Account payable-related party	\$62,349		0.06%
			3	Research and development expenses	\$97,618		0.11%
		MediaTek India Technology Pvt. Ltd.	3	Account payable-related party	\$19,649		0.02%
			3	Research and development expenses	\$121,772		0.13%
		MediaTek Korea Inc.	3	Account payable-related party	\$20,041		0.02%
			3	Research and development expenses	\$122,552		0.13%
		MediaTek (ShenZhen) Inc.	3	Prepayments	\$13,504		0.01%
			3	Research and development expenses	\$552,966		0.61%
		MediaTek Inc. China	3	Prepayments	\$21,825		0.02%
			3	Research and development expenses	\$265,689		0.29%
		MediaTek (Beijing) Inc.	3	Prepayments	\$45,598		0.05%
			3	Research and development expenses	\$505,996		0.56%
	MediaTek USA Inc.	MediaTek Japan Inc.	3	Account payable-related party	\$1,449		0.00%
			3	Research and development expenses	\$74,011		0.08%

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Inter-company relationships and significant inter-company transactions for the year ended December 31, 2007 are as follows:

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Account receivable-related party	\$134,183	By the contract	0.14%
			1	Sales Revenue	\$134,460		0.17%
		MediaTek Wireless Limited (Ireland)	1	Other receivable	\$969		0.00%
		MTK Wireless Limited (UK)	1	Other receivable	\$290		0.00%
		MediaTek Wireless, Inc. (USA)	1	Other receivable	\$61,100		0.06%
1	Gaintech Co. Limited	MediaTek India Technology Pvt. Ltd.	3	Account payable-related party	\$54,303		0.05%
			3	Administrative expenses	\$118,801		0.15%
		MediaTek Singapore Pte. Ltd.	3	Administrative expenses	\$112,387		0.14%
			3	Account payable-related party	\$70,020		0.07%
		CrystalMedia Technology, Inc.	3	Administrative expenses	\$289,152		0.36%
			3	Administrative expenses	\$287,208		0.36%
2	MediaTek Limited	MediaTek Inc. China	3	Administrative expenses	\$109,303		0.14%
		MediaTek (ShenZhen) Inc.	3	Administrative expenses	\$338,940		0.42%
		MediaTek (Beijing) Inc.	3	Administrative expenses	\$160,931		0.20%
3	MediaTek Singapore Pte. Ltd.	MediaTek USA Inc.	3	Advance receipts	\$25,702		0.03%
			3	Research and development expenses	\$160,681		0.20%
		MediaTek Inc. China	3	Prepayments	\$65,888		0.07%
			3	Research and development expenses	\$31,497		0.04%
		MediaTek (Beijing) Inc.	3	Prepayments	\$52,046		0.05%
			3	Research and development expenses	\$38,498		0.05%
		CrystalMedia Technology, Inc.	3	Prepayments	\$13,133		0.01%
			3	Research and development expenses	\$18,786		0.02%
4	AdvMatch Technology, Inc.	Aimgene Technology, Co. Ltd	3	Account payable-related party	\$261		0.00%

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Note 1: The Company and subsidiaries are coded as follows:

1. The Company is coded “0”.
2. The subsidiaries are coded consecutively beginning from “1” in the order presented in the table above.

Note 2: Transactions are categorized as follows:

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

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