

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**AS OF DECEMBER 31, 2009 AND 2008
AND FOR THE YEARS THEN ENDED**

English Translation of a Report Originally Issued in Chinese
Independent Auditors' Report

To the Board of Directors and Shareholders
of MediaTek Inc.

We have audited the accompanying balance sheets of MediaTek Inc. as of December 31, 2009 and 2008, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MediaTek Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the 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.

The Company has prepared consolidated financial statements as of December 31, 2009 and 2008 and for the years then ended. We have expressed an unqualified and a modified unqualified opinion on those consolidated financial statements, respectively.

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
March 10, 2010
Taipei, Taiwan
Republic of China

Notice to Readers

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

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

MEDIATEK INC.**BALANCE SHEETS****As of December 31, 2009 and 2008**

(Amounts in thousands of New Taiwan Dollars)

| ASSETS | Notes | 2009 | 2008 | LIABILITIES AND SHAREHOLDERS' EQUITY | Notes | 2009 | 2008 |
|--|----------|-----------------------|----------------------|--|-------------|-----------------------|----------------------|
| Current assets | | | | Current liabilities | | | |
| Cash and cash equivalents | 2, 4(1) | \$ 57,885,158 | \$ 35,750,448 | Financial liabilities at fair value through profit or loss-current | 2, 4(2) | \$ - | \$ 2,956 |
| Financial assets at fair value through profit or loss-current | 2, 4(2) | 16,042 | 993,748 | Accounts payable | | 7,101,013 | 3,443,883 |
| Available-for-sale financial assets-current | 2, 4(3) | 1,931,724 | 1,538,700 | Payables to related parties | 5 | 427,576 | 363,932 |
| Held-to-maturity financial assets-current | 2, 4(4) | - | 371,530 | Income tax payable | 2, 4(20) | 847,228 | 717,675 |
| Accounts receivable, net | 2, 4(5) | 2,829,829 | 2,529,181 | Accrued expenses | 2, 3, 4(16) | 15,089,802 | 9,768,013 |
| Receivables from related parties, net | 5 | 60,581 | 20,325 | Payables to contractors and equipment suppliers | | 9,293 | 89,403 |
| Other receivables | 4(6) | 788,724 | 452,585 | Other current liabilities | | 292,660 | 507,475 |
| Inventories, net | 2, 4(7) | 5,069,753 | 3,382,841 | Total current liabilities | | 23,767,572 | 14,893,337 |
| Prepayments and other current assets | | 455,739 | 501,887 | | | | |
| Deferred income tax assets-current | 2, 4(20) | 145,910 | 209,620 | | | | |
| Restricted deposits-current | 6 | 6,917 | 1,800 | | | | |
| Total current assets | | 69,190,377 | 45,752,665 | | | | |
| Funds and investments | 2, 4(8) | | | Other liabilities | | | |
| Financial assets designated as at fair value through profit or loss-noncurrent | | - | 51,442 | Accrued pension liabilities | 2, 4(11) | 87,415 | 82,166 |
| Available-for-sale financial assets-noncurrent | | 1,770,736 | 2,448,066 | Deposits received | | 876 | 1,022 |
| Held-to-maturity financial assets-noncurrent | | - | 1,158,760 | Deferred income tax liabilities-noncurrent | 2, 4(20) | 190,958 | - |
| Bond portfolios with no active market-noncurrent | | 1,000,000 | 1,000,000 | Total other liabilities | | 279,249 | 83,188 |
| Investments accounted for using the equity method | | 45,436,996 | 30,473,509 | Total liabilities | | 24,046,821 | 14,976,525 |
| Total funds and investments | | 48,207,732 | 35,131,777 | | | | |
| Property, plant and equipment | 2, 4(9) | | | Shareholders' equity | | | |
| Buildings and facilities | | 4,922,453 | 4,340,042 | Capital | 4(12) | | |
| Machinery and equipment | | 116,374 | 116,792 | Common stock | | 10,901,189 | 10,731,523 |
| Research and development equipment | | 2,183,905 | 2,011,107 | Capital reserve | | | |
| Miscellaneous equipment | | 232,867 | 235,828 | Additional paid-in capital | 4(14) | 7,385,442 | 2,090,759 |
| Total cost | | 7,455,599 | 6,703,769 | Treasury stock transaction | 4(14) | 583,194 | 474,512 |
| Less : Accumulated depreciation | | (2,253,149) | (1,731,797) | Donated assets | 4(14) | 1,260 | 1,260 |
| Add : Construction in progress | | 631,211 | 169,195 | Long-term investment transaction | 4(8), 4(14) | 169,422 | 150,136 |
| Prepayments for equipment | | 62,506 | 102,049 | Employee stock option | 4(8), 4(15) | 128,508 | 40,644 |
| Property, plant and equipment, net | | 5,896,167 | 5,243,216 | Total capital reserve | | 8,267,826 | 2,757,311 |
| Intangible assets | 2, 4(10) | | | Retained earnings | | | |
| Software | | 267,794 | 627,559 | Legal reserve | 4(13) | 14,943,414 | 13,024,414 |
| Goodwill | | 6,817,211 | 6,817,211 | Special reserve | 4(16) | 273,489 | - |
| Patents, IPs and others | | 2,295,704 | 2,814,268 | Undistributed earnings | 4(16) | 74,894,668 | 55,427,112 |
| Total intangible assets | | 9,380,709 | 10,259,038 | Other adjustments | | | |
| Other assets | | | | Cumulative translation adjustments | 2, 4(8) | (527,304) | (17,915) |
| Refundable deposits | | 241,321 | 14,733 | Unrealized gain (loss) on financial instruments | 2, 4(8) | 172,173 | (255,574) |
| Deferred income tax assets-noncurrent | 2, 4(20) | - | 185,997 | Treasury stock | 2, 4(17) | (55,970) | (55,970) |
| Total other assets | | 241,321 | 200,730 | Total shareholders' equity | | 108,869,485 | 81,610,901 |
| Total assets | | <u>\$ 132,916,306</u> | <u>\$ 96,587,426</u> | Total liabilities and shareholders' equity | | <u>\$ 132,916,306</u> | <u>\$ 96,587,426</u> |

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIATEK INC.

STATEMENTS OF INCOME

For the years ended December 31, 2009 and 2008

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

| Description | Notes | 2009 | | 2008 | |
|--|-------------|------------|--------------|------------|--------------|
| Gross sales | | \$ | 83,948,316 | \$ | 71,248,417 |
| Less : Sales returns and discounts | | | (6,637,564) | | (3,232,874) |
| Net sales | 2, 4(18), 5 | | 77,310,752 | | 68,015,543 |
| Cost of goods sold | 4(19), 5 | | (31,191,078) | | (32,138,731) |
| Gross profits | | | 46,119,674 | | 35,876,812 |
| Operating expenses | 2, 4(19), 5 | | | | |
| Selling expenses | | \$ | (2,680,358) | | (1,496,879) |
| Administrative expenses | | | (3,116,862) | | (2,159,842) |
| Research and development expenses | | | (18,875,858) | | (15,129,695) |
| Total operating expenses | | | (24,673,078) | | (18,786,416) |
| Operating income | | | 21,446,596 | | 17,090,396 |
| Non-operating income and gains | | | | | |
| Interest income | | | 420,185 | | 869,659 |
| Gain on equity investments, net | 2, 4(8) | | 15,121,930 | | 2,954,090 |
| Foreign exchange gain, net | 2 | | 40,954 | | 404,012 |
| Reversal of bad debts | 2, 4(5) | | - | | 257,741 |
| Valuation gain on financial assets | 2, 4(2) | | 54,974 | | - |
| Others | | | 207,212 | | 120,359 |
| Total non-operating income and gains | | | 15,845,255 | | 4,605,861 |
| Non-operating expenses and losses | | | | | |
| Loss on disposal of property, plant and equipment | 2 | | (1,234) | | (661) |
| Loss on disposal of investments | 2 | | (12,608) | | (181,678) |
| Impairment loss | 2, 4(8) | | - | | (12,126) |
| Valuation loss on financial assets | 2, 4(2) | | - | | (391,569) |
| Valuation loss on financial liabilities | 2, 4(2) | | - | | (2,956) |
| Others | | | (66) | | (137,450) |
| Total non-operating expenses and losses | | | (13,908) | | (726,440) |
| Income from continuing operations before income tax | | | 37,277,943 | | 20,969,817 |
| Income tax expense | 2, 4(20) | | (572,303) | | (1,779,820) |
| Net income | | \$ | 36,705,640 | \$ | 19,189,997 |
| Basic Earnings Per Share (in New Taiwan Dollars) | 2, 4(21) | Before tax | After tax | Before tax | After tax |
| Net income | | \$ 34.65 | \$ 34.12 | \$ 19.64 | \$ 17.98 |
| Pro-forma data: (Assuming that the Company's shares owned by its subsidiary were not treated as treasury stock) | | | | | |
| Basic Earnings Per Share (in New Taiwan Dollars) | 2, 4(21) | | | | |
| Net income | | \$ 34.50 | \$ 33.97 | \$ 19.64 | \$ 17.98 |
| Diluted Earnings Per Share (in New Taiwan Dollars) | 2, 4(21) | | | | |
| Net income | | \$ 33.75 | \$ 33.23 | \$ 19.12 | \$ 17.50 |

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIATEK INC.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2009 and 2008

(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 |
|---|----------------------|---------------------|----------------------|-------------------|------------------------|------------------------------------|---|--------------------|-----------------------|
| | | | Legal reserve | Special reserve | Undistributed earnings | | | | |
| Balance as of January 1, 2008 | \$ 10,408,538 | \$ 2,539,843 | \$ 9,665,144 | \$ - | \$ 62,971,175 | \$ (400,047) | \$ 808,374 | \$ (55,970) | \$ 85,937,057 |
| Appropriation and distribution of 2007 earnings: | | | | | | | | | |
| Legal reserve | - | - | 3,359,270 | - | (3,359,270) | - | - | - | - |
| Directors' and supervisors' remuneration | - | - | - | - | (75,584) | - | - | - | (75,584) |
| Employees' bonuses | 218,900 | - | - | - | (3,418,900) | - | - | - | (3,200,000) |
| Shareholders' dividends | 104,085 | - | - | - | (19,880,306) | - | - | - | (19,776,221) |
| Net income for the year ended December 31, 2008 | - | - | - | - | 19,189,997 | - | - | - | 19,189,997 |
| Unrealized gain (loss) on financial instruments | - | - | - | - | - | - | (1,063,948) | - | (1,063,948) |
| Employee stock option distributed to subsidiaries' employees | - | 40,644 | - | - | - | - | - | - | 40,644 |
| The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock | - | 146,037 | - | - | - | - | - | - | 146,037 |
| Adjustment arising from changes in the percentage of ownership in investees | - | 30,787 | - | - | - | - | - | - | 30,787 |
| Cumulative translation adjustments | - | - | - | - | - | 382,132 | - | - | 382,132 |
| Balance as of December 31, 2008 | 10,731,523 | 2,757,311 | 13,024,414 | - | 55,427,112 | (17,915) | (255,574) | (55,970) | 81,610,901 |
| Appropriation and distribution of 2008 earnings (Note): | | | | | | | | | |
| Legal reserve | - | - | 1,919,000 | - | (1,919,000) | - | - | - | - |
| Special reserve | - | - | - | 273,489 | (273,489) | - | - | - | - |
| Shareholders' dividends | 21,463 | - | - | - | (15,045,595) | - | - | - | (15,024,132) |
| Bonus to employees - in stock | 148,203 | 5,294,683 | - | - | - | - | - | - | 5,442,886 |
| Net income for the year ended December 31, 2009 | - | - | - | - | 36,705,640 | - | - | - | 36,705,640 |
| Unrealized gain (loss) on financial instruments | - | - | - | - | - | - | 427,747 | - | 427,747 |
| Employee stock option distributed to subsidiaries' employees | - | 87,864 | - | - | - | - | - | - | 87,864 |
| The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock | - | 108,682 | - | - | - | - | - | - | 108,682 |
| Adjustment arising from changes in the percentage of ownership in investees | - | 19,286 | - | - | - | - | - | - | 19,286 |
| Cumulative translation adjustments | - | - | - | - | - | (509,389) | - | - | (509,389) |
| Balance as of December 31, 2009 | <u>\$ 10,901,189</u> | <u>\$ 8,267,826</u> | <u>\$ 14,943,414</u> | <u>\$ 273,489</u> | <u>\$ 74,894,668</u> | <u>\$ (527,304)</u> | <u>\$ 172,173</u> | <u>\$ (55,970)</u> | <u>\$ 108,869,485</u> |

Note: Directors' and supervisors' remuneration of NT\$50,993 thousand and employees' bonuses of NT\$6,403,395 thousand had been charged against earnings.

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIATEK INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2009 and 2008

(Amounts in thousands of New Taiwan Dollars)

| Description | Note | 2009 | 2008 |
|---|--------|---------------|----------------|
| Cash flows from operating activities : | | | |
| Net income | | \$ 36,705,640 | \$ 19,189,997 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | | 2,411,231 | 2,525,052 |
| Amortization of financial assets discount or premium | | (32,841) | (17,539) |
| Bad debt provision (reversal) | | 16,938 | (257,741) |
| Cash dividends from equity investees | | 28,815 | 74,604 |
| Inventory loss provision | | 930,262 | 1,074,328 |
| Net gain on equity investments | | (15,121,930) | (2,954,090) |
| Adjustment of valuation on financial assets and liabilities | | 14,192 | 17,082 |
| Loss on disposal of investments | | 12,608 | 181,678 |
| Net loss on disposal of property, plant and equipment | | 1,234 | 661 |
| Impairment loss | | - | 12,126 |
| Deferred income tax | | 440,665 | 574,060 |
| Changes in operating assets and liabilities: | | | |
| Financial assets at fair value through profit or loss | | 1,012,000 | 605,884 |
| Accounts receivable | | (317,586) | 3,062,604 |
| Receivables from related parties | | (40,256) | 118,232 |
| Other receivables | | (267,986) | 249,635 |
| Inventories | | (2,617,174) | 5,047,507 |
| Prepayments and other current assets | | 46,148 | 123,643 |
| Accounts payable | | 3,657,130 | (2,688,424) |
| Payables to related parties | | 63,644 | (143,463) |
| Income tax payable | | 129,553 | (1,675,306) |
| Accrued expenses | | 10,764,675 | 8,084,615 |
| Other current liabilities | | (214,815) | 166,079 |
| Accrued pension liabilities | | 5,249 | 15,798 |
| Net cash provided by operating activities | | 37,627,396 | 33,387,022 |
| Cash flows from investing activities : | | | |
| Increase in restricted deposits | | (5,117) | (1,800) |
| Purchase of property, plant and equipment | | (1,432,161) | (938,173) |
| Proceeds from disposal of property, plant and equipment | | 921 | 9,414 |
| Increase in available-for-sale financial assets | | - | (1,525,347) |
| Proceeds from disposal of available-for-sale financial assets | | 1,787,997 | 1,694,842 |
| Increase in held-to-maturity financial assets | | - | (1,175,199) |
| Proceeds from redemption of held-to-maturity financial assets | | - | 500,000 |
| Proceeds from disposal of held-to-maturity financial assets | | 242,498 | - |
| Increase in investments accounted for using the equity method | | - | (3,000,000) |
| Prepaid long-term investment | | - | (12,126) |
| Purchase of intangible assets from other enterprise | 4.(10) | - | (10,060,691) |
| Increase in intangible assets | | (835,958) | (443,958) |
| (Increase) Decrease in refundable deposits | | (226,588) | 2,687 |
| Net cash used in investing activities | | (468,408) | (14,950,351) |
| Cash flows from financing activities : | | | |
| Decrease in deposits received | | (146) | - |
| Cash dividends | | (15,024,132) | (19,776,221) |
| Directors' and supervisors' remuneration | | - | (75,584) |
| Employees' bonuses | | - | (3,200,000) |
| Net cash used in financing activities | | (15,024,278) | (23,051,805) |
| Net increase (decrease) in cash and cash equivalents | | 22,134,710 | (4,615,134) |
| Cash and cash equivalents at the beginning of the year | | 35,750,448 | 40,365,582 |
| Cash and cash equivalents at the end of the year | | \$ 57,885,158 | \$ 35,750,448 |
| Supplemental disclosures of cash flow information : | | | |
| Income tax paid during the year | | \$ 497,937 | \$ 2,881,066 |
| Activities partially effected cash flows : | | | |
| Purchase of property, plant and equipment | | \$ 1,352,051 | \$ 832,238 |
| Add: decrease in payables to contractors and equipment suppliers | | 80,110 | 105,935 |
| Cash paid for the purchase of property, plant and equipment | | \$ 1,432,161 | \$ 938,173 |
| Non-cash activities : | | | |
| Stock dividends and employees' bonuses capitalized (including Additional paid-in capital) | | \$ 5,464,349 | \$ 322,985 |
| Adjustment arising from changes in percentage of ownership in investees | | \$ 19,286 | \$ 30,787 |
| Cumulative translation adjustments | | \$ (509,389) | \$ 382,132 |
| Change in unrealized gain (loss) on financial instruments | | \$ 427,747 | \$ (1,063,948) |
| Adjustment of cash dividends distributed to subsidiaries holding the Company's stock | | \$ 108,682 | \$ 146,037 |

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

1. Organization and Operation

Since its incorporation on May 28, 1997 at the Hsinchu Science-based Industrial Park, MediaTek Inc.'s (the "Company") main areas of focus includes 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, 2009 and 2008, total numbers of employees of the Company were 2,331 and 2,134, respectively.

2. Summary of Significant Accounting Policies

The Company's financial statements are prepared in accordance with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China (R.O.C.). Significant accounting policies are summarized as follows:

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in 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.

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

- A. The presentation and functional currency of the Company is New Taiwan dollars ("NT Dollars" or "NT\$"), the national currency of the R.O.C. Non-derivative 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 translated at the rates prevailing on the balance sheet date. Exchange differences on the retranslation of monetary assets and liabilities denominated in foreign currencies are included in the profit or loss for the period.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. When a gain or loss on a non-monetary asset measured at fair value is recognized directly in shareholders' equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item measured at fair value is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Exchange differences arising from the settlement of assets or liabilities denominated in foreign currency shall be recognized in profit or loss in the period in which they arise.

- B. Foreign subsidiaries of the Company have their presentation and functional currency in their local currencies. The assets and liabilities of the foreign subsidiaries are translated into NT Dollars, at the spot exchange rate 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 the translated amount from prior period carried forward. Dividends are translated at the spot rate of the declaration date. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. The accumulated exchange gains or losses resulting from the translation are recorded as cumulative translation adjustments under shareholders' equity.

Financial Assets and Financial Liabilities

- A. Financial asset or liability is recognized 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 asset 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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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:

- (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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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.

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 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 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.

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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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.

Allowance for Doubtful Accounts

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

Inventories

Prior to January 1, 2009, inventories were carried at lower of cost or market value. Cost was 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 were not sold or moved for further production were assessed allowance and set aside to reflect the potential loss from stock obsolescence.

Effective from January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs.

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. Adjustment to capital reserve and long-term investment is required when the holding percentage changes due to unproportional subscription to investee's

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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.

- B. Unrealized gains and losses arising from intercompany transactions are deferred and recognized when realized.
- C. 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.
- D. The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of the Company, and the accounts of investees in which the Company's ownership percentage is less than 50% but the Company has a controlling interest.

Property, Plant and Equipment

- A. Property, plant and equipment are 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 5 | years |
| Research and development equipment | 3 to 5 | years |
| Miscellaneous equipment | 2 to 5 | years |

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- 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.

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) | 3 Years |
| Patents, IPs and Others | 3 to 5 Years |

The Company will reassess the useful lives and the amortization method of its recognized intangible assets at the end of each fiscal year. 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.

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 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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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 a monthly contribution equal to 2% of the wages and salaries paid during the period to a pension fund maintained with the Central Trust of China. The fund is administered by the Employees' Retirement Fund Committee and is deposited in the committee's name. Therefore, the pension fund is not included in the financial statements of the Company.
- B. The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Law can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of the employer monthly contribution to the pension fund should be at least 6% of the employee's monthly wages.
- C. The Company also has a defined benefit pension plan which is accounted for in accordance with the R.O.C. SFAS No. 18 "Accounting for Pensions". Pension assets or liabilities are recorded based on actuarial calculations. The minimum pension liability was recorded for the excess of accumulated pension obligations over the fair value of plan assets. Net transition obligations from the plan assets are amortized using the straight-line method over the employees' expected average remaining service period of 20 years. For employees under defined contribution pension plans, pension costs are expensed in the period based on the actual contributions made to employees' individual pension accounts.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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. Income taxes of 10% on undistributed earnings are recorded as expenses in the year when the stockholders have resolved that the earnings shall be retained.
- D. Income Basic Tax Act took effect on January 1, 2006. The alternative minimum tax ("AMT") imposed under the Income Basic Tax Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is lower than the minimum amount prescribed under the Income Basic Tax Act. The tax effect of such amounts was taken into consideration in determining the recoverability of deferred income tax assets recognized.

Employee Stock Option

The Company used the intrinsic value method to recognize compensation cost for its employee stock options 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.”

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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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 included in the measurement of the transaction amount. 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

- A. 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. 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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- B. In accordance with the R.O.C. SFAS No. 30 “Accounting for Treasury Stock”, the pro-forma earnings per share were computed on the assumption that the Company’s shares owned by its subsidiary were not treated as treasury stock.

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 recognized in profit or loss.

MEDIATEK INC.

NOTES TO 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 employee 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\$5.93 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. Effective from January 1, 2009, the Company adopted the newly released R.O.C. SFAS No.10 "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value on an item-by-item basis except when the grouping of similar or related items is appropriate; (2) unallocated overheads resulted from low production or idle capacity are recognized as cost of goods sold in the year in which they are incurred; and (3) abnormal cost, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the year. Such changes in accounting principal did not have a significant impact on the Company's financial statements as of and for the year ended December 31, 2009. In addition, non-operating expense of NT\$1,076,264 thousand and non-operating income of NT\$68,994 thousand for the year ended December 31, 2008 have been reclassified to cost of goods sold.
- E. According to the newly revised Income Tax Act of R.O.C., the income tax rate of profit-seeking enterprise has changed from 25% to 20% effective from January 1, 2010. Such a change in income tax rate did not have a significant impact on the Company's net income and basic earnings per share for the year ended December 31, 2009.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****4. Contents of Significant Accounts****(1) Cash and Cash Equivalents**

| | As of December 31, | |
|-------------------------------|---------------------|---------------------|
| | 2009 | 2008 |
| Savings and checking accounts | \$2,079,598 | \$1,040,840 |
| Time deposits | 55,805,560 | 34,709,608 |
| Total | <u>\$57,885,158</u> | <u>\$35,750,448</u> |

Cash and cash equivalents were not pledged as of December 31, 2009 and 2008.

(2) Financial Assets and Liabilities at Fair Value through Profit or Loss**a.**

| | As of December 31, | |
|---|--------------------|------------------|
| | 2009 | 2008 |
| Held-for-trading financial assets | | |
| Financial debentures | \$- | \$147,675 |
| Forward exchange contracts | 16,042 | 32,587 |
| Subtotal | <u>16,042</u> | <u>180,262</u> |
| Financial assets designated as at fair value through profit or loss | | |
| Credit-linked deposits | - | 565,536 |
| Interest rate-linked deposits | - | 247,950 |
| Subtotal | <u>-</u> | <u>813,486</u> |
| Total | <u>\$16,042</u> | <u>\$993,748</u> |

Credit-linked deposits and interest rate-linked deposits 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 instruments were designated as financial instruments at fair value through profit or loss. Please refer to Note 10 to the financial statements for the disclosure of relative risk 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

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

Company believes that the economy condition during third quarter of 2008 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 the available-for-sale category.

(b) Book value and fair value of financial instruments 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 year ended December 31, 2008, the Company recognized losses of NT\$29,400 thousand 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, | |
|--|--------------------|---------|
| | 2009 | 2008 |
| Held-for-trading financial liabilities-current | | |
| Forward exchange contracts | \$- | \$2,956 |

The Company entered into derivative contracts during the years ended December 31, 2009 and 2008 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 FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

As of December 31, 2009 and 2008, outstanding forward exchange contracts were as follows:

(a) As of December 31, 2009:

Held-for-trading financial assets:

| Financial Instruments | Type | Maturity | Contract amount (US\$'000) |
|-----------------------|----------|--------------|-------------------------------|
| Forward exchange | Sell USD | January 2010 | USD55,000 |

(b) 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 |

For the years ended December 31, 2009 and 2008, gain (loss) arising from the forward exchange contracts were NT\$52,587 thousand and NT\$ (322,808 thousand), respectively.

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

| | As of December 31, | |
|-------|--------------------|-------------|
| | 2009 | 2008 |
| Funds | \$1,604,880 | \$1,538,700 |
| Bonds | 326,844 | - |
| Total | \$1,931,724 | \$1,538,700 |

In March 2009, the Company reclassified held-to-maturity financial assets to available-for-sale financial assets-current in the amount of NT\$372,994 thousand. Please refer to Note 4(4).

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

| | As of December 31, | |
|----------------------|--------------------|-----------|
| | 2009 | 2008 |
| Financial debentures | \$- | \$247,199 |
| Corporate bonds | - | 124,331 |
| Total | \$- | \$371,530 |

In March 2009, the Company sold part of held-to-maturity financial assets before maturity and reclassified the remaining held-to-maturity financial assets in the amount of NT\$372,994 thousand to available-for-sale financial assets.

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

| | As of December 31, | |
|---------------------------------------|--------------------|--------------------|
| | 2009 | 2008 |
| Accounts receivable | \$2,905,715 | \$2,588,129 |
| Less: Allowance for doubtful accounts | (75,886) | (58,948) |
| Net | <u>\$2,829,829</u> | <u>\$2,529,181</u> |

In 2009, the Company entered into several factoring agreements without recourse with financial institutions in Taiwan. According to those agreements, the Company does not take the risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related accounts receivable after deducting the estimated value of commercial disputes. The Company has not withdrawn cash entitled by the factoring agreements from banks as of December 31, 2009.

The details of factor as of December 31, 2009 are summarized as follows:

| | As of | | | | |
|-------------------------------|------------------|---------------------------------|-------------------|--------------------------|---------------------------|
| The Factor (Transferee) | Interest rate | December 31, 2009 (US\$'000) | Cash withdrawn | Unutilized (US\$'000) | Credit line (US\$'000) |
| Taishin International Bank | - | USD4,413 | \$- | USD4,413 | USD83,000 |

(6) Other Receivables

| | As of December 31, | |
|---------------------|--------------------|------------------|
| | 2009 | 2008 |
| Interest receivable | \$141,238 | \$114,849 |
| VAT refundable | 627,670 | 318,034 |
| Others | 19,816 | 19,702 |
| Total | <u>\$788,724</u> | <u>\$452,585</u> |

(7) Inventories-Net

| | As of December 31, | |
|--|--------------------|--------------------|
| | 2009 | 2008 |
| Work in process | \$3,620,535 | \$1,878,314 |
| Finished goods | 3,706,939 | 2,866,010 |
| Subtotal | 7,327,474 | 4,744,324 |
| Less: Allowance for inventory obsolescence | (2,257,721) | (1,361,483) |
| Net | <u>\$5,069,753</u> | <u>\$3,382,841</u> |

- a. For the years ended December 31, 2009 and 2008, the Company recognized the decline in market value and obsolescence of inventories which were included in cost of goods sold in the amount of NT\$930,262 thousand and NT\$1,074,328 thousand, respectively.

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

b. Inventories were not pledged as of December 31, 2009 and 2008.

(8) Funds and Investments

| a. | As of December 31, 2009 | | | |
|--|--------------------------|---------------|--------------|-----------|
| Investee Company | Type | Share/unit | Amount | Ownership |
| <u>Available-for-sale financial assets-noncurrent</u> | | | | |
| Cathay No. 1 Real Estate Investment Trust | Mutual fund | 70,000,000 | \$774,200 | - |
| Cathay No. 2 Real Estate Investment Trust | Mutual fund | 50,000,000 | 549,500 | - |
| Chinatrust 2006-1 Collateralized Loan Obligation-E | Securities | 246 | 246,172 | - |
| Cathay Real Estate Investment Trust -Tun Nan C | Securities | 20 | 100,000 | - |
| Taiwan Power 93-1 the Fourth Corporate Bond-E | Bond | 20 | 100,864 | - |
| Subtotal | | | 1,770,736 | |
| <u>Financial assets carried at cost-noncurrent</u> | | | | |
| Yuantonix, Inc. | Common share | 300,000 | - | 3.75% |
| <u>Bond portfolios with no active market-noncurrent</u> | | | | |
| Chinatrust Financial Holding Co. Ltd. | Series B Preferred stock | 25,000,000 | 1,000,000 | - |
| <u>Investments accounted for using the equity method</u> | | | | |
| MediaTek Investment Corp. | Common share | 1,426,754,351 | 26,094,991 | 100.00% |
| Hsu-Ta Investment Limited | Capital | - | 3,732,538 | 100.00% |
| Hsu-Chia Investment Limited | Capital | - | 3,467,717 | 100.00% |
| Hsu-Kang Investment Limited | Capital | - | 3,468,057 | 100.00% |
| Hsu-Chung Investment Corp. | Common share | 156,356,953 | 3,654,202 | 100.00% |
| Hsu-Xin Investment Corp. | Common share | 156,356,962 | 3,654,202 | 100.00% |
| ALi Corporation | Common share | 64,098,383 | 1,368,329 | 21.09% |
| Subtotal | | | 45,440,036 | |
| Add : Unrealized (gain) loss on disposal of long-term equity investments | | | (3,040) | |
| Subtotal | | | 45,436,996 | |
| Total | | | \$48,207,732 | |

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

| Investee Company | As of December 31, 2008 | | | |
|---|-------------------------|------------|-----------|-----------|
| | Type | Share/unit | Amount | Ownership |
| <u>Financial assets designated as at fair value</u> | | | | |
| <u>through profit or loss-noncurrent</u> | | | | |
| Foxconn Credit-linked Deposit | Credit-linked deposit | - | \$51,442 | - |
| <u>Available-for-sale financial assets-noncurrent</u> | | | | |
| Cathay No. 1 Real Estate Investment Trust | Mutual fund | 70,000,000 | \$662,200 | - |
| IIT Private Equity Real Estate Fund | Mutual fund | 4,685,006 | 50,554 | - |
| Cathay No. 2 Real Estate Investment Trust | Mutual fund | 50,000,000 | 442,000 | - |
| Chinatrust 2006-1 Collateralized Loan Obligation-D | Securities | 608 | 598,640 | - |
| Chinatrust 2006-1 Collateralized Loan Obligation-E | Securities | 246 | 245,238 | - |
| Nanya 96-1 Corporate Bonds | Bond | 250 | 246,445 | - |
| Chinatrust 92-2 Financial Debenture | Financial debenture | 2 | 202,989 | - |
| Subtotal | | | 2,448,066 | |
| <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 with no mortgage | Financial debenture | 25 | 250,000 | - |
| 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 | - |
| Subtotal | | | 1,158,760 | |
| (To be continued) | | | | |

MEDIATEK INC.**NOTES TO 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 |
| <u>Financial assets carried at cost-noncurrent</u> | | | | |
| Yuantonix, Inc. | Common share | 300,000 | - | 3.75% |
| <u>Bond portfolios with no active market-noncurrent</u> | | | | |
| Chinatrust Financial Holding Co. Ltd. | Series B | | | |
| | Preferred stock | 25,000,000 | 1,000,000 | - |
| <u>Investments accounted for using the equity method</u> | | | | |
| MediaTek Investment Corp. | Common share | 1,164,731,096 | 15,118,826 | 100.00% |
| Hsu-Ta Investment Limited | Capital | - | 3,626,880 | 100.00% |
| Hsu-Chia Investment Limited | Capital | - | 3,371,248 | 100.00% |
| Hsu-Kang Investment Limited | Capital | - | 3,371,659 | 100.00% |
| Hsu-Chung Investment Corp. | Common share | 150,000,000 | 1,889,711 | 100.00% |
| Hsu-Xin Investment Corp. | Common share | 150,000,000 | 1,889,711 | 100.00% |
| ALi Corporation | Common share | 64,034,349 | 1,208,514 | 21.14% |
| Subtotal | | | 30,476,549 | |
| Add : Unrealized (gain) loss on disposal of long-term equity investments | | | (3,040) | |
| Subtotal | | | 30,473,509 | |
| Total | | | <u>\$35,131,777</u> | |

- b. For the years ended December 31, 2009 and 2008, the Company recognized investment gain accounted for under the equity method in the amount of NT\$15,121,930 thousand and NT\$2,954,090 thousand, respectively, based on the audited financial statements of the investee companies.
- c. For the years ended December 31, 2009 and 2008, the Company recognized an unrealized gain (loss) of NT\$163,929 thousand and NT\$(862,633 thousand) in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for under the equity method, respectively.
- d. The Company issued employee stock options to subsidiaries' employees in 2009 and 2008, and recorded an increase in capital reserve in an aggregate amount of NT\$87,864 thousand and NT\$40,644 thousand, respectively. Please refer to note 4(15).
- e. In 2009 and 2008, under the equity method, the Company recognized changes in investees' capital reserve by NT\$19,286 thousand and NT\$30,787 thousand, respectively.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- f. In April 2008, the Company invested NT\$1,500,000 thousand in both Hsu-Chung Investment Corp. and Hsu-Xin Investment Corp., representing 100% of their total common shares.
- g. In August 2008, as Wiseali Technology Inc. was liquidated, the Company recognized an investment disposal loss of NT\$5,334 thousand.
- h. In 2008, the Company assessed that its investment in EoNex Technologies Inc. has been impaired and recognized an impairment loss of NT\$12,126 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.
- j. In 2008, the Company 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 which were classified as held-to-maturity financial assets. The investment cost and face value amounted to NT\$805,466 thousand and NT\$825,000 thousand, respectively.
- k. In 2009, the Company sold Foxconn Credit-linked Deposit which was classified as financial assets designated as at fair value through profit or loss at the price of NT\$50,208 thousand and recognized a valuation gain on financial assets of NT\$208 thousand.
- l. In 2009, the Company sold IIT Private Equity Real Estate Fund and other financial assets which were classified as available-for-sale financial assets at the aggregate price of NT\$1,481,150 thousand and recognized an investment disposal loss of NT\$5,106 thousand.
- m. In March 2009, the Company sold Chinatrust 96-2 Financial Debenture which was classified as held-to-maturity financial assets before maturity at the price of NT\$242,498 thousand and recognized an investment disposal loss of NT\$7,502 thousand. The Company reclassified the remaining held-to-maturity financial assets, such as Cathay Real Estate Investment Trust-Tun Nan C, to available-for-sale financial assets-noncurrent in the amount of NT\$910,714 thousand.
- n. 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

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

(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.

o. Funds and investments mentioned above were not pledged as of December 31, 2009 and 2008.

(9) Property, Plant and Equipment

a. No interest was capitalized for the years ended December 31, 2009 and 2008.

b. Property, plant and equipment were not pledged as of December 31, 2009 and 2008.

(10) Intangible Assets

a.

| | For the year ended December 31, 2009 | | |
|-----------------------------------|--------------------------------------|----------------------------|-------------|
| | Software (Design software) | Patents, IPs and Others | Total |
| Original cost | | | |
| Balance at beginning of period | \$1,893,431 | \$6,863,970 | \$8,757,401 |
| Increase - separately acquired | 509,845 | 337,916 | 847,761 |
| Decrease - elimination and others | (505,764) | - | (505,764) |
| Balance at end of period | 1,897,512 | 7,201,886 | 9,099,398 |
| Accumulated amortization | | | |
| Balance at beginning of period | (1,265,872) | (4,049,702) | (5,315,574) |
| Increase - amortization | (869,610) | (856,480) | (1,726,090) |
| Decrease - elimination and others | 505,764 | - | 505,764 |
| Balance at end of period | (1,629,718) | (4,906,182) | (6,535,900) |
| Net | \$267,794 | \$2,295,704 | \$2,563,498 |

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

| | For the year ended December 31, 2008 | | |
|---|--------------------------------------|----------------------------|-------------|
| | Software (Design software) | Patents, IPs and Others | Total |
| Original cost | | | |
| Balance at beginning of period | \$1,299,300 | \$3,599,564 | \$4,898,864 |
| Increase - separately acquired | 594,131 | 20,926 | 615,057 |
| Increase - acquired through business combination | - | 3,243,480 | 3,243,480 |
| Balance at end of period | 1,893,431 | 6,863,970 | 8,757,401 |
| Accumulated amortization | | | |
| Balance at beginning of period | (615,756) | (2,804,459) | (3,420,215) |
| Increase - amortization | (650,116) | (1,245,243) | (1,895,359) |
| Balance at end of period | (1,265,872) | (4,049,702) | (5,315,574) |
| Net | \$627,559 | \$2,814,268 | \$3,441,827 |

- 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.

(11) Accrued Pension Liabilities

- a. The Company's pension fund contributed to a fiduciary account in Bank of Taiwan amounted to NT\$45,452 thousand and NT\$44,069 thousand as of December 31, 2009 and 2008, respectively. The total pension expenses, including net pension cost under the Standard Labor Law and the pension expenses under the Labor Pension Act, amounted to NT\$130,855 thousand and NT\$137,267 thousand for the years ended December 31, 2009 and 2008, respectively. The pension expenses under the Labor Pension Act amounted to NT\$125,220 thousand and NT\$121,131 thousand for the years ended December 31, 2009 and 2008, respectively.

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

| | For the year ended December 31, | |
|--------------------------------|---------------------------------|----------|
| | 2009 | 2008 |
| Service cost | \$913 | \$1,680 |
| Interest cost | 4,260 | 7,641 |
| Expected return on plan assets | (1,102) | (1,268) |
| Amortization | 1,564 | 8,083 |
| Net pension cost | \$5,635 | \$16,136 |

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

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

| | As of December 31, | |
|--|--------------------|-------------------|
| | 2009 | 2008 |
| Benefit obligations | | |
| Vested benefit obligation | \$- | \$- |
| Non-vested benefit obligation | (98,419) | (98,129) |
| Accumulated benefit obligation | (98,419) | (98,129) |
| Effect of projected future salary increase | (268,683) | (72,274) |
| Projected benefit obligation | (367,102) | (170,403) |
| Fair value of plan assets | 45,452 | 44,069 |
| Funded status of pension plan | (321,650) | (126,334) |
| Unrecognized net transitional obligation | 706 | 795 |
| Unrecognized loss | 233,750 | 43,596 |
| Over-accrual | (221) | (223) |
| Accrued pension liabilities | <u>\$(87,415)</u> | <u>\$(82,166)</u> |

d. The vested benefit were nil as of December 31, 2009 and 2008.

e. The underlying actuarial assumptions

| | For the year ended December 31, | |
|--|---------------------------------|-------|
| | 2009 | 2008 |
| Discount rate | 2.25% | 2.50% |
| Rate of increase in future compensation levels | 5.00% | 2.00% |
| Expected long-term rate of return on plan assets | 2.25% | 2.50% |

(12) Common Stock

As of January 1, 2008, the authorized and issued common shares of the Company amounted to NT\$12,000,000 thousand and NT\$10,408,538 thousand, divided into 1,200,000,000 shares and 1,040,853,762 shares, respectively, each share at par value of NT\$10.

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.

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

Based on the resolution of shareholders' general meeting on June 10, 2009, the Company resolved to issue 2,146,304 new shares and 14,820,251 new shares at par value of NT\$10 for the capitalization of shareholders' dividends of NT\$21,463 thousand and employees' bonus of NT\$5,442,886 thousand, respectively. The record date was set on July 25, 2009 and the government approval has been successfully obtained.

As of December 31, 2009, the authorized and issued common shares of the Company amounted to NT\$12,000,000 thousand and NT\$10,901,189 thousand, divided into 1,200,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,090,118,854 shares, respectively, each share at par value of NT\$10.

(13) Legal Reserve

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

(14) Capital Reserve

| | As of December 31, | |
|-----------------------------|--------------------|--------------------|
| | 2009 | 2008 |
| Additional paid-in capital | \$7,385,442 | \$2,090,759 |
| Treasury stock transaction | 583,194 | 474,512 |
| Donated assets | 1,260 | 1,260 |
| Long-term equity investment | 169,422 | 150,136 |
| Employee stock option | 128,508 | 40,644 |
| Total | <u>\$8,267,826</u> | <u>\$2,757,311</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\$108,682 thousand and NT\$146,037 thousand to the subsidiary who owned the Company's common shares for the years ended December 31, 2009 and 2008, respectively. Since the Company's shares held by the subsidiary are treated as treasury stocks, the cash dividends paid to the Company's subsidiary are accounted for as an adjustment to capital reserve; under the category of treasury stock transactions.

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

Based on the resolution of shareholders' general meeting on June 10, 2009, the Company resolved to issue 14,820,251 new shares at par value of NT\$10 for the capitalization of employees' bonus of NT\$5,442,886 thousand and recorded paid in capital in excess of par value in the amount of NT\$5,294,683 thousand. Please refer to Note 4(12).

(15) Employee Stock Options

In December 2007 and July 2008, 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 and 3,000,000 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.

Detailed information relevant to the employee stock options is disclosed as follows:

| Date of grant | Total number of options granted | Total number of options outstanding | Shares available for option holders | Exercise price (NTD) (Note) |
|---------------|---------------------------------|-------------------------------------|-------------------------------------|-----------------------------|
| 2008.03.31 | 1,134,119 | 1,019,512 | 1,019,512 | \$382.0 |
| 2008.08.28 | 1,640,285 | 1,435,745 | 1,435,745 | 365.2 |
| 2009.08.18 | 1,382,630 | 1,335,028 | 1,335,028 | 473.0 |

Note: 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. In 2009 and 2008, the investment loss on equity investment arising from employee stock option compensation cost were NT\$87,864 thousand and NT\$40,644 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

| | Employee Stock Option |
|-------------------------|-----------------------|
| Expected dividend yield | 3.13%~6.63% |
| Expected volatility | 42.12%~50.06% |
| Risk free interest rate | 1.04%~2.53% |
| Expected life | 6.5 years |

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

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

| | For the year ended December 31, | | | |
|---|---------------------------------|---|-------------------|---|
| | 2009 | | 2008 | |
| Employee Stock Option | Options (Unit) | Weighted-average Exercise Price per share (NTD) | Options (Unit) | Weighted-average Exercise Price per share (NTD) |
| Outstanding at beginning of period | 2,676,535 | \$378 | - | \$- |
| Granted | 1,382,630 | 473 | 2,774,404 | 378 |
| Exercised | - | - | - | - |
| Forfeited (Expired) | (268,880) | 388 | (97,869) | 381 |
| Outstanding at end of period | <u>3,790,285</u> | 408 | <u>2,676,535</u> | 378 |
| Exercisable at end of period | <u>-</u> | | <u>-</u> | |
| Weighted-average fair value of options granted during the period (in NTD) | <u>\$122</u> | | <u>\$109</u> | |

The information regarding the Company's outstanding stock options as of December 31, 2009 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 | \$365.2~382.0 | 2,455,257 | 4.99 | \$372 | - | \$- |
| Stock option plan of 2009 | 473.0 | 1,335,028 | 6.13 | 473 | - | - |
| | | <u>3,790,285</u> | | \$408 | <u>-</u> | |

(16) 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:

- Income tax obligation;
- Offsetting accumulated deficits, if any;
- Legal reserve at 10% of net income after tax;
- Special reserve in compliance with the Company Law or the Securities and Exchange Law;

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- (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 years ended December 31, 2009 and 2008, the amounts of the employee' bonuses were estimated to be at NT\$12,226,536 thousand and NT\$6,403,395 thousand, respectively. During the years ended December 31, 2009 and 2008, the amount of remunerations to directors and supervisors were estimated to be at NT\$91,274 thousand and NT\$50,993 thousand, respectively. Employee bonuses were estimated based on 25% of net income for the years ended December 31, 2009 and 2008 (excluding the impact of expensing employees' bonuses and the related income tax effect) while remunerations to directors and supervisors 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 for the years ended December 31, 2009 and 2008. 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 next year.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(17) Treasury Stock**

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

| Owner | January 1, 2009 | | Additions | | December 31, 2009 | | |
|---------------|------------------|-----------------|---------------|------------|-------------------|-----------------|--------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | Market Value |
| MediaTek | | | 15,526 | | | | |
| Capital Corp. | <u>7,763,004</u> | <u>\$55,970</u> | <u>(Note)</u> | <u>\$-</u> | <u>7,778,530</u> | <u>\$55,970</u> | <u>\$4,340,420</u> |

| 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> |

Note : Stock dividends

(18) Net Operating Revenue

| | For the year ended December 31, | |
|---|---------------------------------|---------------------|
| | 2009 | 2008 |
| Revenues from sales of multimedia and cell phone chipsets | \$82,798,752 | \$70,507,637 |
| Other operating revenue | 1,149,564 | 740,780 |
| Subtotal | 83,948,316 | 71,248,417 |
| Less: Sales returns and sales discounts | (6,637,564) | (3,232,874) |
| Net Operating Revenue | <u>\$77,310,752</u> | <u>\$68,015,543</u> |

(19) Personnel, Depreciation and Amortization Expenses

| | For the year ended December 31, | | | | | |
|-------------------|-----------------------------------|----------------------------------|---------------------|-----------------------------------|----------------------------------|---------------------|
| | 2009 | | | 2008 | | |
| | 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 & wages | \$131,551 | \$16,428,475 | \$16,560,026 | \$103,291 | \$10,297,257 | \$10,400,548 |
| Insurance | 5,000 | 151,085 | 156,085 | 4,694 | 139,846 | 144,540 |
| Pension | 4,254 | 126,601 | 130,855 | 4,500 | 132,767 | 137,267 |
| Other expenses | 1,340 | 45,381 | 46,721 | 1,312 | 41,891 | 43,203 |
| Total | <u>\$142,145</u> | <u>\$16,751,542</u> | <u>\$16,893,687</u> | <u>\$113,797</u> | <u>\$10,611,761</u> | <u>\$10,725,558</u> |
| Depreciation | <u>\$14,402</u> | <u>\$670,739</u> | <u>\$685,141</u> | <u>\$4,214</u> | <u>\$625,479</u> | <u>\$629,693</u> |
| Amortization | <u>\$870</u> | <u>\$1,725,220</u> | <u>\$1,726,090</u> | <u>\$676</u> | <u>\$1,894,683</u> | <u>\$1,895,359</u> |

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(20) Income Tax**

a. In May 2009, the Income Tax Law of the Republic of China was amended and the income tax rate of profit-seeking enterprise was reduced from 25% to 20%. The amendment will take effect starting 2010.

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

| | For the year ended December 31, | |
|---|---------------------------------|--------------------|
| | 2009 | 2008 |
| Income tax payable | \$259,440 | \$374,526 |
| 10% surtax on undistributed earnings | 195,191 | 685,864 |
| Investment tax credits | (227,316) | (530,195) |
| Deferred income tax effects | | |
| Investment tax credits | (960,529) | (5,053,225) |
| Valuation allowance | 1,264,194 | 5,615,030 |
| Others | 137,000 | 12,255 |
| Others | (95,677) | 675,565 |
| Income tax expense from continuing operations | <u>\$572,303</u> | <u>\$1,779,820</u> |

b.

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

| | As of December 31, | | | |
|--|--------------------|--------------------|-------------|--------------------|
| | 2009 | | 2008 | |
| | Amount | Tax effect | Amount | Tax effect |
| Deferred income tax assets | | | | |
| Recognition of unrealized allowance for | | | | |
| inventory obsolescence | \$2,257,721 | \$451,544 | \$1,361,483 | \$340,371 |
| Allowance for doubtful debt in excess of | | | | |
| deductible limit | 46,223 | 9,245 | 32,864 | 8,216 |
| Unrealized technology license fee | 821,736 | 164,347 | - | - |
| Unrealized loss on asset impairment | 12,126 | 2,425 | 12,126 | 2,425 |
| Others | 712,827 | 142,565 | 53,142 | 13,286 |
| Investment tax credits | | <u>9,309,451</u> | | <u>8,348,922</u> |
| Deferred income tax assets | | 10,079,577 | | 8,713,220 |
| Valuation allowance for deferred income | | | | |
| tax assets | | <u>(9,571,813)</u> | | <u>(8,307,619)</u> |
| Net deferred income tax assets | | <u>507,764</u> | | <u>405,601</u> |

(To be continued)

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

(Continued)

| | As of December 31, | | | |
|--|--------------------|-------------------|----------|------------------|
| | 2009 | | 2008 | |
| | Amount | Tax effect | Amount | Tax effect |
| Deferred income tax liabilities | | | | |
| Unrealized foreign exchange gain | (21,136) | (4,227) | (10,305) | (2,576) |
| Unrealized gain on valuation of financial assets | (16,042) | (3,208) | (29,631) | (7,408) |
| Unrealized amortization of intangible assets | (2,726,884) | (545,377) | | - |
| Deferred income tax liabilities | | (552,812) | | (9,984) |
| Net deferred income tax assets and liabilities | | <u>\$(45,048)</u> | | <u>\$395,617</u> |

| | As of December 31, | |
|--|--------------------|------------------|
| | 2009 | 2008 |
| Deferred income tax assets-current | \$911,833 | \$545,978 |
| Valuation allowance for deferred income tax assets-current | (758,488) | (326,374) |
| Net deferred income tax assets-current | 153,345 | 219,604 |
| Deferred income tax liabilities-current | (7,435) | (9,984) |
| Net deferred income tax assets and liabilities-current | <u>\$145,910</u> | <u>\$209,620</u> |

| | As of December 31, | |
|---|--------------------|------------------|
| | 2009 | 2008 |
| Deferred income tax assets-noncurrent | \$9,167,744 | \$8,167,242 |
| Valuation allowance for deferred income tax assets-noncurrent | (8,813,325) | (7,981,245) |
| Net deferred income tax assets-noncurrent | 354,419 | 185,997 |
| Deferred income tax liabilities-noncurrent | (545,377) | - |
| Net deferred income tax assets and liabilities-noncurrent | <u>\$(190,958)</u> | <u>\$185,997</u> |

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

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, 2005 through December 31, 2009, January 1, 2007 through December 31, 2011, and January 1, 2009 through December 31, 2013.

d. 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 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.

e. The Company’s available investment tax credits as of December 31, 2009 were as follows:

| Total credit amount | Unused amount | Year expired |
|---------------------|--------------------|--------------|
| \$1,312,977 | \$300,285 | 2010 |
| 2,424,111 | 2,424,111 | 2011 |
| 2,291,169 | 2,291,169 | 2012 |
| 4,293,886 | 4,293,886 | 2013 |
| <u>\$10,322,143</u> | <u>\$9,309,451</u> | |

f.

Integrated income tax information

| | As of December 31, | |
|--|--------------------|--------------------|
| | 2009 | 2008 |
| Balance of the imputation credit account (ICA) | <u>\$1,886,299</u> | <u>\$2,207,442</u> |
| | | |
| Expected (Actual) creditable ratio | 2009 | 2008 |
| | <u>2.79%(Note)</u> | <u>4.86%</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, 2009.

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

g.

| Information related to undistributed retained earnings | As of December 31, | |
|--|---------------------|---------------------|
| | 2009 | 2008 |
| Prior to 1998 | \$- | \$- |
| After 1997 | 74,894,668 | 55,427,112 |
| Total | <u>\$74,894,668</u> | <u>\$55,427,112</u> |

(21) Earnings Per Share

The Company's capital structure is classified as complex capital structure after the issuance of employee stock options. Both of the shares of employee stock options (if exercised) and the shares of employee bonuses as expense have dilutive effects. 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, | |
|---|---------------------------------|----------------------|
| | 2009 | 2008 |
| Common shares outstanding, beginning | 1,073,152,299 | 1,040,853,762 |
| Stock issuance for stockholder' bonus, July 22, 2008 | - | 10,408,537 |
| Stock issuance for employees' bonus, July 22, 2008 | - | 21,890,000 |
| Weighted-average of new shares issued for employees' bonus, June 10, 2009 | 8,323,703 | - |
| Stock issuance for stockholder' bonus , July 25, 2009 | <u>2,146,304</u> | <u>2,146,304</u> |
| Subtotal | 1,083,622,306 | 1,075,298,603 |
| Less: the Company's shares owned by the subsidiary | <u>(7,778,530)</u> | <u>(7,778,530)</u> |
| Weighted-average shares outstanding for the period | 1,075,843,776 | 1,067,520,073 |
| Effect of dilutive potential common shares: | | |
| Bonus to employees | 28,407,903 | 29,040,340 |
| Stock option to employees | <u>279,444</u> | <u>-</u> |
| Weighted-average of dilutive shares outstanding | <u>1,104,531,123</u> | <u>1,096,560,413</u> |

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

| | <u>Amount (Numerator)</u> | | | <u>Earnings 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, 2009</u> | | | | | |
| Basic EPS | | | | | |
| Net income | \$37,277,943 | \$36,705,640 | 1,075,843,776 | <u>\$34.65</u> | <u>\$34.12</u> |
| Effect of dilutive potential common shares: | | | | | |
| Bonus to employees | - | - | 28,407,903 | | |
| Stock option to employees | - | - | 279,444 | | |
| Diluted EPS | <u>\$37,277,943</u> | <u>\$36,705,640</u> | <u>1,104,531,123</u> | <u>\$33.75</u> | <u>\$33.23</u> |

For the year ended December 31, 2008

| | | | | | |
|---|---------------------|---------------------|----------------------|----------------|----------------|
| Basic EPS | | | | | |
| Net income | \$20,969,817 | \$19,189,997 | 1,067,520,073 | <u>\$19.64</u> | <u>\$17.98</u> |
| Effect of dilutive potential common shares: | | | | | |
| Bonus to employees | - | - | 29,040,340 | | |
| Diluted EPS | <u>\$20,969,817</u> | <u>\$19,189,997</u> | <u>1,096,560,413</u> | <u>\$19.12</u> | <u>\$17.50</u> |

The pro-forma earnings per share were computed as follows, assuming that the Company's shares owned by its subsidiary were not treated as treasury stock:

| | <u>Amount (Numerator)</u> | | | <u>Earnings 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, 2009</u> | | | | | |
| Pro-forma EPS | | | | | |
| Net income | \$37,277,943 | \$36,705,640 | 1,075,843,776 | | |
| The effect of the Company’s shares owned by its subsidiary not treated as treasury stock | <u>108,682</u> | <u>108,682</u> | <u>7,778,530</u> | | |
| Total | \$37,386,625 | \$36,814,322 | 1,083,622,306 | \$34.50 | \$33.97 |

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

| | <u>Amount (Numerator)</u> | | | <u>Earnings per share</u> | |
|--|---------------------------|------------------|---------------------------------------|---------------------------|------------------|
| | <u>Before tax</u> | <u>After tax</u> | <u>Shares</u> <u>(Denominator)</u> | <u>Before tax</u> | <u>After tax</u> |
| <u>For the year ended December 31, 2008</u> | | | | | |
| Pro-forma EPS | | | | | |
| Net income | \$20,969,817 | \$19,189,997 | 1,067,520,073 | | |
| The effect of the Company's shares owned by its subsidiary not treated as treasury stock | <u>146,037</u> | <u>146,037</u> | <u>7,778,530</u> | | |
| Total | \$21,115,854 | \$19,336,034 | 1,075,298,603 | \$19.64 | \$17.98 |

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

| <u>Related parties</u> | <u>Relations</u> |
|---|---|
| King Yuan Electronics Co., Ltd. ("King Yuan") | The chairman 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 |
| JMicron Technology Corporation ("JMicon") | The Company's chairman doubles as JMicon's chairman |
| Airoha Technology, Inc. ("Airoha") | Equity investee |
| MediaTek Singapore Pte. Ltd. ("MSL") | Affiliated company |
| MTK Wireless Limited-UK ("MUK") | Affiliated company |
| MediaTek Wireless Limited-Ireland ("MIR") | Affiliated company |
| MediaTek Wireless, Inc.-USA ("MWS") | Affiliated company |
| MediaTek Denmark ApS (MDK) | Affiliated company |
| Directors, supervisors and key managers | The Company's major managers |

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(2) Major transactions with related parties****a. Sales**

| | For the year ended December 31, | | | |
|-------|---------------------------------|----------------|-----------|----------------|
| | 2009 | | 2008 | |
| | Amount | % of net sales | Amount | % of net sales |
| MSL | \$643,547 | 0.83 | \$412,553 | 0.61 |
| ALi | 64,626 | 0.08 | - | - |
| Alpha | - | - | 5,002 | 0.00 |
| Total | \$708,173 | 0.91 | \$417,555 | 0.61 |

Sales prices to the above related parties were similar to those to third-party customers. For the years ended December 31, 2009 and 2008, the trade credit terms for related parties and third-party customers were both 45 to 60 days. Third-party customers may prepay their accounts in advance. The Company's sales to MSL and ALi were royalty revenues, which were charged based on an agreed percentage of the Company's net sales.

b. IC testing, experimental services and manufacturing technology services

| | | For the year ended December 31, | |
|-----------|--------------------------------------|---------------------------------|-------------|
| | | 2009 | 2008 |
| King Yuan | IC testing and experimental services | \$1,480,960 | \$1,562,878 |

c. Rental Income

| | Rental Income | | Other Receivables | |
|---------|---------------------------------|----------|--------------------|---------|
| | For the year ended December 31, | | As of December 31, | |
| | 2009 | 2008 | 2009 | 2008 |
| Airoha | \$9,574 | \$12,318 | \$3,054 | \$3,066 |
| JMicron | 8,177 | 7,993 | - | - |
| Others | 4 | 1,499 | - | - |
| Total | \$17,755 | \$21,810 | \$3,054 | \$3,066 |

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

d. Other receivables from MDK, MUK, MIR and MWS, due to the Company incurring set-up expenses and operating expenditures on behalf of the abovementioned related parties, were shown as follows:

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

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

| | As of December 31, | |
|-------|--------------------|---------|
| | 2009 | 2008 |
| MDK | \$- | \$2,683 |
| MUK | 444 | 2,152 |
| MIR | - | 1,025 |
| MWS | - | 836 |
| Total | \$444 | \$6,696 |

- e. As of December 31, 2009, the lease guarantees provided by the Company for MUK and MWS were NT\$19,654 thousand and NT\$134,015 thousand, respectively.

(3) Receivables and payables resulted from the above transactions

a. Receivables from related parties

| | As of December 31, | | | |
|-----|--------------------|------|----------|------|
| | 2009 | | 2008 | |
| | Amount | % | Amount | % |
| MSL | \$60,581 | 2.10 | \$20,325 | 0.80 |

b. Payables to related parties

| | As of December 31, | | | |
|-----------|--------------------|------|-----------|------|
| | 2009 | | 2008 | |
| | Amount | % | Amount | % |
| King Yuan | \$427,576 | 5.68 | \$363,932 | 9.56 |

c. Remunerations paid to major managers

| | For the year ended December 31, | |
|---------------------------------|---------------------------------|-----------|
| | 2009 | 2008 |
| Salaries, reward, compensation, | | |
| special allowance and bonus | \$127,603 (Note) | \$399,197 |

Note: The appropriation of the 2009 earnings is not shown since the actual amount will not be finalized until the shareholders' meeting in 2010.

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 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, 2009**

| | <u>Amount</u> | <u>Party to which assets was pledged</u> | <u>Purpose of pledge</u> |
|-----------------------------|----------------|--|--------------------------|
| Restricted deposits-Current | <u>\$6,917</u> | Administrative Bureau of HSIP | Land lease guarantee |

(2) As of December 31, 2008

| | <u>Amount</u> | <u>Party to which assets was pledged</u> | <u>Purpose of pledge</u> |
|-----------------------------|----------------|--|--------------------------|
| Restricted deposits-Current | <u>\$1,800</u> | Administrative Bureau of HSIP | Land lease guarantee |

7. Commitments and Contingencies**(1) Lawsuit:**

British Telecommunication (“BT”) brought a complaint against MediaTek Wireless, Inc. (“MWS”), a wholly-owned subsidiary of MediaTek Inc., in November 2009 in the United States District Court, District of Massachusetts, alleging patent infringement under 35 U.S.C. §271, et seq., against MWS’s products for infringement of United States patent No. 5,153,591 (“the ‘591 patent”). BT is alleging patent infringement of its ‘591 patent by certain products that were transferred from Analog Devices Inc. (“ADI”) to MWS through the purchase of certain ADI’s assets and business. The Company contended that MWS does not believe that any of its products infringe the ‘591 patent. In addition, the ‘591 patent has expired. The Company will defend the case vigorously.

(2) Operating Lease:

The Company has entered into 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:

| <u>Lease Period</u> | <u>Amount</u> |
|-----------------------|------------------|
| 2010.01.01~2010.12.31 | \$30,371 |
| 2011.01.01~2011.12.31 | 30,371 |
| 2012.01.01~2012.12.31 | 30,371 |
| 2013.01.01~2013.12.31 | 30,371 |
| 2014.01.01~2014.12.31 | 30,371 |
| 2015.01.01~2027.12.31 | 274,789 |
| Total | <u>\$426,644</u> |

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****10. Others****(1) Financial Instruments****a. Fair value of financial instruments**

| | As of December 31, | | | |
|--|--------------------|--------------|-------------------|--------------|
| | 2009 | | 2008 | |
| | Carrying value | Fair value | Carrying value | Fair value |
| <u>Non-derivative</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and cash equivalents | \$57,885,158 | \$57,885,158 | \$35,750,448 | \$35,750,448 |
| Held-for-trading financial assets-current (excluding derivatives) | \$- | \$- | \$147,675 | \$147,675 |
| Financial assets designated as at fair value through profit or loss | \$- | \$- | \$864,928 | \$864,928 |
| Receivables(including receivables from related parties) | \$2,890,410 | \$2,890,410 | \$2,549,506 | \$2,549,506 |
| Other receivables | \$788,724 | \$788,724 | \$452,585 | \$452,585 |
| Available-for-sale financial assets | \$3,702,460 | \$3,702,460 | \$3,986,766 | \$3,986,766 |
| Held-to-maturity financial assets | \$- | \$- | \$1,530,290 | \$1,528,760 |
| Bond portfolios with no active market | \$1,000,000 | \$1,089,108 | \$1,000,000 | \$1,084,628 |
| Investments accounted for using the equity method | | | | |
| -with market value | \$1,368,329 | \$4,967,625 | \$1,208,514 | \$1,299,897 |
| -without market value | \$44,068,667 | \$- | \$29,264,995 | \$- |
| Refundable deposits | \$241,321 | \$241,321 | \$14,733 | \$14,733 |
| Restricted deposits | \$6,917 | \$6,917 | \$1,800 | \$1,800 |
| <u>Liabilities</u> | | | | |
| Payables(including related parties) | \$7,528,589 | \$7,528,589 | \$3,807,815 | \$3,807,815 |
| Income tax payable | \$847,228 | \$847,228 | \$717,675 | \$717,675 |
| Accrued expenses | \$15,089,802 | \$15,089,802 | \$9,768,013 | \$9,768,013 |
| Payables to contractors and equipment suppliers | \$9,293 | \$9,293 | \$89,403 | \$89,403 |
| Deposits received | \$876 | \$876 | \$1,022 | \$1,022 |
| <u>Derivative</u> | | | | |
| <u>Assets</u> | | | | |
| Held-for-trading financial assets | | | | |
| -Forward exchange contracts | \$16,042 | \$16,042 | \$32,587 | \$32,587 |
| <u>Liabilities</u> | | | | |
| Held-for-trading financial liabilities | | | | |
| -Forward exchange contracts | \$- | \$- | \$2,956 | \$2,956 |

MEDIATEK INC.

NOTES TO 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, payables, income tax payable, 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 values 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) 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.
 - (vi) The fair values of the Company's 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.
 - (vii) The fair values of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- (b) Gains recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$13,114 thousand and NT\$30,601 thousand for the years ended December 31, 2009 and 2008, respectively.
- (c) As of December 31, 2009 and 2008, financial assets exposed to fair value risk from fixed interest rate were NT\$56,579,590 thousand and NT\$38,295,963 thousand, respectively, and financial assets exposed to cash flow risk from variable interest rate were NT\$6,767 thousand and NT\$251,650 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\$420,185 thousand and NT\$749,912 thousand for the years ended December 31, 2009 and 2008, respectively. The Company recognized an unrealized gain of NT\$258,712 thousand and an unrealized loss of NT\$368,943 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2009 and 2008, respectively, and the amounts that were recycled from equity to loss were NT\$5,106 thousand and NT\$167,628 thousand for the years ended December 31, 2009 and 2008, respectively. The Company also recognized an unrealized gain of NT\$163,929 thousand and an unrealized loss of NT\$862,633 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, 2009 and 2008, respectively. Please refer to Note 4.(8) to the financial statements for details.
- (e) The impairment loss on financial assets amounted to NT\$0 and NT\$12,126 thousand for the years ended December 31, 2009 and 2008, respectively.

b.

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

The Company 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 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's functional currency. The Company reviews its assets and liabilities denominated in foreign currency and enters 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 or losses 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\$550 thousand and NT\$1,150 thousand as of December 31, 2009 and 2008, respectively. Credit-linked deposits and interest rate-linked deposits are affected by interest rates. When interest rate increases, the 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.

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. The Company's credit risk mainly comes from the collectibility of accounts receivable while receivable balances are monitored on an ongoing

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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 the counter-party or the third-party to a financial instrument fails to discharge an obligation and the Company suffers a financial loss as a result. Credit risk of credit-linked deposits and 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 carried at cost, bond portfolios with no active market and 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 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 minimizes 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

Certain accounts in the financial statements of the Company as of December 31, 2008 have been reclassified to conform to the presentation of the current period.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****11. Segment Information****(1) Major Customers**

Sales to customers representing over 10% of the Company's net sales were as follows:

| Customers | For the year ended December 31, | | | |
|-----------|---------------------------------|--------------|---------------------|--------------|
| | 2009 | | 2008 | |
| | Amounts | % | Amounts | % |
| A | \$31,540,857 | 40.80 | \$25,904,963 | 38.09 |
| B | 11,634,439 | 15.05 | 10,064,737 | 14.80 |
| C | 11,570,783 | 14.96 | 10,028,991 | 14.75 |
| Total | <u>\$54,746,079</u> | <u>70.81</u> | <u>\$45,998,691</u> | <u>67.64</u> |

(2) Export Sales

The Company's export sales totaled NT\$72,183,226 thousand and NT\$63,296,383 thousand for the years ended December 31, 2009 and 2008, respectively, representing 93.37% and 93.06% of the Company's net sales for corresponding years.

(3) Geographic data

The Company has no significant foreign operation.

(4) Industry data

The Company operates predominantly in one industry segment, which is the designing, manufacturing, and supply of integrated circuit chips and decoders.