

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

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITOR'S REPORT

AS OF DECEMBER 31, 2010 AND 2009

AND FOR THE YEARS THEN ENDED

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2010 and for the year then ended prepared under the R.O.C.'s Statement of Financial Accounting Standards No.7 (referred to as "Consolidated Financial Statements") are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as "Combined Financial Statements"). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

March 10, 2011

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
of MediaTek Inc.

We have audited the consolidated balance sheets of MediaTek Inc. and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MediaTek Inc. and its subsidiaries as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the R.O.C.

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
March 10, 2011
Taipei, Taiwan
Republic of China

Notice to Readers

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2010 and 2009

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	2010	2009	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2010	2009
Current assets				Current liabilities			
Cash and cash equivalents	2, 4(1)	\$ 85,927,357	\$ 94,647,892	Accounts payable		\$ 7,389,844	\$ 10,008,850
Held-for-trading financial assets-current	2, 4(2)	46,271	16,042	Payables to related parties	5	1,029,160	1,785,494
Financial assets designated as at fair value through profit or loss-current	2, 4(3)	510,422	-	Income tax payable	2, 4(21)	1,068,950	985,199
Available-for-sale financial assets-current	2, 4(4)	5,588,972	2,183,335	Accrued expenses	2, 4(17)	15,668,939	16,317,295
Accounts receivable, net	2, 4(6)	7,164,346	7,266,916	Payables to contractors and equipment suppliers		16,488	9,648
Other receivables	4(7)	1,174,831	901,195	Other current liabilities		612,875	347,879
Inventories, net	2, 3, 4(8)	9,387,649	8,172,723	Total current liabilities		25,786,256	29,454,365
Prepayments		2,169,960	272,609				
Other current assets		493,288	302,704				
Deferred income tax assets-current	2, 4(21)	119,215	260,964				
Restricted assets-current	6	13,043	13,889				
Total current assets		112,595,354	114,038,269				
Funds and investments	2, 4(9)			Other liabilities			
Financial assets designated as at fair value through profit or loss-noncurrent		2,233,070	1,041,745	Accrued pension liabilities	2, 4(12)	107,227	87,415
Available-for-sale financial assets-noncurrent		1,720,495	2,101,700	Deposits received		973	983
Financial assets carried at cost-noncurrent		1,083,608	931,566	Deferred income tax liabilities-noncurrent	2, 4(21)	426,901	159,920
Bond portfolios with no active market-noncurrent		1,000,000	1,000,000	Total other liabilities		535,101	248,318
Investments accounted for using the equity method		1,658,511	1,586,583	Total liabilities		26,321,357	29,702,683
Prepayments for long-term investments		38,773	-				
Total funds and investments		7,734,457	6,661,594				
Property, plant and equipment	2, 4(10)			Shareholders' equity			
Land		888,722	-	Equity attributable to shareholders of the parent			
Buildings and facilities		5,738,474	5,059,545	Capital			
Machinery and equipment		204,516	227,738	Common stock	4(13)	10,999,317	10,901,189
Computer and telecommunication equipment		1,436,518	944,953	Capital collected in advance		365	-
Testing equipment		2,439,991	2,156,548	Capital reserve			
Miscellaneous equipment		689,195	818,049	Additional paid-in capital	4(15)	11,051,733	7,385,442
Total cost		11,397,416	9,206,833	Treasury stock transaction	4(15)	785,420	583,194
Less : Accumulated depreciation		(3,833,975)	(3,016,901)	Donated assets	4(15)	1,260	1,260
Add : Construction in progress		125,951	635,650	Long-term investment transaction	4(15)	207,315	169,422
Prepayments for equipment		118,425	63,247	Employee stock option	4(15), 4(16)	213,676	128,508
Property, plant and equipment, net		7,807,817	6,888,829	Total capital reserve		12,259,404	8,267,826
Intangible assets	2, 4(11)			Retained earnings			
Patents		267,490	309,971	Legal reserve	4(14)	18,613,978	14,943,414
Software		333,053	303,469	Special reserve	4(17)	355,131	273,489
Goodwill		6,863,129	6,837,672	Undistributed earnings	4(17)	73,739,007	74,894,668
IPs and others		2,108,663	3,171,781	Other adjustments			
Total intangible assets		9,572,335	10,622,893	Cumulative translation adjustments	2	(4,380,730)	(527,304)
Other assets				Unrealized gain (loss) on financial instruments	2	182,608	172,173
Refundable deposits		261,488	328,579	Treasury stock	4(18)	(55,970)	(55,970)
Deferred assets		45,897	33,756	Total shareholders' equity attributable to parent company		111,713,110	108,869,485
Restricted assets-noncurrent	6	17,344	19,366	Minority interests		225	21,118
Total other assets		324,729	381,701	Total shareholders' equity		111,713,335	108,890,603
Total assets		\$ 138,034,692	\$ 138,593,286	Total liabilities and shareholders' equity		\$ 138,034,692	\$ 138,593,286

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2010 and 2009

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

Description	Notes	2010		2009	
Gross sales		\$	122,374,147	\$	124,142,262
Less : Sales returns			(45,445)		(75,573)
Sales discounts			(8,806,744)		(8,555,064)
Net sales	2, 4(19), 5		113,521,958		115,511,625
Cost of goods sold	4(20), 5		(52,613,892)		(47,694,235)
Gross profits			60,908,066		67,817,390
Operating expenses	4(20), 5				
Selling expenses			(3,160,968)		(3,279,185)
General and administrative expenses			(3,357,947)		(3,966,155)
Research and development expenses			(23,310,531)		(24,184,886)
Total operating expenses			(29,829,446)		(31,430,226)
Operating income			31,078,620		36,387,164
Non-operating income and gains					
Interest income			586,492		494,593
Gain on equity investments, net	2, 4(9)		180,041		198,857
Gain on disposal of investments	2, 4(9)		7,917		9,091
Foreign exchange gain, net	2		28,366		122,238
Valuation gain on financial assets	2, 4(2)		35,667		115,600
Others			414,927		284,569
Total non-operating income and gains			1,253,410		1,224,948
Non-operating expenses and losses					
Interest expense			-		(625)
Loss on disposal of property, plant and equipment	2		(44,113)		(4,661)
Impairment loss	2, 4(9)		-		(99,449)
Others			-		(87,291)
Total non-operating expenses and losses			(44,113)		(192,026)
Income from continuing operations before income tax			32,287,917		37,420,086
Income tax expense	2, 4(21)		(1,351,314)		(724,620)
Consolidated net income		\$	30,936,603	\$	36,695,466
Income Attributable to :					
Shareholders of the parent		\$	30,961,437	\$	36,705,640
Minority interests			(24,834)		(10,174)
Consolidated net income		\$	30,936,603	\$	36,695,466
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(22)	Before tax	After tax	Before tax	After tax
Consolidated net income		\$ 29.66	\$ 28.42	\$ 34.71	\$ 34.04
Net loss attributable to minority interests		0.02	0.02	0.01	0.01
Net income attributable to the parent		\$ 29.68	\$ 28.44	\$ 34.72	\$ 34.05
Diluted Earnings Per Share (in New Taiwan Dollars)	2, 4(22)				
Consolidated net income		\$ 29.10	\$ 27.88	\$ 33.81	\$ 33.16
Net loss attributable to minority interests		0.02	0.02	0.01	0.01
Net income attributable to the parent		\$ 29.12	\$ 27.90	\$ 33.82	\$ 33.17

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2010 and 2009

(Amounts in thousands of New Taiwan Dollars)

Description	Common stock		Capital reserve	Retained Earnings			Cumulative translation adjustments	Unrealized gain (loss) on financial instruments	Treasury stock	Total shareholder's equity attributable to parent company	Minority interests	Total shareholder's equity
	Common stock	Capital collected in advance		Legal reserve	Special reserve	Undistributed earnings						
Balance as of January 1, 2009	\$ 10,731,523	\$ -	\$ 2,757,311	\$ 13,024,414	\$ -	\$ 55,427,112	\$ (17,915)	\$ (255,574)	\$ (55,970)	\$ 81,610,901	\$ 147,962	\$ 81,758,863
Appropriation and distribution of 2008 earnings (Note 1):												
Legal reserve	-	-	-	1,919,000	-	(1,919,000)	-	-	-	-	-	-
Special reserve	-	-	-	-	273,489	(273,489)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(15,024,132)	-	-	-	(15,024,132)	-	(15,024,132)
Stock dividends	21,463	-	-	-	-	(21,463)	-	-	-	-	-	-
Bonus to employees - in stock	148,203	-	5,294,683	-	-	-	-	-	-	5,442,886	-	5,442,886
Net income attributable to parent company for the year ended December 31, 2009	-	-	-	-	-	36,705,640	-	-	-	36,705,640	-	36,705,640
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	427,747	-	427,747	-	427,747
Employee stock option distributed to subsidiaries' employees	-	-	87,864	-	-	-	-	-	-	87,864	-	87,864
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	108,682	-	-	-	-	-	-	108,682	-	108,682
Adjustment arising from changes in the percentage of ownership in investees	-	-	19,286	-	-	-	-	-	-	19,286	-	19,286
Cumulative translation adjustments	-	-	-	-	-	-	(509,389)	-	-	(509,389)	-	(509,389)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	(126,844)	(126,844)
Balance as of December 31, 2009	10,901,189	-	8,267,826	14,943,414	273,489	74,894,668	(527,304)	172,173	(55,970)	108,869,485	21,118	108,890,603
Appropriation and distribution of 2009 earnings (Note 2):												
Legal reserve	-	-	-	3,670,564	-	(3,670,564)	-	-	-	-	-	-
Special reserve	-	-	-	-	81,642	(81,642)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(28,343,090)	-	-	-	(28,343,090)	-	(28,343,090)
Stock dividends	21,802	-	-	-	-	(21,802)	-	-	-	-	-	-
Bonus to employees - in stock	74,855	-	3,593,106	-	-	-	-	-	-	3,667,961	-	3,667,961
Net income attributable to parent company for the yearended December 31, 2010	-	-	-	-	-	30,961,437	-	-	-	30,961,437	-	30,961,437
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	10,435	-	10,435	-	10,435
Employee stock option distributed to subsidiaries' employees	-	-	91,476	-	-	-	-	-	-	91,476	-	91,476
Issuance of stock from exercising employee stock options	1,471	365	66,877	-	-	-	-	-	-	68,713	-	68,713
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	202,226	-	-	-	-	-	-	202,226	-	202,226
Adjustment arising from changes in the percentage of ownership in investees	-	-	37,893	-	-	-	-	-	-	37,893	-	37,893
Cumulative translation adjustments	-	-	-	-	-	-	(3,853,426)	-	-	(3,853,426)	-	(3,853,426)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	(20,893)	(20,893)
Balance as of December 31, 2010	<u>\$ 10,999,317</u>	<u>\$ 365</u>	<u>\$ 12,259,404</u>	<u>\$ 18,613,978</u>	<u>\$ 355,131</u>	<u>\$ 73,739,007</u>	<u>\$ (4,380,730)</u>	<u>\$ 182,608</u>	<u>\$ (55,970)</u>	<u>\$ 111,713,110</u>	<u>\$ 225</u>	<u>\$ 111,713,335</u>

Note 1: Directors' and supervisors' remuneration of NT\$42,494 thousand and employees' bonuses of NT\$6,403,395 thousand had been charged against earnings of 2008.

Note 2: Directors' and supervisors' remuneration of NT\$65,907 thousand and employees' bonuses of NT\$12,226,536 thousand had been charged against earnings of 2009.

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

Chairman :Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2010 and 2009
(Amounts in thousands of New Taiwan Dollars)

Description	2010	2009
Cash flows from operating activities :		
Consolidated net income	\$ 30,936,603	\$ 36,695,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,107,081	1,072,887
Amortization	1,870,604	2,172,122
Bad debt provision	46,388	87,826
Employee stock option distributed	91,476	87,864
Employees' bonuses	3,863,296	12,226,536
Amortization of financial assets discount or premium	296	(37,173)
Inventory loss provision	2,113,727	624,584
Net gain on equity investments	(180,041)	(198,857)
Net loss on disposal of property, plant and equipment	44,113	4,661
Gain on disposal of investment (including interest income)	(7,917)	(23,994)
Impairment loss	-	99,449
Cash dividends from equity investees	123,713	28,815
Adjustment of valuation of financial assets and liabilities	(106,455)	(45,372)
Deferred income tax	409,696	320,147
Changes in operating assets and liabilities:		
Held-for-trading financial assets	-	150,000
Financial assets designated as at fair value through profit or loss	(1,683,443)	755,084
Accounts receivable	(181,042)	(1,884,208)
Other receivables	406,563	(99,951)
Inventories	(3,536,726)	(3,331,392)
Prepayments	(1,896,674)	74,125
Other current assets	(202,897)	994,208
Accounts payable	(2,620,019)	5,779,249
Payables to related parties	(756,334)	1,151,820
Income taxes payable	83,751	145,718
Accrued expenses	(807,962)	(1,060,198)
Other current liabilities	270,071	(554,392)
Accrued pension liabilities	19,812	5,249
Net cash provided by operating activities	29,407,680	55,240,273
Cash flows from investing activities :		
Decrease in restricted assets	2,868	1,770
Increase in available-for-sale financial assets	(3,697,357)	-
Proceeds from disposal of available-for-sale financial assets	649,486	4,085,394
Proceeds from disposal of held-to-maturity financial assets	-	413,073
Increase in financial assets carried at cost	(221,354)	(221,124)
Proceeds from disposal of financial assets carried at cost	3,325	122,127
Proceeds from disposal of investments accounted for using the equity method	13,081	-
Increase in prepaid long-term investments	(38,773)	-
Net cash outflow from acquisition of subsidiaries	(114,214)	(32,345)
Purchase of property, plant and equipment	(2,122,234)	(1,573,525)
Proceeds from disposal of property, plant and equipment	9,661	1,573
Decrease (increase) in refundable deposits	67,101	(229,648)
Increase in intangible assets and deferred assets	(825,939)	(798,574)
Net cash (used in) provided by investing activities	(6,274,349)	1,768,721
Cash flows from financing activities :		
Decrease in deposits received	(10)	(39)
Decrease in lease payable	-	(1,392)
Proceeds from exercise of employee stock options	68,713	-
Cash dividends	(28,343,090)	(15,024,132)
Cash dividends distributed to subsidiaries holding the Company's stock	202,226	108,682
Change in minority interests	(815)	27,838
Net cash used in financing activities	(28,072,976)	(14,889,043)
Effect of exchange rate	(3,780,890)	(493,603)
Net (decrease) increase in cash and cash equivalents	(8,720,535)	41,626,348
Cash and cash equivalents at the beginning of the year	94,647,892	53,021,544
Cash and cash equivalents at the end of the year	\$ 85,927,357	\$ 94,647,892
Supplemental disclosures of cash flow information :		
Interest paid during the year	\$ -	\$ 625
Income tax paid during the year	\$ 688,054	\$ 722,879
Activities partially affected cash flows :		
Purchase of property, plant and equipment	\$ 2,129,074	\$ 1,493,770
Add: (increase) decrease in payables to contractors and equipment suppliers	(6,840)	79,755
Cash paid for the purchase of property, plant and equipment	\$ 2,122,234	\$ 1,573,525
Non-cash activities :		
Stock dividends and employees' bonuses capitalized (including additional paid-in capital)	\$ 3,689,763	\$ 5,464,349
Change in unrealized gain (loss) on financial instruments	\$ 10,435	\$ 427,747

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

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

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

As of December 31, 2010 and 2009, total numbers of employees of the Company and subsidiaries' were 5,486 and 4,319, respectively.

2. Summary of Significant Accounting Policies

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

General Descriptions of the Consolidated Entities

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

Company	Main Business	Percentage of Ownership As of December 31,		Note
		2010	2009	
MediaTek Investment Corp.	General investing	100.00%	100.00%	-
Hsu-Chung Investment Corp.	General investing	100.00%	100.00%	-
Hsu-Xin Investment Corp.	General investing	100.00%	100.00%	-
Hsu-Ta Investment Limited	General investing	100.00%	100.00%	-
Hsu-Chia Investment Limited	General investing	100.00%	100.00%	-
Hsu-Kang Investment Limited	General investing	100.00%	100.00%	-
Core Tech Resources Inc.	General investing	100.00%	100.00%	-
MediaTek Capital Corp.	General investing	100.00%	100.00%	-
RollTech Technology, Co. Ltd.	Software development	100.00%	-	1
Airoha Technology, Inc.	IC design and sales	39.05%	40.93%	2
Airoha Technology (Samoa) Corporation	General investing	100.00%	100.00%	2
Gaintech Co. Limited	General investing	100.00%	100.00%	-

(To be continued)

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

(Continued)		Percentage of Ownership As of December 31,		
		2010	2009	Note
Company	Main Business			
MediaTek (HK) Inc.	General investing	100.00%	100.00%	-
MediaTek (Hefei) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Beijing) Inc.	Technology services	100.00%	100.00%	-
MediaTek (ShenZhen) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Chengdu) Inc.	Technology services	100.00%	-	3
MediaTek (Wuhan) Inc.	Technology services	100.00%	-	4
MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100.00%	100.00%	-
MTK Wireless Limited (UK)	Research	100.00%	100.00%	-
MediaTek Wireless Limited (Ireland)	Research	100.00%	100.00%	-
MediaTek Denmark ApS	Research	100.00%	100.00%	-
MTK Wireless L.L.C.(Dubai)	Technology services	100.00%	-	5
Zena Technologies International Inc. (BVI)	General investing	48.63%	80.00%	6
Zena Technologies, Inc. (USA)	Research	100.00%	100.00%	6
MediaTek USA Inc.	Research	100.00%	100.00%	-
MediaTek Wireless, Inc.(USA)	Research	100.00%	100.00%	-
MediaTek Japan Inc.	Technology services	100.00%	100.00%	-
MediaTek India Technology Pvt. Ltd.	Research	100.00%	100.00%	-
MediaTek Korea Inc.	Research	100.00%	100.00%	-
Vogins Technology Co., Ltd.	General investing	79.51%	74.84%	-
Vogins Technology (Shanghai) Co., Ltd.	Software development	100.00%	100.00%	-
Hesine Technologies International Worldwide Inc.	General investing	100.00%	-	7

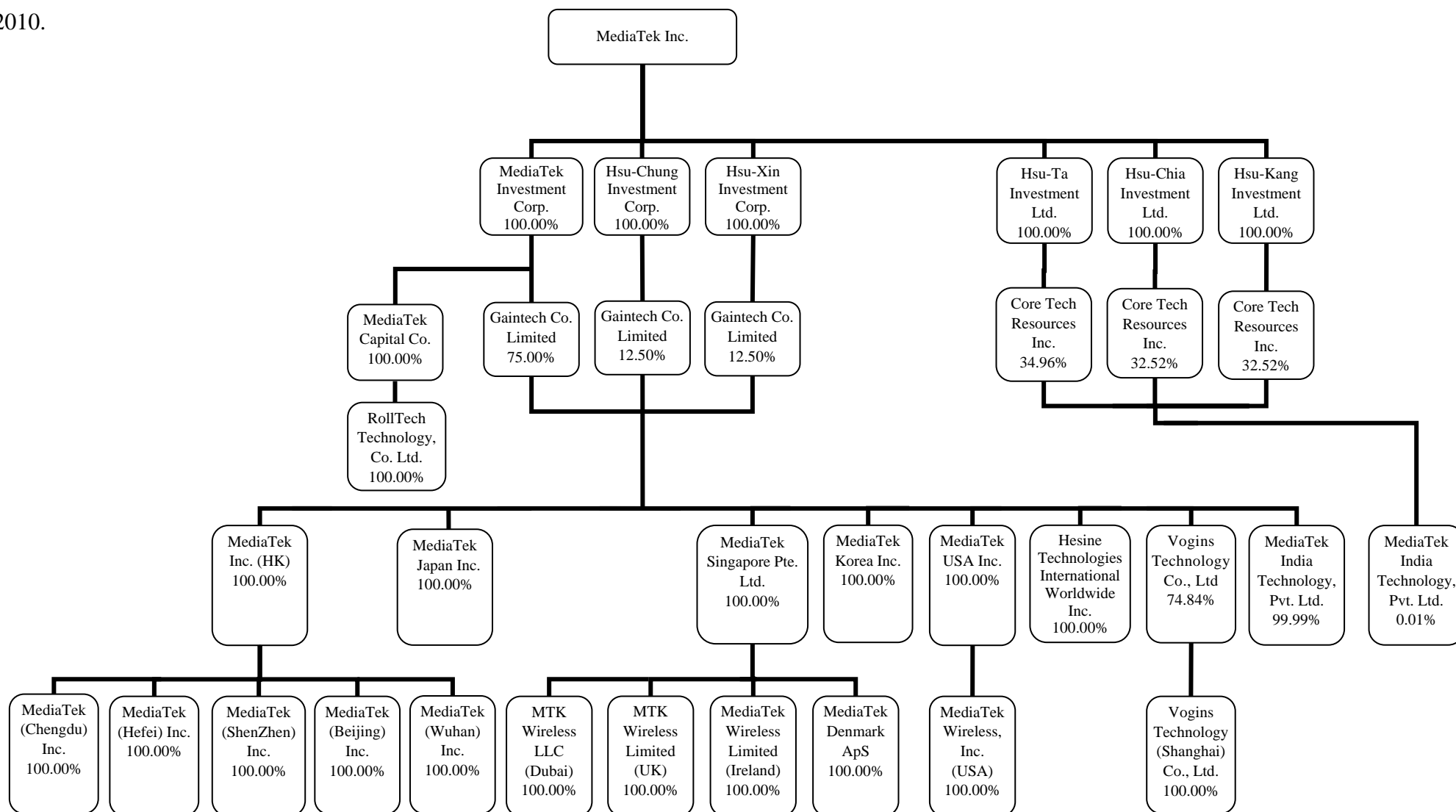
- MediaTek Capital Corp. acquired RollTech Technology, Co. Ltd. in July 2010.
- MediaTek Capital Corp.'s direct and indirect shareholding in Airoha Technology, Inc.'s was under 50%. However, the Company continued to include Airoha in its consolidated financial statements since the Board of Airoha was controlled by MediaTek Capital Corp. until May 2009. In May 2009, the Company lost control over Airoha Technology, Inc. and its subsidiary - Airoha Technology (Samoa) Corporation and therefore excluded these two companies from its consolidated financial statements. However, revenues and expenses of Airoha Technology, Inc. and its subsidiary incurred before May 2009 have been included in the Company's consolidated financial statements.
- MediaTek (HK) Inc. established MediaTek (Chengdu) Inc. in July 2010.
- MediaTek (HK) Inc. established MediaTek (Wuhan) Inc. in December 2010.
- MediaTek Singapore Pte. Ltd. established MTK Wireless L.L.C. (Dubai) in September 2010.
- Gaintech Co. Limited lost control over Zena Technologies International Inc. (BVI) and its subsidiary - Zena Technologies, Inc. (USA) due to direct and indirect shareholding was under 50% and therefore excluded these two companies from its consolidated financial statements since the 4th quarter of 2010. However, revenues and expenses of Zena Technologies International Inc. (BVI) and its subsidiary incurred before October 2010 have been included in the Company's consolidated financial statements.
- Gaintech Co. Limited established Hesine Technologies International Worldwide Inc. in December 2010.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The following diagram presented information regarding the relationship and ownership percentages among the Company and subsidiaries as of December 31, 2010.



MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Principles of Consolidation

- A. The consolidated financial statements were prepared in accordance with SFAS No. 7. The transactions between the consolidated entities were appropriately eliminated in the consolidated financial statements.
- B. Investees in which the Company and subsidiaries hold more than 50% of voting rights, including those that are exercisable or convertible, are accounted for under the equity method and shall be consolidated, since the Company and subsidiaries are considered to possess control. An entity shall also be consolidated if any of the following circumstances exists:
- a. The total amount of voting rights held by the investee exceeds 50% due to agreement with other investors;
 - b. As permitted by law, or by contract agreements, the Company controls an entity's finances, operations and personnel affairs;
 - c. The Company has authority to appoint or discharge more than half members of board of directors (or equivalents), by whom the investee is controlled;
 - d. The Company leads and controls more than half of the members of the board of directors (or equivalents), by whom the investee is controlled;
 - e. Other indications of control possession.
- C. A non-current asset (i.e. the subsidiary classified as a disposal group) to be sold shall be classified as held for sale in the period in which all of the following criteria are met and measured at the lower of its carrying amount or fair value less cost to sell:
- a. Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group).
 - b. The asset (disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal groups).
 - c. An active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated.
 - d. The sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale, within one year, except that when certain criterion would be met.
 - e. The asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
 - f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Cash Equivalents

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

Financial Assets and Financial Liabilities

A. Financial asset or liability is recognized on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets are recognized using either trade date accounting on equity instrument or settlement date accounting on debt security, beneficiary certificate and derivative instrument. Financial assets and financial liabilities are derecognized when the Company loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. The Company loses such control if it realizes the rights to benefits specified in the contract, the rights expire, or the Company surrenders those rights.

If a financial 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.

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

a. Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss include financial assets or liabilities held for trading and financial assets and liabilities designated upon initial recognition as at fair value through profit or loss. Such assets or liabilities are subsequently measured at fair value and changes in fair value are recognized in profit or loss.

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

b. Bond portfolios with no active market

These are bond portfolios with fixed or determinable payments which are not quoted in an active market; or preference shares which are not quoted in an active market that issuer has an obligation to redeem the preference shares in a specific price on a specific date, which shall be measured at amortized cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

c. Financial assets carried at cost

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

d. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Company has both the positive intention and ability to hold the financial assets to maturity. Investments intended to be held to maturity are measured at amortized cost. The Company recognizes an impairment loss if objective evidence of such impairment 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.

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Allowance for Doubtful Accounts

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

Inventories

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. Inventories that were not sold or moved for further production were assessed allowance and set aside to reflect the potential loss from stock obsolescence.

Investment Accounted for Using the Equity Method

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

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- 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 |
| Computer and telecommunication equipment | 3 to 5 | Years |
| Testing equipment | 2 to 5 | Years |
| Miscellaneous equipment | 2 to 10 | Years |
- B. Improvements and replacements are capitalized and depreciated over their estimated useful lives while ordinary repairs and maintenance are expensed as incurred.
- C. When property, plant and equipment are disposed of, their original cost, accumulated depreciation and accumulated impairment are written off and related gains or losses are included as non-operating income or expenses.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Intangible Assets

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

Software (design software)	3 to 10 Years
Patents, IPs and Others	3 to 10 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.
- C. Rental asset is carried at the lower of market value or the discounted present value of guaranteed residual value and full expected rental payment (minus the cost shared by lesser). The expected useful life is used for amortization on a straight-line basis when the Company has granted an option bargain price at the end of lease term while the lease duration is used otherwise.

Deferred Assets

Including office decoration and electrical engineering, are amortized on a straight-line basis over 2 to 5 years.

Asset Impairment

In accordance with the R.O.C. SFAS No. 35 "Accounting for Assets Impairment", the Company is required to perform (1) impairment testing on goodwill annually; (2) impairment testing for intangible assets which have indefinite lives or are not available for use annually; and (3) evaluating whether indicators of impairment exist for assets subject to guidelines set forth under the Statement. The Statement requires that such assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Impairment losses shall be recognized when the carrying amount exceeds the recoverable amount. Recognized losses on goodwill impairment shall not be reversed subsequently. For non-goodwill assets impaired in prior periods, the Company assesses at the balance sheet date if any indication that the impairment loss no longer exists or may have diminished. If there is any such indication, the Company recalculates the recoverable amount of the asset, and if the

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Capital Expenditures vs. Operating Expenditures

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

Revenue Recognition

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

Employee Retirement Benefits

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Income Tax

- A. In accordance with the R.O.C. SFAS No. 22 "Accounting for Income Taxes", income tax is accounted for under the inter-period and intra-period income tax allocation method. Deferred income tax liabilities are recognized for taxable temporary differences; while deferred income tax assets are recognized for deductible temporary differences, tax losses and investment tax credits. Valuation allowance on deferred tax assets is provided to the extent that it is more than 50% probable that it will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.
- B. Income tax credit is accounted for in accordance with the R.O.C. SFAS No. 12 "Accounting for Income Tax Credit". Income tax credits resulting from the acquisition of equipment, research and development expenditures and employee training shall be recognized using the flow-through method.
- C. The Company and its domestic subsidiaries' income taxes (10%) on undistributed earnings are recorded as expenses in the year when the stockholders have resolved that the earnings shall be retained.
- D. Income Basic Tax Act took effect on January 1, 2006. The alternative minimum tax ("AMT") imposed under the Income Basic Tax Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the Income Basic Tax Act. The tax effect of such amounts was taken into consideration in determining the realization of deferred income tax assets.

Employee Stock Option

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

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 CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

3. Reasons and Effects for Change in Accounting Principles

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.

MEDIATEK INC.**NOTES TO CONSOLIDATED 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,	
	2010	2009
Petty cash	\$1,656	\$1,012
Savings and checking accounts	22,740,037	18,181,798
Time deposits	61,638,261	76,465,082
Cash equivalents- bonds-Repo	1,547,403	-
Total	<u>\$85,927,357</u>	<u>\$94,647,892</u>

a. As of December 31, 2010, the Company and subsidiaries were committed to selling the bonds-Repo back to the brokers in January 2011.

b. Cash and cash equivalents were not pledged as of December 31, 2010 and 2009.

(2) Held-for-trading Financial Assets and Liabilities-Current

	As of December 31,	
	2010	2009
Held-for-trading financial assets		
Forward exchange contracts	<u>\$46,271</u>	<u>\$16,042</u>

The Company and subsidiaries entered into derivative contracts during the years ended December 31, 2010 and 2009 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 held-for-trading financial assets and liabilities-current. Please refer to Note 10 to the financial statements for the disclosure of relative risk information.

As of December 31, 2010 and 2009, outstanding forward exchange contracts were as follows:

(a) As of December 31, 2010:**Held-for-trading financial assets:**

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	January 2011	45,000

(b) As of December 31, 2009:**Held-for-trading financial assets:**

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	January 2010	55,000

For the years ended December 31, 2010 and 2009, (loss) gain arising from the forward exchange contracts were NT\$(40,559) thousand and NT\$52,587 thousand, respectively.

MEDIATEK INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(3) Financial Assets Designated as at Fair Value through Profit or Loss-Current**

	As of December 31,	
	2010	2009
Convertible bonds	\$122,100	\$-
Interest rate-linked deposit	388,322	-
	<u>\$510,422</u>	<u>\$-</u>

Convertible bonds 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 disclosures of relative risk information for those financial instruments.

(4) Available-for-sale Financial Assets-Current

	As of December 31,	
	2010	2009
Funds	\$4,555,029	\$1,625,440
Bonds	1,033,943	557,895
Total	<u>\$5,588,972</u>	<u>\$2,183,335</u>

In March 2009, the Company and subsidiaries 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(5).

(5) Held-to-maturity Financial Assets-Current

In March 2009, the Company and subsidiaries 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-current.

(6) Accounts Receivable-Net

	As of December 31,	
	2010	2009
Accounts receivable	\$7,454,640	\$7,515,045
Less: Allowance for doubtful accounts	(290,294)	(248,129)
Net	<u>\$7,164,346</u>	<u>\$7,266,916</u>

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

The Company and subsidiaries entered into several factoring agreements without recourse with financial institutions in Taiwan. According to those agreements, the Company and subsidiaries do not take the risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes. The Company and subsidiaries did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company and subsidiaries derecognized related accounts receivable after deducting the estimated value of commercial disputes. The Company and subsidiaries have not withdrawn cash entitled by the factoring agreements from banks as of December 31, 2010. Receivables from banks due to factoring agreement is NT\$680,141 thousand.

As of December 31 2010 and 2009, accounts receivable derecognized from financial statements are as follows:

As of December 31, 2010:

The Factor (Transferee)	Interest rate	As of December 31, 2010 (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International					
Bank	-	20,611	-	20,611	95,310
DBS Bank Ltd.	-	2,778	-	2,778	20,000
		<u>23,389</u>	<u>-</u>	<u>23,389</u>	<u>115,310</u>

As of December 31, 2009:

The Factor (Transferee)	Interest rate	As of December 31, 2009 (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
DBS Bank Ltd.	-	784	-	784	20,000
Taishin International					
Bank	-	4,552	-	4,552	83,000
		<u>5,336</u>	<u>-</u>	<u>5,336</u>	<u>103,000</u>

(7) Other Receivables

	As of December 31,	
	2010	2009
Interest receivable	\$114,083	\$175,826
VAT refundable	323,862	640,549
Others	736,886	84,820
Total	<u>\$1,174,831</u>	<u>\$901,195</u>

As of December 31, 2010, receivables from banks due to factoring agreement is NT\$680,141 thousand. Please refer to Note 4(6).

MEDIATEK INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(8) Inventories-Net**

	As of December 31,	
	2010	2009
Work in process	\$7,320,869	\$5,747,755
Finished goods	6,393,820	4,722,743
Subtotal	13,714,689	10,470,498
Less: Allowance for loss on decline in market value and obsolescence	(4,327,040)	(2,297,775)
Net	<u>\$9,387,649</u>	<u>\$8,172,723</u>

a. For the years ended December 31, 2010 and 2009, the Company and subsidiaries recognized the decline in market value and obsolescence of inventories which were included in cost of goods sold in the amount of NT\$2,113,727 thousand and NT\$624,584 thousand, respectively.

b. Inventories were not pledged as of December 31, 2010 and 2009.

(9) Funds and Investments

a.

Investee Company	As of December 31, 2010			
	Types	Share/unit	Amount	Ownership
<u>Financial assets designated as at fair value through profit or loss-noncurrent</u>				
Dynamic Credit Protection Notes	Credit-linked deposit	-	\$46,022	-
Csi Best of 3 Cppi Portfolios USD 5yrs Principal Protected Note	Credit-linked deposit	-	227,379	-
BNP DCP	Credit-linked deposit	9	256,433	-
GS 3 YEAR USD Denominated Note Linked to MH	Credit-linked deposit	-	231,477	-
3Y Collared Floater EMTN (6MLibor)	Interest rate-linked deposit	-	115,913	-
3Y Collared Floater EMTN (3MLibor)	Interest rate-linked deposit	-	230,721	-

(To be continued)

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

(Continued)

Investee Company	As of December 31, 2010			
	Types	Share/unit	Amount	Ownership
BNP TWD Quarterly Callable 90d CP Range Accrual Structured Investment	Interest rate-linked deposit	-	294,991	-
BNP TWD Quarterly Callable 1Y CMS Range Accrual Structured Investment	Interest rate-linked deposit	-	295,121	-
Taishin 1.5 Years TWD CP90 Structured Investment	Interest rate-linked deposit	-	289,365	-
GS Inflation Shield Note	Bond	-	145,864	-
Open Design Microelectronics Corporation	Bond	-	-	-
Seti Co., Ltd.	Bond	16	99,784	-
Subtotal			2,233,070	
<u>Available-for-sale financial assets-noncurrent</u>				
Pixart Imaging Inc.	Common share	691,275	100,235	0.53%
Cathay No.1 Real Estate Investment Trust	Mutual fund	70,000,000	827,400	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	562,000	-
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	99,999	-
Gevcr II 36-Month Debentures	Bond	850	130,861	-
Subtotal			1,720,495	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Browave Corporation	Common share	380,000	-	0.69%
Communication V.C. Corp.	Common share	4,800,000	(420)	14.41%
			(Note)	
Legend Tech. V.C. Inc. Corp.	Common share	527,168	(2,620)	6.33%
			(Note)	
Alpha Imaging Technology Corp.	Common share	8,330,963	186,259	15.34%
Andes Technologies, Inc.	Common share	8,749,710	81,662	18.77%
Prime Sensor Technology Inc.	Common share	2,250,000	22,500	12.10%
Indigo Mobile Technologies Corp.	Common share	4,791,000	297	6.88%
Sino Photonics	Common share	134,400	-	9.88%

(To be continued)

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

(Continued)

Investee Company	As of December 31, 2010			
	Types	Share/unit	Amount	Ownership
Synerchip Co., Ltd.	Preferred share	2,533,783	87,240	7.56%
V Web Corp.	Preferred share	1,250,000	-	3.39%
Wi Harper Inc Fund Vi Ltd.	Preferred share			
	and			
	common share	31,391	82,648	2.60%
Imera Systems Inc.	Preferred share	536,382	23,397	5.13%
Mcube, Inc.	Preferred share	1,000,000	29,080	5.68%
Genesis Venture	Common share	4,000,000	116,320	18.03%
iPeer Multimedia International Ltd.	Preferred share	1,666,666	48,467	1.44%
Nozomi Fund	Capital	-	17,133	-
Jafco V2-(D) Fund	Capital	-	111,660	-
Jafco V3-(B) Fund	Capital	-	82,241	-
Jafco Asia (FATF4)	Capital	-	46,528	-
Pacific Growth Ventures, L.P.	Capital	-	116,320	-
Innovation Works Development Fund	Capital	-	34,896	-
Subtotal			1,083,608	
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Serious B			
	preferred stock	25,000,000	1,000,000	-
<u>Investments accounted for using the equity method</u>				
ALi Corporation	Common share	64,099,738	1,450,049	21.09%
Airoha Technology, Inc.	Common share	13,391,734	190,225	39.05%
Zena Technologies International, Inc.	Common share	600,000	18,237	48.63%
Subtotal			1,658,511	
<u>Prepayment for long-term investments</u>				
Innovation Works Limited			38,773	
Total			\$7,734,457	

(To be continued)

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

(Continued)

Investee Company	As of December 31, 2009			
	Types	Share/unit	Amount	Ownership
<u>Financial assets designated as at fair value through</u>				
<u>profit or loss-noncurrent</u>				
Dynamic Credit Protection Notes	Credit-linked deposit	-	\$44,227	-
Csi Best of 3 Cppi Portfolios USD 5yrs	Credit-linked			
Principal Protected Note	deposit	-	243,777	-
Pimco USD Principal Protection Note	Bond	1,000	323,018	-
GS Globalization Basket Note	Bond	-	158,132	-
GS Inflation Shield Note	Bond	-	162,685	-
Open Design Microelectronics Corporation	Bond	-	-	-
Seti Co., Ltd.	Bond	16	109,906	-
Subtotal			1,041,745	
<u>Available-for-sale financial assets-noncurrent</u>				
Pixart Imaging Inc.	Common share	691,275	186,812	0.53%
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	-
Gevcr II 36-Month Debentures	Bond	850	144,152	-
Subtotal			2,101,700	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Browave Corporation	Common share	580,000	-	1.06%
Communication V.C. Corp.	Common share	6,400,000	(420)	14.41%
			(Note)	
Legend Tech. V.C. Inc. Corp.	Common share	702,168	(2,620)	6.33%
			(Note)	
Alpha Imaging Technology Corp.	Common share	8,005,015	179,485	15.04%
Andes Technologies, Inc.	Common share	4,436,024	-	12.42%

(To be continued)

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

(Continued)

Investee Company	As of December 31, 2009			
	Types	Share/unit	Amount	Ownership
Prime Sensor Technology Inc.	Common share	2,250,000	22,500	15.00%
Indigo Mobile Technologies Corp.	Common share	4,791,000	297	6.88%
Sino Photonics	Common share	134,400	-	9.88%
Synerchip Co., Ltd.	Preferred share	2,533,783	96,090	11.40%
V Web Corp.	Preferred share	1,250,000	-	3.39%
Wi Harper Inc Fund Vi Ltd.	Preferred share			
	and			
	common share	32,032	93,086	2.92%
Imera System Inc.	Preferred share	536,382	25,771	4.93%
Mcube, Inc.	Preferred share	1,000,000	32,030	6.52%
Genesis Venture	Common share	4,000,000	128,120	18.03%
iPeer Investment	Preferred share	1,666,666	53,383	1.40%
Nozomi Fund	Capital	-	18,871	-
Jafco V2-(D) Fund	Capital	-	122,986	-
Jafco V3-(B) Fund	Capital	-	62,694	-
Jafco Asia (FATF4)	Capital	-	35,233	-
Pacific Growth Ventures, L.P.	Capital	-	64,060	-
Subtotal			931,566	
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Serious B			
	preferred stock	25,000,000	1,000,000	-
<u>Investments accounted for using the equity method</u>				
ALi Corporation	Common share	64,099,738	1,368,384	21.09%
Airoha Technology, Inc.	Common share	13,801,734	218,199	40.93%
Subtotal			1,586,583	
Total			\$6,661,594	

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

- b. For the years ended December 31, 2010 and 2009, the Company recognized an investment gain accounted for under the equity method in the amount of NT\$180,041 thousand and NT\$198,857 thousand, respectively.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- c. In 2010, the Company sold GS Globalization Basket Note and other financial assets which were classified as financial assets designated as at fair value through profit or loss at the aggregate price of NT\$526,699 thousand and recognized a valuation gain on financial assets of NT\$52,420 thousand. 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.
- d. In 2010, the Company redeem Chinatrust 2006-1 Collateralized Loan Obligation-E and other financial assets which were classified as available-for-sale financial assets at the aggregate price of NT\$296,000 thousand. 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\$2,380,270 thousand and recognized an investment disposal gain of NT\$77,766 thousand.
- e. In 2010, the Company sold shares of Browave Corporation and other stocks which were classified as financial assets carried at cost at the aggregate price of NT\$3,325 thousand and recognized an investment disposal gain of NT\$1,296 thousand. In 2009, the Company sold shares of Young Fast Optoelectronics Co., Ltd. and other stocks which were classified as financial assets carried at cost-noncurrent at the price of NT\$122,127 thousand and recognized an investment disposal gain of NT\$53,028 thousand.
- f. 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\$1,340,217 thousand.
- g. In 2010, the Company sold shares of Airoha Technology, Inc. which was classified as investments accounted for using the equity method at the price of NT\$13,081 thousand and recognized an investment disposal gain of NT\$6,621 thousand.
- h. In 2009, the Company and subsidiaries determined that part of available-for-sale financial assets were impaired and, therefore, recognized an impairment loss in the amount of NT\$99,449 thousand.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- i. In 2010, the Company invested in BNP DCP credit-linked deposit and other financial assets which were classified as financial assets designated as at fair value through profit or loss in the amount of NT\$1,713,320 thousand. In 2009, the Company invested in Seti Co., Ltd. which was classified as financial assets designated as at fair value through profit or loss in the amount of NT\$109,906 thousand.
- j. In 2010, the Company invested in Pacific Growth Ventures, L.P. and other financial assets which were classified as financial assets carried at cost. The investment cost amounted to NT\$221,354 thousand. In 2009, the Company invested in Mcube Inc. and other financial assets which were classified as financial assets carried at cost. The investment cost amounted to NT\$221,124 thousand.
- k. In December 2005, the Company acquired series B preferred stocks ("Preferred B") of Chinatrust Financial Holding Company by NT\$1,000,000 thousand. Terms and conditions of the stock are listed as follows:
 - (a) Duration : 7 years
 - (b) Par value : \$10 per share
 - (c) Issuing price : \$40 per share
 - (d) Dividends:

Dividend is at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.
 - (e) Redemption at maturity:

Preferred B is a 7-year preferred stock. Redemption price at maturity is at 100% of the issuing price, i.e. NT\$40 per share.
- l. Funds and investments mentioned above were not pledged as of December 31, 2010 and 2009.

(10) Property, Plant and Equipment

- a. No interest was capitalized for the years ended December 31, 2010 and 2009.
- b. Property, plant and equipment were not pledged as of December 31, 2010 and 2009.

MEDIATEK INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(11) Intangible Assets**

	For the year ended December 31, 2010		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$2,034,480	\$8,946,687	\$10,981,167
Increase - separately acquired	680,043	51,870	731,913
Increase - consolidated acquired	-	75,023	75,023
Decrease - elimination and others	(1,942)	(39,469)	(41,411)
Balance at end of period	2,712,581	9,034,111	11,746,692
Accumulated amortization			
Balance at beginning of period	(1,731,011)	(5,464,935)	(7,195,946)
Increase - amortization	(657,033)	(1,213,571)	(1,870,604)
Decrease - elimination and others	8,516	20,548	29,064
Balance at end of period	(2,379,528)	(6,657,958)	(9,037,486)
Net	\$333,053	\$2,376,153	\$2,709,206

	For the year ended December 31, 2009		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$2,017,153	\$8,598,666	\$10,615,819
Increase - separately acquired	547,458	342,632	890,090
Decrease - elimination and others	(530,131)	5,389	(524,742)
Balance at end of period	2,034,480	8,946,687	10,981,167
Accumulated amortization			
Balance at beginning of period	(1,324,165)	(4,208,553)	(5,532,718)
Increase - amortization	(912,610)	(1,256,382)	(2,168,992)
Decrease - elimination and others	505,764	-	505,764
Balance at end of period	(1,731,011)	(5,464,935)	(7,195,946)
Net	\$303,469	\$3,481,752	\$3,785,221

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

(a)The Company and subsidiaries' pension fund contributed to a fiduciary account in Bank of Taiwan amounted to NT\$47,038 thousand and NT\$45,452 thousand as of December 31, 2010 and 2009, respectively. The total pension expenses amounted to NT\$20,406 thousand and NT\$5,635 thousand for the years ended December 31, 2010 and 2009, respectively.

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

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

	For the year ended December 31,	
	2010	2009
Service cost	\$2,134	\$913
Interest cost	8,260	4,260
Expected return on plan assets	(1,023)	(1,102)
Amortization	11,035	1,564
Net pension cost	<u>\$20,406</u>	<u>\$5,635</u>

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

	As of December 31,	
	2010	2009
Benefit obligations		
Vested benefit obligation	\$-	\$-
Non-vested benefit obligation	(205,873)	(98,419)
Accumulated benefit obligation	(205,873)	(98,419)
Effect of projected future salary increase	(374,304)	(268,683)
Projected benefit obligation	(580,177)	(367,102)
Fair value of plan assets	47,038	45,452
Funded status of pension plan	(533,139)	(321,650)
Unrecognized net transitional obligation	618	706
Unrecognized loss	425,766	233,750
Over-accrual	(472)	(221)
Accrued pension liabilities	<u>\$(107,227)</u>	<u>\$(87,415)</u>

(d)The vested benefit was nil as of December 31, 2010 and 2009.

(e)The underlying actuarial assumptions

	For the year ended December 31,	
	2010	2009
Discount rate	2.00%	2.25%
Rate of increase in future compensation levels	4.00%	5.00%
Expected long-term rate of return on plan assets	2.00%	2.25%

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

b. Defined Contribution Pension Plan

The Company and subsidiaries adopted defined contribution pension plans and made periodical contributions to pension funds in accordance with related statutory regulations and laws. Pension expenses amounted to NT\$328,758 thousand and NT\$294,711 thousand for the years ended December 31, 2010 and 2009, respectively.

(13) Common Stock

As of January 1, 2009, the authorized and issued common shares of the Company amounted to NT\$12,000,000 thousand and NT\$10,731,523 thousand, divided into 1,200,000,000 shares and 1,073,152,299 shares, respectively, each share at par value of NT\$10.

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.

Based on the resolution of shareholders' general meeting on June 15, 2010, the Company resolved to issue 2,180,237 new shares and 7,485,481 new shares at par value of NT\$10 for the capitalization of shareholders' dividends of NT\$21,802 thousand and employees' bonus of NT\$3,667,961 thousand. The record date was set on August 3, 2010 and the government approval has been successfully obtained.

As of December 31, 2010, the Company issued 183,612 new shares at par value of NT\$10 for the employee stock options exercised, including 36,501 shares at the price of NT\$365 thousand which were not yet registered and therefore were classified as capital collected in advance.

As of December 31, 2010, the authorized and issued common shares of the Company amounted to NT\$12,000,000 thousand and NT\$10,999,317 thousand, divided into 1,200,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,099,931,683 shares, respectively, each share at par value of NT\$10. Capital collected in advanced is NT\$365 thousand.

MEDIATEK INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(14) 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 paid-in capital, 50% of such reserve may be distributed to the Company's shareholders through the issuance of additional common share.

(15) Capital Reserve

	As of December 31,	
	2010	2009
Additional paid-in capital	\$11,051,733	\$7,385,442
Treasury stock transaction	785,420	583,194
Donated assets	1,260	1,260
Long-term investment transaction	207,315	169,422
Employee stock option	213,676	128,508
Total	<u>\$12,259,404</u>	<u>\$8,267,826</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\$202,226 thousand and NT\$108,682 thousand to the subsidiary who owned the Company's common shares for the years ended December 31, 2010 and 2009, 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.

Based on the resolution of shareholders' general meeting, the Company resolved to issue 7,485,481 and 14,820,251 new shares at par value of NT\$10 for the years ended of 2010 and 2009 for the capitalization of employees' bonus of NT\$3,667,961 thousand and NT\$5,442,866 thousand and recorded paid-in capital in excess of par value in the amount of NT\$3,593,106 thousand and NT\$5,294,683 thousand. Please refer to Note 4(13).

MEDIATEK INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(16) Employee Stock Options**

In December 2007, July 2009 and May 2010, 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, 3,000,000 units and 3,500,000 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	705,786	705,786	\$378.6
2008.08.28	1,640,285	1,116,944	1,116,944	362.0
2009.08.18	1,382,630	1,060,965	1,060,965	468.8
2010.08.27	1,605,757	1,417,153	1,417,153	436.5
2010.11.04	26,839	26,839	26,839	402.0

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 2010 and 2009, the compensation costs arising from employee stock options were NT\$91,476 thousand and NT\$87,864 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	34.41%~50.06%
Risk free interest rate	0.93%~2.53%
Expected life	6.5 years

MEDIATEK INC.**NOTES TO CONSOLIDATED 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,			
	2010		2009	
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	3,790,285	\$408	2,676,535	\$378
Granted	1,632,596	435.9	1,382,630	473
Exercised	(183,612)	373	-	-
Forfeited (Expired)	(911,582)	413	(268,880)	388
Outstanding at end of period	<u>4,327,687</u>	416	<u>3,790,285</u>	408
Exercisable at end of period	<u>410,052</u>		<u>-</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$96.3</u>		<u>\$122</u>	

The information regarding the Company's outstanding stock options as of December 31, 2010 is disclosed as follows:

	Outstanding Stock Options				Exercisable Stock Options	
	Range of Exercise Price (NTD)	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	\$362~378.6	1,822,730	4.00	\$369	410,052	\$369
Stock option plan of 2009	468.8	1,060,965	5.13	469	-	-
Stock option plan of 2010	\$402~436.5	1,443,992	6.17	435.9	-	-
		<u>4,327,687</u>		<u>\$416</u>	<u>410,052</u>	

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(17) Earnings Distribution and Dividends Distribution Policy

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

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income after tax;
- (d) Special reserve in compliance with the Company Law or the Securities and Exchange Law;
- (e) Remuneration for directors and supervisors to a maximum of 0.5% of the remaining current year's earnings after deducting 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, 2010 and 2009, the amounts of the employee' bonuses were estimated to be at NT\$3,863,296 thousand and NT\$12,226,536 thousand, respectively. During the years ended December 31, 2010 and 2009, the amounts of remunerations to directors and supervisors were estimated to be at NT\$71,628 thousand and NT\$91,274 thousand, respectively. Employee bonuses were estimated based on 10% and 25% of net income for the years ended December 31, 2010 and 2009, respectively, (excluding the impact of employees' bonuses) while remunerations to directors and supervisors were estimated based on the Company's Articles of Incorporation. Estimated amount of employee bonuses

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

and remunerations paid to directors and supervisors were charged to current income. 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.

(18) 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, 2010		Additions		December 31, 2010		
	Shares	Amount	Shares	Amount	Shares	Amount	Market Value
MediaTek			15,555				
Capital Corp.	<u>7,778,530</u>	<u>\$55,970</u>	<u>(Note)</u>	<u>\$-</u>	<u>7,794,085</u>	<u>\$55,970</u>	<u>\$3,254,030</u>

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>

Note : Stock dividends

(19) Net Operating Revenue

	For the year ended December 31,	
	2010	2009
Revenues from sales of multimedia and cell phone chipsets	\$121,864,120	\$123,475,739
Other operating revenue	<u>510,027</u>	<u>666,523</u>
Subtotal	122,374,147	124,142,262
Less: Sales returns	(45,445)	(75,573)
Less: Sales discounts	<u>(8,806,744)</u>	<u>(8,555,064)</u>
Net Operating Revenue	<u>\$113,521,958</u>	<u>\$115,511,625</u>

MEDIATEK INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(20) Personnel, Depreciation and Amortization Expenses**

	For the year ended December 31,					
	2010			2009		
	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	\$196,897	\$16,744,756	\$16,941,653	\$150,545	\$19,063,019	\$19,213,564
Insurance	7,068	465,540	472,608	5,132	281,441	286,573
Pension	7,385	341,779	349,164	5,665	294,681	300,346
Other expenses	5,431	443,135	448,566	1,563	815,915	817,478
Total	<u>\$216,781</u>	<u>\$17,995,210</u>	<u>\$18,211,991</u>	<u>\$162,905</u>	<u>\$20,455,056</u>	<u>\$20,617,961</u>
Depreciation	<u>\$2,619</u>	<u>\$1,104,462</u>	<u>\$1,107,081</u>	<u>\$14,443</u>	<u>\$1,058,444</u>	<u>\$1,072,887</u>
Amortization	<u>\$935</u>	<u>\$1,869,669</u>	<u>\$1,870,604</u>	<u>\$1,011</u>	<u>\$2,171,111</u>	<u>\$2,172,122</u>

(21) 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% and was further reduced to 17% in accordance with the amendment dated June 15, 2010.

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

	For the year ended December 31,	
	2010	2009
Income tax payable	\$869,503	\$304,525
10% surtax on undistributed earnings	458,868	195,193
Investment tax credits	(596,190)	(227,316)
Deferred income tax effects		
Investment tax credits	404,765	(704,911)
Valuation allowance	(103,831)	237,626
Others	108,762	787,432
Others	209,437	132,071
Income tax expense from continuing operations	<u>\$1,351,314</u>	<u>\$724,620</u>

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

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

	As of December 31,			
	2010		2009	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets				
Recognition of unrealized allowance for inventory obsolescence	\$3,227,519	\$548,678	\$2,257,721	\$451,544
Allowance for doubtful debt in excess of deductible limit	161,814	27,509	46,223	9,245
Unrealized technology license fee	1,307,624	222,296	821,736	164,347
Unrealized foreign exchange loss	33,502	5,695	-	-
Unrealized loss on asset impairment	760,936	129,359	201,208	40,241
Others		83,867		174,175
Loss carryforwards-foreign		359,923		499,220
Investment tax credits-domestic		8,905,333		9,309,451
-foreign		175,934		176,581
Total deferred income tax assets		10,458,594		10,824,804
Valuation allowance for deferred income tax assets		(10,058,187)		(10,162,018)
Net deferred income tax assets		400,407		662,786
Deferred income tax liabilities				
Unrealized foreign exchange gain	-	-	(21,136)	(4,227)
Unrealized gain on valuation of financial assets	(46,271)	(7,866)	(16,042)	(3,208)
Unrealized amortization of intangible assets	(4,090,327)	(695,356)	(2,726,884)	(545,377)
Others		(4,871)		(8,930)
Total deferred income tax liabilities		(708,093)		(561,742)
Net deferred income tax assets and liabilities		<u>\$ (307,686)</u>		<u>\$ 101,044</u>

	As of December 31,	
	2010	2009
Deferred income tax assets-current	\$2,996,287	\$1,067,687
Valuation allowance for deferred income tax assets-current	(2,864,345)	(790,358)
Net deferred income tax assets-current	131,942	277,329
Deferred income tax liabilities-current	(12,727)	(16,365)
Net deferred income tax assets and liabilities-current	<u>\$119,215</u>	<u>\$260,964</u>

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

	As of December 31,	
	2010	2009
Deferred income tax assets-noncurrent	\$7,462,307	\$9,757,117
Valuation allowance for deferred income tax assets-noncurrent	(7,193,842)	(9,371,660)
Net deferred income tax assets-noncurrent	268,465	385,457
Deferred income tax liabilities-noncurrent	(695,366)	(545,377)
Net deferred income tax assets and liabilities-noncurrent	<u>\$(426,901)</u>	<u>(\$159,920)</u>

- d. 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, 2007 through December 31, 2011, January 1, 2009 through December 31, 2013, and January 1, 2010 through December 31, 2014.
- e. The Company and subsidiaries are not allowed to file consolidated income tax returns.
- f. The Company’s income tax returns for the years from 2002 to 2007 have been assessed by the tax authorities. For the 2002, 2003, 2005 and 2006 return, the tax authorities have assessed additional taxes in the aggregate amount of NT\$1,808,711 thousand. 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.
- g. The Company’s available investment tax credits as of December 31, 2010 were as follows:

Total credit amount	Unused amount	Year expired
\$2,360,402	\$2,144,566	2011
2,291,169	2,291,169	2012
4,469,598	4,469,598	2013
<u>\$9,121,169</u>	<u>\$8,905,333</u>	

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

h. Integrated income tax information

	As of December 31,	
	2010	2009
Balance of the imputation credit account (ICA)	\$1,450,933	\$1,880,385
Expected (Actual) creditable ratio	2.78%(Note)	3.26%

Note: The ratio was computed based on the amount of actual available shareholder's tax credits plus estimated income tax payable as of December 31, 2010.

i. Information related to undistributed retained earnings

	As of December 31,	
	2010	2009
Prior to 1998	\$-	\$-
After 1997	73,739,007	74,894,668
Total	\$73,739,007	\$74,894,668

(22) Earnings Per Share

The Company's capital structure is classified as complex capital structure after the issuance of employee stock options. Basic earnings per share and dilutive earnings per share were disclosed as follows:

	<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, 2010</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$32,312,751	\$30,961,437	1,088,689,895	<u>\$29.68</u>	<u>\$28.44</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	20,532,897		
Stock option to employees	-	-	445,854		
Diluted EPS	<u>\$32,312,751</u>	<u>\$30,961,437</u>	<u>1,109,668,646</u>	\$29.12	\$27.90

(To be continued)

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

(Continued)

	Amount(Numerator)		Shares (Denominator)	Earnings per share	
	Before tax	After tax		Before tax	After tax
Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	\$(24,834)	\$(24,834)	1,088,689,895	<u>\$(0.02)</u>	<u>\$(0.02)</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	20,532,897		
Stock option to employees	-	-	445,854		
Diluted EPS	<u>\$(24,834)</u>	<u>\$(24,834)</u>	<u>1,109,668,646</u>	<u>\$(0.02)</u>	<u>\$(0.02)</u>

	<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>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$37,430,260	\$36,705,640	1,077,995,291	<u>\$34.72</u>	<u>\$34.05</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	28,407,903		
Stock option to employees	-	-	279,444		
Diluted EPS	\$37,430,260	\$36,705,640	1,106,682,638	\$33.82	\$33.17

Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	\$(10,174)	\$(10,174)	1,077,995,291	<u>\$(0.01)</u>	<u>\$(0.01)</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	28,407,903		
Stock option to employees	-	-	279,444		
Diluted EPS	<u>\$(10,174)</u>	<u>\$(10,174)</u>	<u>1,106,682,638</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>

MEDIATEK INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****5. Related Party Transactions****(1) Related parties and relations**

Related parties	Relations
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
Airoha Technology, Inc. (“Airoha”)	Equity investee (Note)
JMicron Technology Corporation (“JMicon”)	The Company’s chairman doubles as JMicon’s chairman
All numbers of directors, supervisors and key managers	The Company’s major managers

Note: Disclosures below includes only the information after May 2009.

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

	For the year ended December 31,			
	2010		2009	
	Amount	% of net sales	Amount	% of net sales
ALi	\$-	-	\$64,626	0.06

Sales prices to the above related parties were similar to those to third-party customers. For the years ended December 31, 2010 and 2009, 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 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

	Transactions	For the year ended December 31,	
		2010	2009
King Yuan	IC testing and experimental services	\$5,799,560	\$5,730,483

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

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

c. Rental Income

	Rental Income		Other Receivables	
	For the year ended December 31,		As of December 31,	
	2010	2009	2010	2009
Airoha	\$9,147	\$3,763	\$-	\$3,054
JMicron	6,703	8,177	-	-
Others	-	4	-	-
Total	\$15,850	\$11,944	\$-	\$3,054

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

(3) Payables resulted from the above transactions

	As of December 31,			
	2010		2009	
	Amount	%	Amount	%
King Yuan	\$1,029,160	12.22	\$1,785,494	15.14

(4) Remunerations paid to major managers

	For the year ended December 31,	
	2010	2009
Salaries, reward, compensation, special allowance and bonus	\$114,597(Note)	\$1,213,254

Note: The appropriation of the 2010 earnings is not shown since the actual amount will not be finalized until the shareholders' meeting in 2011.

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.

6. Assets Pledged As Collateral

(1) As of December 31, 2010:

	Amount	Party to which assets was pledged	Purpose of pledge
Restricted deposits-current	\$6,917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,000	Customs Office	Tariff execution deposits
Restricted deposits-current	3,126	Danske Bank	Credit guarantee
Restricted deposits-noncurrent	81	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	683	Citibank	Tariff execution deposits
Restricted deposits-noncurrent	16,580	Citibank	Lease guarantee
Total	\$30,387		

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

(2) As of December 31, 2009:

	Amount	Party to which assets was pledged	Purpose of pledge
Restricted deposits-current	\$6,917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,701	Danske Bank	Credit guarantee
Restricted deposits-current	3,271	Citibank	Lease guarantee
Restricted deposits-noncurrent	86	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	380	Citibank	Tariff execution deposits
Restricted deposits-noncurrent	18,900	Citibank	Lease guarantee
Total	<u>\$33,255</u>		

7. Commitments and Contingencies

(1) Lawsuit:

- a. 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. In June 2010, the Company has settled the litigation and signed a settlement agreement with BT. BT shall file for dismissal of the lawsuit and shall forever release MediaTek and its subsidiaries from any claims of infringement of the patent asserted in the litigation and its related foreign counterparts, continuations, etc. worldwide.
- b. (a) Rambus Inc. (“Rambus”) brought a complaint against 26 companies on December 1, 2010 in U.S. International Trade Commission, alleging patent infringement under Section 337 of the Tariff Act of 1930, against the Company’s products for infringement of United States patents No. 6,470,405, 6,591,353, 7,287,109, 7,602,857, 7,602,858 and 7,715,494. Rambus is alleging two patents infringement of abovementioned patents (patens No. 6,591,353 and 7,287,109) by MediaTek DVD chip and DTV chip.

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

- (b) In addition, Rambus brought a complaint against the Company on December 1, 2010 in the United States Northern District of California, alleging patent infringement against the Company's products of MediaTek DVD chip, DTV chip and CD-ROM chip for infringement of United States patent No. 6,034,918, 6,038,195, 6,260,097, 6,304,937, 6,426,916, 6,584,037, 6,715,020, 6,751,696, 7,209,997, 6,591,353 and 7,287,109.

For the above two complaints, the Company contended that the Company does not believe that any of its products infringe Rambus's patent. The Company will defend the case vigorously.

(2) Operating Lease:

- a. 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:

Lease Period	Amount
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
2015.01.01~2015.12.31	30,371
2016.01.01~2027.12.31	244,418
Total	<u>\$396,273</u>

- b. The Company's subsidiaries have entered into lease agreements for offices for operations. Related rent to be incurred in the future would be as follows:

Lease Period	Amount
2011.01.01~2011.12.31	\$114,888
2012.01.01~2012.12.31	103,397
2013.01.01~2013.12.31	75,782
2014.01.01~2014.12.31	62,475
2015.01.01~2015.12.31	64,161
2016.01.01~2020.12.31	47,606
Total	<u>\$468,309</u>

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

MEDIATEK INC.**NOTES TO CONSOLIDATED 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,			
	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
<u>Assets</u>				
Cash and cash equivalents	\$85,927,357	\$85,927,357	\$94,647,892	\$94,647,892
Financial assets designated as at fair value through profit or loss	\$2,743,492	\$2,743,492	\$1,041,745	\$1,041,745
Receivables	\$7,164,346	\$7,164,346	\$7,266,916	\$7,266,916
Other receivables	\$1,174,831	\$1,174,831	\$901,195	\$901,195
Available-for-sale financial assets	\$7,309,467	\$7,309,467	\$4,285,035	\$4,285,035
Financial assets carried at cost	\$1,083,608	\$-	\$931,566	\$-
Bond portfolios with no active market	\$1,000,000	\$1,078,925	\$1,000,000	\$1,089,108
Investments accounted for using the equity method				
-with market value	\$1,450,049	\$2,830,003	\$1,368,384	\$4,967,730
-without market value	\$208,462	\$-	\$218,199	\$-
Refundable deposits	\$261,488	\$261,488	\$328,579	\$328,579
Restricted deposits	\$30,387	\$30,387	\$33,255	\$33,255
<u>Liabilities</u>				
Payables (including related parties)	\$8,419,004	\$8,419,004	\$11,794,344	\$11,794,344
Accrued expenses	\$15,668,939	\$15,668,939	\$16,317,295	\$16,317,295
Payables to contractors and equipment suppliers	\$16,488	\$16,488	\$9,648	\$9,648
Deposits received	\$973	\$973	\$983	\$983
<u>Derivatives</u>				
<u>Assets</u>				
Held-for-trading financial assets				
-forward exchange contracts	\$46,271	\$46,271	\$16,042	\$16,042

(a) The following methods and assumptions were used by the Company and subsidiaries 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, accrued expenses and payables to contractors and equipment suppliers.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (ii) The fair values of the Company and subsidiaries' refundable deposits, deposits received and restricted deposits approximate their carrying value because the Company and subsidiaries predict the future cash inflows or outflows will be of similar amounts to the carrying values.
 - (iii) The fair value of held-for-trading financial assets and available-for-sale financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
 - (iv) Financial assets carried at cost represent holdings of equity securities of non-public companies and have no material influence, or derivatives linked to and settled in those stocks. As these equity securities are not traded in open market, the fair value is not available.
 - (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 value of investments accounted for under the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.
 - (vii) The fair value of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
- (b) Gains recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$104,995 thousand and NT\$88,140 thousand for the years ended December 31, 2010 and 2009, respectively.
- (c) As of December 31, 2010 and 2009, financial assets exposed to fair value risk from fixed interest rate were NT\$60,905,429 thousand and NT\$78,419,239 thousand, respectively, and financial assets exposed to cash flow risk from variable interest rate were NT\$5,801,157 thousand and NT\$6,767 thousand, respectively.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (d) Interest income recognized from financial assets and financial liabilities that are not at fair value through profit or loss amounted to NT\$558,844 thousand and NT\$509,239 thousand and the interest expense amounted to nil and NT\$625 thousand for the years ended December 31, 2010 and 2009, respectively. The Company recognized unrealized gains of NT\$80,791 thousand and NT\$258,712 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2010 and 2009, respectively, and the amounts that were recycled from equity to losses were nil and NT\$5,106 thousand for the years ended December 31, 2010 and 2009, respectively. The Company also recognized an unrealized loss of NT\$70,356 thousand and an unrealized gain of NT\$163,929 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, 2010 and 2009, respectively.
- (e) The impairment loss on financial assets were nil and NT\$99,449 thousand for the years ended December 31, 2010 and 2009, respectively.

b.

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

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

The Company and subsidiaries entered into forward exchange contracts. Forward contracts were used to hedge assets and liabilities denominated in foreign currency. However, as these derivatives did not meet the criteria for hedge accounting, they were recognized as held-for-trading financial assets and liabilities-current.

(b) Information of financial risks

The Company and subsidiaries manages their 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:

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Market risk

Market risk mainly includes currency risk. It comes from purchase or sale activities which are not denominated in the Company and subsidiaries' functional currency. The Company and subsidiaries review their assets and liabilities denominated in foreign currency and enter into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains 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\$450 thousand and NT\$550 thousand as of December 31, 2010 and 2009, 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 and subsidiaries' 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 and subsidiaries' exposure to default by those parties is minimal. The Company and subsidiaries' credit risk mainly comes from the collectibility of accounts receivable while receivable balances are monitored on an ongoing basis and an allowance for doubtful receivables is provided. Thus, the net book value of accounts receivable are properly evaluated and reflect the credit risk the Company and subsidiaries' 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.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Credit risk of credit-linked deposits, interest rate-linked deposits and convertible bonds 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 and subsidiaries have sufficient operating capital to meet cash needs upon settlement of derivatives financial instruments. Therefore, the liquid risk is low.

Except for financial assets 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 and subsidiaries 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 and subsidiaries do 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 and subsidiaries decide 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 and subsidiaries are exposed to potential liquidity risk. The Company and subsidiaries minimize such risk by prudential evaluation when entering into such contract.

Cash flow risk from variable interest rate

The Company and subsidiaries' 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.

MEDIATEK INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(2) Other Information**

- a. The significant financial assets and liabilities denominated in foreign currencies were as follows :

	2010.12.31			2009.12.31		
	Foreign Currency (thousand)	Exchange rate	NTD (thousand)	Foreign Currency (thousand)	Exchange rate	NTD (thousand)
<u>Financial assets</u>						
Monetary item						
USD	\$1,467,766	\$29.08	\$42,682,648	\$1,546,720	\$32.04	\$49,564,156
Non-monetary item						
USD	\$106,059	\$29.08	\$3,084,191	\$67,101	\$32.03	\$2,149,272
CNY	\$88,000	\$4.41	\$388,322	\$-	\$-	\$-
<u>Investments accounted for using the equity method</u>						
USD	\$627	\$29.08	\$18,237	\$-	\$-	\$-
<u>Financial liabilities</u>						
Monetary item						
USD	\$336,736	\$29.08	\$9,792,265	\$295,576	\$32.11	\$9,491,841
JPY	\$500,000	\$0.37	\$186,700	\$-	\$-	\$-

b. Acquisition of subsidiary

The Company acquired 100.00% interest of RollTech Technology, Co. Ltd. by NT\$122,129 thousand (by cash) in July 2010. RollTech Technology, Co. Ltd. mainly engages in software development. The acquisition of RollTech was accounted for in accordance with the R.O.C. SFAS No. 25 "Business Combinations - Accounting Treatment under Purchased Method." As of December 31, 2010, the difference between the fair value of identifiable net assets and purchase price are as follows:

Purchase price	\$122,119
The fair value of identifiable net assets:	
Cash and cash equivalents	\$7,905
Identifiable net assets except for cash and cash equivalents	68,296
Goodwill	<u>76,201</u> <u>\$45,918</u>

- c. Certain accounts in the financial statements of the Company and subsidiaries as of December 31, 2009 have been reclassified to conform to the presentation of the current period.

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

- d. Inter-company relationships and significant inter-company transactions for the year ended December 31, 2010 are as follows: (For the Company's shares owned by the subsidiary, please refer to the Note 4.(18) to the consolidated financial statements.)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Receivables from related parties	\$45,165	Based on contract	0.03%
			1	Sales revenues	\$712,295		0.63%
		MediaTek Investment Corp.	1	Rent revenues	\$34		0.00%
		MediaTek Capital Corp.	1	Rent revenues	\$34		0.00%
		Hsu-Ta Investment Limited	1	Rent revenues	\$34		0.00%
		Hsu-Chia Investment Limited	1	Rent revenues	\$34		0.00%
		Hsu-Kang Investment Limited	1	Rent revenues	\$34		0.00%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$10,826		0.01%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$682,060	Based on contract	0.49%
			3	Research and development expenses	\$1,493,010		1.32%
		MediaTek Denmark ApS	3	Payables to related parties	\$20,724		0.02%
			3	Research and development expenses	\$262,050		0.23%
		MTK Wireless Limited (UK)	3	Payables to related parties	\$81,353		0.06%
			3	Research and development expenses	\$415,554		0.37%
		MediaTek USA Inc.	3	Payables to related parties	\$1,205,197		0.87%
			3	Research and development expenses	\$747,054		0.66%
		MediaTek Japan Inc.	3	Payables to related parties	\$17,086		0.01%
			3	Research and development expenses	\$189,095		0.17%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$20,410		0.01%
			3	Research and development expenses	\$188,756		0.17%

(To be continued)

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

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek Korea Inc.	3	Payables to related parties	\$11,420	Based on contract	0.01%
			3	Research and development expenses	\$156,625		0.14%
		MediaTek (ShenZhen) Inc.	3	Payables to related parties	\$87,218		0.06%
			3	Research and development expenses	\$1,021,748		0.90%
		MediaTek (Hefei) Inc.	3	Payables to related parties	\$19,624		0.01%
			3	Research and development expenses	\$454,311		0.40%
		MediaTek (Beijing) Inc.	3	Payables to related parties	\$140,541		0.10%
			3	Research and development expenses	\$1,335,660		1.18%
3	MediaTek Investment Corp.	MediaTek Capital Corp.	3	Financial assets carried at cost-current	\$122,535		0.09%

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

Inter-company relationships and significant inter-company transactions for the year ended December 31, 2009 are as follows:

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Receivables from related parties	\$60,581	Based on contract	0.04%
			1	Sales revenues	\$643,547		0.56%
		MTK Wireless Limited (UK)	1	Other receivables	\$444		0.00%
		Airoha Technology, Inc.	1	Rent revenues	\$5,811	Based on contract	0.01%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$11,924		0.01%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$618,072	Based on contract	0.45%
			3	Research and development expenses	\$1,677,598		1.45%
		MediaTek Denmark ApS	3	Payables to related parties	\$182,384		0.13%
			3	Research and development expenses	\$295,257		0.26%
		MediaTek Wireless Limited (Ireland)	3	Payables to related parties	\$4,349		0.00%
			3	Research and development expenses	\$58,514		0.05%
		MTK Wireless Limited (UK)	3	Payables to related parties	\$241,503		0.17%
			3	Research and development expenses	\$504,322		0.44%
		MediaTek USA Inc.	3	Payables to related parties	\$681,902		0.49%
			3	Research and development expenses	\$684,345		0.59%
		MediaTek Japan Inc.	3	Payables to related parties	\$58,310		0.04%
			3	Research and development expenses	\$196,811		0.17%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$30,573		0.02%
			3	Research and development expenses	\$156,537		0.14%

(To be continued)

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

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek Korea Inc.	3	Payables to related parties	\$35,713	Based on contract	0.03%
			3	Research and development expenses	\$128,278		0.11%
		MediaTek (ShenZhen) Inc.	3	Prepayments	\$4,074		0.00%
			3	Research and development expenses	\$742,013		0.64%
		MediaTek (Hefei) Inc.	3	Prepayments	\$150,636		0.11%
			3	Research and development expenses	\$329,020		0.28%
		MediaTek (Beijing) Inc.	3	Prepayments	\$92,365		0.07%
			3	Research and development expenses	\$790,859		0.68%
3	MediaTek (Beijing) Inc.	Vogins Technology (Shanghai) Co., Ltd.	3	Research and development expenses	\$2,422		0.00%

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

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

Note 2: Transactions are categorized as follows:

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

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

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 and subsidiaries' consolidated net sales were as follows:

Customers	For the year ended December 31,			
	2010		2009	
	Amounts	%	Amounts	%
A	\$32,116,381	28.29	\$37,452,249	32.42
B	15,345,455	13.52	14,802,548	12.82
C	8,934,767	7.87	13,461,890	11.65
Total	<u>\$56,396,603</u>	<u>49.68</u>	<u>\$65,716,687</u>	<u>56.89</u>

(2) Export Sales

The Company and subsidiaries' export sales totaled NT\$102,173,942 thousand and NT\$102,301,716 thousand for the years ended December 31, 2010 and 2009, respectively, representing 90.00% and 88.56% of the Company and subsidiaries' net sales for corresponding years.

(3) Geographic data

As of December 31 2010, The Company and subsidiaries' segments financial information was as follows:

	For the year ended December 31, 2010				
	Asia	Other foreign operating segments	Taiwan	Adjustments and elimination	Consolidated
Sales to other than consolidated entities	\$42,123,168	\$122,655	\$71,276,135	\$-	\$113,521,958
Sales among consolidated entities	-	6,286,831	712,295	(6,999,126)	-
Total sales	<u>\$42,123,168</u>	<u>\$6,409,486</u>	<u>\$71,988,430</u>	<u>\$(6,999,126)</u>	<u>\$113,521,958</u>
Segment profit	<u>\$20,891,555</u>	<u>\$(6,040,116)</u>	<u>\$17,436,478</u>	<u>\$(180,041)</u>	<u>\$32,107,876</u>
Investment income					<u>180,041</u>
Income from continuing operations before income tax					<u>\$32,287,917</u>
Identifiable assets	<u>\$19,614,428</u>	<u>\$24,157,896</u>	<u>\$94,262,368</u>	<u>\$(1,658,511)</u>	<u>\$136,376,181</u>
Funds and investments					<u>1,658,511</u>
Total assets					<u>\$138,034,692</u>

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

As of December 31 2009, The Company and subsidiaries' segments financial information was as follows:

	For the year ended December 31, 2009				
	Asia	Other foreign operating segments	Taiwan	Adjustments and elimination	Consolidated
Sales to other than consolidated entities	\$38,496,630	\$140,819	\$76,874,176	\$-	\$115,511,625
Sales among consolidated entities	-	5,563,554	643,547	(6,207,101)	-
Total sales	<u>\$38,496,630</u>	<u>\$5,704,373</u>	<u>\$77,517,723</u>	<u>\$(6,207,101)</u>	<u>\$115,511,625</u>
Segment profit	<u>\$6,276,918</u>	<u>\$(5,514,800)</u>	<u>\$36,657,968</u>	<u>\$(198,232)</u>	\$37,221,854
Investment income					198,857
Interest expenses					(625)
Income from continuing operations before income tax					<u>\$37,420,086</u>
Identifiable assets	<u>\$14,571,914</u>	<u>\$21,179,216</u>	<u>\$102,585,218</u>	<u>\$(1,329,645)</u>	\$137,006,703
Funds and investments					1,586,583
Total assets					<u>\$138,593,286</u>

(4) Industry data

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