

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**AS OF DECEMBER 31, 2010 AND 2009
AND FOR THE YEARS THEN ENDED**

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

To the Board of Directors and Shareholders
of MediaTek Inc.

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

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

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

The Company has prepared consolidated financial statements as of December 31, 2010 and 2009 and for the years then ended. We have expressed an unqualified opinion on those consolidated financial statements.

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.

MEDIATEK INC.

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)	\$ 43,169,400	\$ 57,885,158	Accounts payable		\$ 5,944,114	\$ 7,101,013
Held-for-trading financial assets-current	2, 4(2)	46,271	16,042	Payables to related parties	5	378,408	427,576
Financial assets designated as at fair value through profit or loss-current	2, 4(3)	122,100	-	Income tax payable	2, 4(21)	940,351	847,228
Available-for-sale financial assets-current	2, 4(4)	2,236,473	1,931,724	Accrued expenses	2, 4(17)	14,503,360	15,089,802
Accounts receivable, net	2, 4(6)	3,970,346	2,829,829	Payables to contractors and equipment suppliers		9,293	9,293
Receivables from related parties, net	5	45,165	60,581	Other current liabilities		383,775	292,660
Other receivables	4(7)	985,513	788,724	Total current liabilities		22,159,301	23,767,572
Inventories, net	2, 3, 4(8)	6,442,692	5,069,753				
Prepayments		1,981,284	153,778	Other liabilities			
Other current assets		492,113	301,961	Accrued pension liabilities	2, 4(12)	107,227	87,415
Deferred income tax assets-current	2, 4(21)	71,887	145,910	Deposits received		876	876
Restricted assets-current	6	9,917	6,917	Deferred income tax liabilities-noncurrent	2, 4(21)	659,967	190,958
Total current assets		59,573,161	69,190,377	Total other liabilities		768,070	279,249
Funds and investments	2, 4(9)			Total liabilities		22,927,371	24,046,821
Financial assets designated as at fair value through profit or loss-noncurrent		879,477	-				
Available-for-sale financial assets-noncurrent		1,489,399	1,770,736	Shareholders' equity			
Bond portfolios with no active market-noncurrent		1,000,000	1,000,000	Capital	4(13)		
Investments accounted for using the equity method		56,166,531	45,436,996	Common stock		10,999,317	10,901,189
Total funds and investments		59,535,407	48,207,732	Capital collected in advance		365	-
Property, plant and equipment	2, 4(10)			Capital reserve			
Land		888,722	-	Additional paid-in capital	4(15)	11,051,733	7,385,442
Buildings and facilities		5,609,034	4,922,453	Treasury stock transaction	4(15)	785,420	583,194
Machinery and equipment		99,449	116,374	Donated assets	4(15)	1,260	1,260
Computer and telecommunication equipment		643,376	393,034	Long-term investment transaction	4(9), 4(15)	207,315	169,422
Testing equipment		1,905,310	1,790,871	Employee stock option	2, 4(9), 4(16)	213,676	128,508
Miscellaneous equipment		157,549	232,867	Total capital reserve		12,259,404	8,267,826
Total cost		9,303,440	7,455,599	Retained earnings			
Less : Accumulated depreciation		(2,758,795)	(2,253,149)	Legal reserve	4(14)	18,613,978	14,943,414
Add : Construction in progress		116,079	631,211	Special reserve	4(17)	355,131	273,489
Prepayments for equipment		83,522	62,506	Undistributed earnings	4(17)	73,739,007	74,894,668
Property, plant and equipment, net		6,744,246	5,896,167	Other adjustments			
Intangible assets	2, 4(11)			Cumulative translation adjustments	2, 4(9)	(4,380,730)	(527,304)
Patents		265,526	306,184	Unrealized gain (loss) on financial instruments	2, 4(9)	182,608	172,173
Software		221,684	267,794	Treasury stock	2, 4(18)	(55,970)	(55,970)
Goodwill		6,817,211	6,817,211	Total shareholders' equity		111,713,110	108,869,485
IPs and others		1,318,669	1,989,520				
Total intangible assets		8,623,090	9,380,709	Total liabilities and shareholders' equity		\$ 134,640,481	\$ 132,916,306
Other assets							
Refundable deposits		164,577	241,321				
Total other assets		164,577	241,321				
Total assets		\$ 134,640,481	\$ 132,916,306				

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.

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		\$	79,274,483	\$	83,948,316
Less : Sales returns			(670)		(9,117)
Sales discounts			(7,285,383)		(6,628,447)
Net sales	2, 4(19), 5		71,988,430		77,310,752
Cost of goods sold	4(20), 5		(32,726,157)		(31,191,078)
Gross profits			39,262,273		46,119,674
Operating expenses	2, 4(20)				
Selling expenses			(2,645,089)		(2,680,358)
General and administrative expenses			(2,362,311)		(3,116,862)
Research and development expenses			(16,987,827)		(18,875,858)
Total operating expenses			(21,995,227)		(24,673,078)
Operating income			17,267,046		21,446,596
Non-operating income and gains					
Interest income			347,417		420,185
Gain on equity investments, net	2, 4(9)		14,445,432		15,121,930
Foreign exchange gain, net	2		92,380		40,954
Valuation gain on financial assets	2, 4(2)		-		54,974
Others			86,351		207,212
Total non-operating income and gains			14,971,580		15,845,255
Non-operating expenses and losses					
Loss on disposal of property, plant and equipment	2		(27,465)		(1,234)
Loss on disposal of investments	2		-		(12,608)
Valuation loss on financial assets	2, 4(2)		(17,482)		-
Others			-		(66)
Total non-operating expenses and losses			(44,947)		(13,908)
Income from continuing operations before income tax			32,193,679		37,277,943
Income tax expense	2, 4(21)		(1,232,242)		(572,303)
Net income		\$	30,961,437	\$	36,705,640
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(22)	Before tax	After tax	Before tax	After tax
Net income		\$ 29.57	\$ 28.44	\$ 34.58	\$ 34.05
Pro-forma data: (Assuming that the Company's shares owned by its subsidiary were not treated as treasury stock)					
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(22)				
Net income		\$ 29.55	\$ 28.42	\$ 34.43	\$ 33.91
Diluted Earnings Per Share (in New Taiwan Dollars)	2, 4(22)				
Net income		\$ 29.01	\$ 27.90	\$ 33.68	\$ 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.

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
	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
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)
Stock dividends	21,463	-	-	-	-	(21,463)	-	-	-	-
Bonus to employees - in stock	148,203	-	5,294,683	-	-	-	-	-	-	5,442,886
Net income for the year ended December 31, 2009	-	-	-	-	-	36,705,640	-	-	-	36,705,640
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	427,747	-	427,747
Employee stock option distributed to subsidiaries' employees	-	-	87,864	-	-	-	-	-	-	87,864
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	108,682	-	-	-	-	-	-	108,682
Adjustment arising from changes in the percentage of ownership in investees	-	-	19,286	-	-	-	-	-	-	19,286
Cumulative translation adjustments	-	-	-	-	-	-	(509,389)	-	-	(509,389)
Balance as of December 31, 2009	10,901,189	-	8,267,826	14,943,414	273,489	74,894,668	(527,304)	172,173	(55,970)	108,869,485
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)
Stock dividends	21,802	-	-	-	-	(21,802)	-	-	-	-
Bonus to employees - in stock	74,855	-	3,593,106	-	-	-	-	-	-	3,667,961
Net income for the year ended December 31, 2010	-	-	-	-	-	30,961,437	-	-	-	30,961,437
Employee stock option distributed to subsidiaries' employees	-	-	91,476	-	-	-	-	-	-	91,476
Issuance of stock from exercising employee stock options	1,471	365	66,877	-	-	-	-	-	-	68,713
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	202,226	-	-	-	-	-	-	202,226
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	10,435	-	10,435
Adjustment arising from changes in the percentage of ownership in investees	-	-	37,893	-	-	-	-	-	-	37,893
Cumulative translation adjustments	-	-	-	-	-	-	(3,853,426)	-	-	(3,853,426)
Balance as of December 31, 2010	\$ 10,999,317	\$ 365	\$ 12,259,404	\$ 18,613,978	\$ 355,131	\$ 73,739,007	\$ (4,380,730)	\$ 182,608	\$ (55,970)	\$ 111,713,110

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.

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 :		
Net income	\$ 30,961,437	\$ 36,705,640
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	691,378	685,141
Amortization	1,406,083	1,726,090
Bad debt provision	129,666	16,938
Amortization of financial assets discount or premium	296	(32,841)
Cash dividends from equity investees	123,710	28,815
Inventory loss provision	969,798	930,262
Net loss on disposal of property, plant and equipment	27,465	1,234
Net gain on equity investments	(14,445,432)	(15,121,930)
Adjustment of valuation on financial assets and liabilities	(53,306)	14,192
Loss on disposal of investments	-	12,608
Deferred income tax	543,032	440,665
Employees' bonuses	3,863,296	12,226,536
Changes in operating assets and liabilities:		
Held-for-trading financial assets	-	150,000
Financial assets designated as at fair value through profit or loss	(978,500)	862,000
Accounts receivable	(1,874,645)	(317,586)
Receivables from related parties	15,416	(40,256)
Other receivables	407,673	(267,986)
Inventories	(2,342,737)	(2,617,174)
Prepayments	(1,827,506)	90,420
Other current assets	(190,152)	(44,272)
Accounts payable	(1,156,899)	3,657,130
Payables to related parties	(49,168)	63,644
Income tax payable	93,123	129,553
Accrued expenses	(781,777)	(1,461,861)
Other current liabilities	91,115	(214,815)
Accrued pension liabilities	19,812	5,249
Net cash provided by operating activities	15,643,178	37,627,396
Cash flows from investing activities :		
Increase in restricted deposits	(3,000)	(5,117)
Increase in available-for-sale financial assets	(563,917)	-
Purchase of property, plant and equipment	(1,573,425)	(1,432,161)
Proceeds from disposal of property, plant and equipment	894	921
Proceeds from disposal of available-for-sale financial assets	621,000	1,787,997
Proceeds from disposal of held-to-maturity financial assets	-	242,498
Increase in intangible assets	(642,855)	(835,958)
Decrease (increase) in refundable deposits	76,744	(226,588)
Net cash used in investing activities	(2,084,559)	(468,408)
Cash flows from financing activities :		
Decrease in deposits received	-	(146)
Cash dividends	(28,343,090)	(15,024,132)
Proceeds from exercise of employee stock options	68,713	-
Net cash used in financing activities	(28,274,377)	(15,024,278)
Net (decrease) increase in cash and cash equivalents	(14,715,758)	22,134,710
Cash and cash equivalents at the beginning of the year	57,885,158	35,750,448
Cash and cash equivalents at the end of the year	\$ 43,169,400	\$ 57,885,158
Supplemental disclosures of cash flow information :		
Income tax paid during the year	\$ 596,087	\$ 497,937
Activities partially affected cash flows :		
Purchase of property, plant and equipment	\$ 1,573,425	\$ 1,352,051
Add: decrease in payables to contractors and equipment suppliers	-	80,110
Cash paid for the purchase of property, plant and equipment	\$ 1,573,425	\$ 1,432,161
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
Cumulative translation adjustments	\$ (3,853,426)	\$ (509,389)
Adjustment arising from changes in percentage of ownership in investees	\$ 37,893	\$ 19,286
Adjustment of cash dividends distributed to subsidiaries holding the Company's stock	\$ 202,226	\$ 108,682

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 FINANCIAL STATEMENTS

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

1. Organization and Operation

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

As of December 31, 2010 and 2009, total numbers of employees of the Company were 2,829 and 2,331, respectively.

2. Summary of Significant Accounting Policies

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

Cash Equivalents

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

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

- B. The assets and liabilities of the foreign subsidiaries of the Company are translated into NT Dollars, at the spot exchange rate at the balance sheet date. Shareholders' equity accounts should be translated at the historical rate except for the beginning balance of the retained earnings, which is the translated amount from prior period carried forward. Dividends are translated at the spot rate of the declaration date. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. The accumulated exchange gains or losses resulting from the translation are recorded as cumulative translation adjustments under shareholders' equity.

Financial Assets and Financial Liabilities

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

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

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

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

b. Bond portfolios with no active market

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

c. Financial assets carried at cost

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

d. Held-to-maturity financial assets

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

e. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as in any of the preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity. When the investment is derecognized, the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

Allowance for Doubtful Accounts

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

Inventories

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 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	years
Computer and telecommunication equipment	3 to 5	years
Testing equipment	3 to 5	years
Miscellaneous equipment	2 to 5	years

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

Intangible Assets

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

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

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

- B. Expenditures related to research activities as well as those expenditures not meeting the criteria for capitalization are expensed when incurred. Expenditures related to development activities meeting the criteria for capitalization are capitalized.

Asset Impairment

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

Capital Expenditures vs. Operating Expenditures

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

Revenue Recognition

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

Employee Retirement Benefits

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

Income Tax

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

Employee Stock Option

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

Employee Bonuses and Remunerations Paid to Directors and Supervisors

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

Earnings Per Share

- A. The Company's EPS is computed according to R.O.C. SFAS No. 24 "Earnings Per Share". Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the current reporting period. Diluted earnings (loss) per share is computed by taking basic earnings (loss) per share into consideration plus additional common shares that would have been outstanding if the dilutive share equivalents had been issued. Net income (loss) is also adjusted for interest and other income or expenses derived from any underlying dilutive share equivalents. The weighted-average of outstanding shares is adjusted retroactively for stock dividends. According to Accounting Research and Development Foundation interpretation Nos. 97-169, bonus share issues shall not be retroactively adjusted.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

Treasury Stock

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

Derivative Financial Instruments-Held for Trading

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

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

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.

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

	As of December 31,	
	2010	2009
Savings and checking accounts	\$5,002,100	\$2,079,598
Time deposits	38,167,300	55,805,560
Total	<u>\$43,169,400</u>	<u>\$57,885,158</u>

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

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

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

The Company 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. Please refer to Note 10 to the financial statements for the disclosure of relative risk information.

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

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

(a) As of December 31, 2010:

Held-for-trading financial assets:

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

(b) As of December 31, 2009:

Held-for-trading financial assets:

<u>Financial Instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>
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.

(3) Financial Assets Designated as at Fair Value through Profit or Loss-Current

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2009</u>
Convertible bonds	<u>\$122,100</u>	<u>\$-</u>

Convertible bonds 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

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2009</u>
Funds	\$1,923,944	\$1,604,880
Bonds	312,529	326,844
Total	<u>\$2,236,473</u>	<u>\$1,931,724</u>

In March 2009, the Company reclassified held-to-maturity financial assets to available-for-sale financial assets-current in the amount of NT\$372,994 thousand. Please refer to Note 4(5).

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

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

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(6) Accounts Receivable-Net**

	As of December 31,	
	2010	2009
Accounts receivable	\$4,175,898	\$2,905,715
Less: Allowance for doubtful accounts	(205,552)	(75,886)
Net	<u>\$3,970,346</u>	<u>\$2,829,829</u>

The Company entered into several factoring agreements without recourse with financial institutions in Taiwan. According to those agreements, the Company does not take the risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related accounts receivable after deducting the estimated value of commercial disputes. The Company has not withdrawn cash entitled by the factoring agreements from banks as of December 31, 2010. Receivables from banks due to factoring agreement is NT\$604,462 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	-	20,477	-	20,477	95,310
DBS Bank	-	309	-	309	20,000
		<u>20,786</u>	<u>-</u>	<u>20,786</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)
Taishin International					
Bank	-	4,413	-	4,413	83,000

(7) Other Receivables

	As of December 31,	
	2010	2009
Interest receivable	\$66,630	\$141,238
VAT refundable	287,594	627,670
Others	631,289	19,816
Total	<u>\$985,513</u>	<u>\$788,724</u>

As of December 31, 2010, receivables from banks due to factoring agreement is NT\$604,462 thousand. Please refer to Note 4(6).

MEDIATEK INC.**NOTES TO 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	\$5,501,034	\$3,620,535
Finished goods	4,169,177	3,706,939
Subtotal	9,670,211	7,327,474
Less: Allowance for loss on decline in market value and obsolescence	(3,227,519)	(2,257,721)
Net	\$6,442,692	\$5,069,753

a. For the years ended December 31, 2010 and 2009, the Company recognized the decline in market value and obsolescence of inventories which were included in cost of goods sold in the amount of NT\$969,798 thousand and NT\$930,262 thousand, respectively.

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

(9) Funds and Investments

a.	As of December 31, 2010			
Investee Company	Type	Share/unit	Amount	Ownership
<u>Financial assets designated as at fair value through</u>				
<u>profit or loss-noncurrent</u>				
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	-
Subtotal			879,477	
<u>Available-for-sale financial assets-noncurrent</u>				
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	-
Subtotal			1,489,399	

(To be continued)

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

(Continued)	As of December 31, 2010			
Investee Company	Type	Share/unit	Amount	Ownership
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Series B			
	Preferred stock	25,000,000	1,000,000	-
<u>Investments accounted for using the equity method</u>				
MediaTek Investment Corp.	Common share	2,454,820,056	34,217,063	100.00%
Hsu-Ta Investment Limited	Capital	-	3,680,932	100.00%
Hsu-Chia Investment Limited	Capital	-	3,426,734	100.00%
Hsu-Kang Investment Limited	Capital	-	3,422,142	100.00%
Hsu-Chung Investment Corp.	Common share	322,433,336	4,986,352	100.00%
Hsu-Xin Investment Corp.	Common share	322,433,343	4,986,352	100.00%
ALi Corporation	Common share	64,098,383	1,449,996	21.09%
Subtotal			56,169,571	
Add : Unrealized (gain) loss on disposal of long-term equity investments			(3,040)	
Subtotal			56,166,531	
Total			\$59,535,407	

	As of December 31, 2009			
Investee Company	Type	Share/unit	Amount	Ownership
<u>Available-for-sale financial assets-noncurrent</u>				
Cathay No. 1 Real Estate Investment Trust	Mutual fund	70,000,000	\$774,200	-
Cathay No. 2 Real Estate Investment Trust	Mutual fund	50,000,000	549,500	-
Chinatrust 2006-1 Collateralized Loan Obligation-E	Securities	246	246,172	-
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	100,000	-
Taiwan Power 93-1 the Fourth Corporate Bond-E	Bond	20	100,864	-
Subtotal			1,770,736	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
(To be continued)				

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

(Continued)		As of December 31, 2009		
Investee Company	Type	Share/unit	Amount	Ownership
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Series B			
	Preferred stock	25,000,000	1,000,000	-
<u>Investments accounted for using the equity method</u>				
MediaTek Investment Corp.	Common share	1,426,754,351	26,094,991	100.00%
Hsu-Ta Investment Limited	Capital	-	3,732,538	100.00%
Hsu-Chia Investment Limited	Capital	-	3,467,717	100.00%
Hsu-Kang Investment Limited	Capital	-	3,468,057	100.00%
Hsu-Chung Investment Corp.	Common share	156,356,953	3,654,202	100.00%
Hsu-Xin Investment Corp.	Common share	156,356,962	3,654,202	100.00%
ALi Corporation	Common share	64,098,383	1,368,329	21.09%
Subtotal			45,440,036	
Add : Unrealized (gain) loss on disposal of long-term equity investments			(3,040)	
Subtotal			45,436,996	
Total			\$48,207,732	

- 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\$14,445,432 thousand and NT\$15,121,930 thousand, respectively, based on the audited financial statements of the investee companies.
- c. For the years ended December 31, 2010 and 2009, the Company recognized an unrealized (loss) gain of NT\$(70,356) thousand and NT\$163,929 thousand, respectively, in shareholders' equity for the changes in fair value of available-for-sale financial assets held by its investee companies accounted for under the equity method.
- d. The Company issued employee stock options to subsidiaries' employees in 2010 and 2009, and recorded an increase in capital reserve in an aggregate amount of NT\$91,476 thousand and NT\$87,864 thousand, respectively. Please refer to note 4(16).
- e. In 2010 and 2009, under the equity method, the Company recognized changes in investees' capital reserve by NT\$37,893 thousand and NT\$19,286 thousand, respectively.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- f. In September 2010, the Company invested in Taishin 1.5 Years TWD CP90 Structured Investment and other financial assets which were classified as financial assets designated as at fair value through profit or loss in the amount of NT\$870,000 thousand.
- g. 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.
- h. In 2010, the Company redeemed Chinatrust 2006-1 Collateralized Loan Obligation-E which was 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\$1,481,150 thousand and recognized an investment disposal loss of NT\$5,106 thousand.
- i. In March 2009, the Company sold Chinatrust 96-2 Financial Debenture which was classified as held-to-maturity financial assets before maturity at the price of NT\$242,498 thousand and recognized an investment disposal loss of NT\$7,502 thousand. The Company reclassified the remaining held-to-maturity financial assets, such as Cathay Real Estate Investment Trust-Tun Nan C, to available-for-sale financial assets-noncurrent in the amount of NT\$910,714 thousand.
- j. 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.
- k. 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 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	\$1,897,512	\$7,201,886	\$9,099,398
Increase - separately acquired	527,926	114,929	642,855
Decrease - elimination and others	10,612	(9,673)	939
Balance at end of period	2,436,050	7,307,142	9,743,192
Accumulated amortization			
Balance at beginning of period	(1,629,718)	(4,906,182)	(6,535,900)
Increase - amortization	(589,318)	(816,765)	(1,406,083)
Decrease - elimination and others	4,670	-	4,670
Balance at end of period	(2,214,366)	(5,722,947)	(7,937,313)
Net	\$221,684	\$1,584,195	\$1,805,879

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

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(12) Accrued Pension Liabilities**

The Company's 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, including net pension cost under the Standard Labor Law and the pension expenses under the Labor Pension Act, amounted to NT\$197,852 thousand and NT\$130,855 thousand for the years ended December 31, 2010 and 2009, respectively. The pension expenses under the Labor Pension Act amounted to NT\$177,446 thousand and NT\$125,220 thousand for the years ended December 31, 2010 and 2009, respectively.

a. 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>

b. 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>

c. The vested benefit was nil as of December 31, 2010 and 2009.**d. 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 FINANCIAL STATEMENTS-(Continued)

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

(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 advance is NT\$365 thousand.

(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.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(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\$5,442,886 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).

(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.

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

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 investment losses on equity investment arising from employee stock option compensation cost 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

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	4,327,687	416	3,790,285	408
Exercisable at end of period	410,052		-	
Weighted-average fair value of options granted during the period (in NTD)	\$96.3		\$122	

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

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

		Outstanding Stock Options			Exercisable Stock Options	
		Options	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NTD)	Options	Weighted-average Exercise Price per Share (NTD)
	Range of Exercise Price (NTD)	(Unit)			(Unit)	
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>	

(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.

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

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 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

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(19) Net Operating Revenue**

	For the year ended December 31,	
	2010	2009
Revenues from sales of multimedia and cell phone chipsets	\$78,180,984	\$82,798,752
Other operating revenue	1,093,499	1,149,564
Subtotal	79,274,483	83,948,316
Less: Sales returns	(670)	(9,117)
Less: Sales discounts	(7,285,383)	(6,628,447)
Net Operating Revenue	\$71,988,430	\$77,310,752

(20) Personnel, Deprecation 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	\$170,479	\$12,775,491	\$12,945,970	\$131,551	\$16,428,475	\$16,560,026
Insurance	6,895	225,098	231,993	5,000	151,085	156,085
Pension	5,977	191,875	197,852	4,254	126,601	130,855
Other expenses	4,473	163,343	167,816	1,340	45,381	46,721
Total	\$187,824	\$13,355,807	\$13,543,631	\$142,145	\$16,751,542	\$16,893,687
Depreciation	\$2,327	\$689,051	\$691,378	\$14,402	\$670,739	\$685,141
Amortization	\$935	\$1,405,148	\$1,406,083	\$870	\$1,725,220	\$1,726,090

(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.

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

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

	For the year ended December 31,	
	2010	2009
Income tax payable	\$733,526	\$259,440
10% surtax on undistributed earnings	458,854	195,191
Investment tax credits	(596,190)	(227,316)
Deferred income tax effects		
Investment tax credits	404,118	(960,529)
Valuation allowance	24,617	1,264,194
Others	114,297	137,000
Others	93,020	(95,677)
Income tax expense from continuing operations	<u>\$1,232,242</u>	<u>\$572,303</u>

b.

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 foreign exchange loss	33,502	5,695	-	-
Unrealized technology license fee	1,307,624	222,296	821,736	164,347
Unrealized loss on asset impairment	12,126	2,061	12,126	2,425
Others	-	-	712,827	142,565
Investment tax credits		<u>8,905,333</u>		<u>9,309,451</u>
Deferred income tax assets		9,711,572		10,079,577
Valuation allowance for deferred income tax assets		<u>(9,596,430)</u>		<u>(9,571,813)</u>
Net deferred income tax assets		<u>115,142</u>		<u>507,764</u>

(To be continued)

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

(Continued)

	As of December 31,			
	2010		2009	
	Amount	Tax effect	Amount	Tax effect
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)
Deferred income tax liabilities		<u>(703,222)</u>		<u>(552,812)</u>
Net deferred income tax assets and liabilities		<u><u>\$(588,080)</u></u>		<u><u>\$(45,048)</u></u>

	As of December 31,	
	2010	2009
Deferred income tax assets-current	\$2,948,744	\$911,833
Valuation allowance for deferred income tax assets-current	(2,868,991)	(758,488)
Net deferred income tax assets-current	79,753	153,345
Deferred income tax liabilities-current	(7,866)	(7,435)
Net deferred income tax assets and liabilities-current	<u><u>\$71,887</u></u>	<u><u>\$145,910</u></u>

	As of December 31,	
	2010	2009
Deferred income tax assets-noncurrent	\$6,762,828	\$9,167,744
Valuation allowance for deferred income tax assets-noncurrent	(6,727,439)	(8,813,325)
Net deferred income tax assets-noncurrent	35,389	354,419
Deferred income tax liabilities-noncurrent	(695,356)	(545,377)
Net deferred income tax assets and liabilities-noncurrent	<u><u>\$(659,967)</u></u>	<u><u>\$(190,958)</u></u>

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

c. Pursuant to Article 9-2 of the “Statute for Upgrading Industries”, the Company is qualified as a technical service industry and is therefore entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. The Company has elected the tax exemption periods from January 1, 2007 through December 31, 2011, January 1, 2009 through December 31, 2013, and January 1, 2010 through December 31, 2014.

d. 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.

e. 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>	

f.

Integrated income tax information	As of December 31,	
	2010	2009
Balance of the imputation credit account (ICA)	<u>\$1,450,933</u>	<u>\$1,880,385</u>
Expected (Actual) creditable ratio	2010	2009
	<u>2.78% (Note)</u>	<u>3.26%</u>

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

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

g.

Information related to undistributed retained earnings

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

(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:

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

	Amount (Numerator)			Earnings per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
<u>For the year ended December 31, 2010</u>					
Basic EPS					
Net income	\$32,193,679	\$30,961,437	1,088,689,895	<u>\$29.57</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>\$32,193,679</u>	<u>\$30,961,437</u>	<u>1,109,668,646</u>	<u>\$29.01</u>	<u>\$27.90</u>
<u>For the year ended December 31, 2009</u>					
Basic EPS					
Net income	\$37,277,943	\$36,705,640	1,077,995,291	<u>\$34.58</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	<u>\$37,277,943</u>	<u>\$36,705,640</u>	<u>1,106,682,638</u>	<u>\$33.68</u>	<u>\$33.17</u>

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

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

	<u>Amount (Numerator)</u>			<u>Earnings per share</u>	
	<u>Before tax</u>	<u>After tax</u>	<u>Shares (Denominator)</u>	<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2010</u>					
Pro-forma EPS					
Net income	\$32,193,679	\$30,961,437	1,088,689,895		
The effect of the Company's shares owned by its subsidiary not treated as treasury stock	<u>202,226</u>	<u>202,226</u>	<u>7,794,085</u>		
Total	\$32,395,905	\$31,163,663	1,096,483,980	\$29.55	\$28.42

	<u>Amount (Numerator)</u>			<u>Earnings per share</u>	
	<u>Before tax</u>	<u>After tax</u>	<u>Shares (Denominator)</u>	<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2009</u>					
Pro-forma EPS					
Net income	\$37,277,943	\$36,705,640	1,077,995,291		
The effect of the Company's shares owned by its subsidiary not treated as treasury stock	<u>108,682</u>	<u>108,682</u>	<u>7,794,085</u>		
Total	\$37,386,625	\$36,814,322	1,085,789,376	\$34.43	\$33.91

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

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
JMicron Technology Corporation (“JMicon”)	The Company’s chairman doubles as JMicon’s chairman
Airoha Technology, Inc. (“Airoha”)	Equity investee
MediaTek Investment Corp. (“MIC”)	Affiliated company
MediaTek Capital Corp. (“MCC”)	Affiliated company
Hsu-Ta Investment Limited (“Hsu-Ta”)	Affiliated company
Hsu-Chia Investment Limited (“Hsu-Chia”)	Affiliated company
Hsu-Kang Investment Limited (“Hsu-Kang”)	Affiliated company
MediaTek Singapore Pte. Ltd. (“MSL”)	Affiliated company
MTK Wireless Limited-UK (“MUK”)	Affiliated company
MediaTek Wireless, Inc.-USA (“MWS”)	Affiliated company
Directors, supervisors and key managers	The Company’s major managers

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

	For the year ended December 31,			
	2010		2009	
	Amount	% of net sales	Amount	% of net sales
MSL	\$712,295	0.99	\$643,547	0.83
ALi	-	-	64,626	0.08
Total	\$712,295	0.99	\$708,173	0.91

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 MSL and ALi were royalty revenues, which were charged based on an agreed percentage of the Company’s net sales.

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

b. IC testing, experimental services and manufacturing technology services

		For the year ended December 31,	
		2010	2009
	Transactions		
King Yuan	IC testing and experimental services	\$1,650,353	\$1,480,960

c. Rental Income

	Rental Income		Other Receivables	
	For the year ended December 31,		As of December 31,	
	2010	2009	2010	2009
JMicron	\$6,703	\$8,177	\$-	\$-
Airoha	9,147	9,574	-	3,054
MIC	34	-	-	-
MCC	34	-	-	-
Hsu-Ta	34	-	-	-
Hsu-Chia	34	-	-	-
Hsu-Kang	34	-	-	-
Others	-	4	-	-
Total	\$16,020	\$17,755	\$-	\$3,054

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

d. Other receivables from MUK due to the Company operating expenditures on behalf of the abovementioned related party, were shown as follows:

	As of December 31,	
	2010	2009
MUK	\$-	\$444

e. The lease guarantees provided by the Company for MUK and MWS were shown as follows:

	As of December 31,	
	2010	2009
MUK	\$25,082	\$19,654
MWS	91,301	134,015
Total	\$116,383	\$153,669

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(3) Receivables and payables resulted from the above transactions****a. Receivables from related parties**

	As of December 31,			
	2010		2009	
	Amount	%	Amount	%
MSL	\$45,165	1.12	\$60,581	2.10

b. Payables to related parties

	As of December 31,			
	2010		2009	
	Amount	%	Amount	%
King Yuan	\$378,408	5.99	\$427,576	5.68

c. Remunerations paid to major managers

	For the year ended December 31,	
	2010	2009
Salaries, reward, compensation, special allowance and bonus	\$47,209(Note)	\$1,139,891

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	\$6917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,000	Customs Office	Tariff execution
Total	\$9,917		deposits

(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

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

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>

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

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

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

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	\$43,169,400	\$43,169,400	\$57,885,158	\$57,885,158
Financial assets designated as at fair value through profit or loss	\$1,001,577	\$1,001,577	\$-	\$-
Receivables (including related parties)	\$4,015,511	\$4,015,511	\$2,890,410	\$2,890,410
Other receivables	\$985,513	\$985,513	\$788,724	\$788,724
Available-for-sale financial assets	\$3,725,872	\$3,725,872	\$3,702,460	\$3,702,460
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	\$1,449,996	\$2,829,944	\$1,368,329	\$4,967,625
-without market value	\$54,716,535	\$-	\$44,068,667	\$-
Refundable deposits	\$164,577	\$164,577	\$241,321	\$241,321
Restricted assets	\$9,917	\$9,917	\$6,917	\$6,917
<u>Liabilities</u>				
Payables (including related parties)	\$6,322,522	\$6,322,522	\$7,528,589	\$7,528,589
Accrued expenses	\$14,503,360	\$14,503,360	\$15,089,802	\$15,089,802
Payables to contractors and equipment suppliers	\$9,293	\$9,293	\$9,293	\$9,293
Deposits received	\$876	\$876	\$876	\$876
<u>Derivative</u>				
<u>Assets</u>				
Held-for-trading financial assets	\$46,271	\$46,271	\$16,042	\$16,042

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- (a) The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:
- (i) The fair values of the Company's short-term financial instruments approximate their carrying values at the reporting date due to their short maturities. This method was applied to cash and cash equivalents, receivables, other receivables, payables, accrued expenses, other payables and payables to contractors and equipment suppliers.
 - (ii) The fair values of the Company's refundable deposits, deposits received and restricted assets approximate their carrying value because the Company predicts the future cash inflows or outflows will be of similar amounts to the carrying values.
 - (iii) The fair values of held-for-trading financial assets and available-for-sale financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
 - (iv) The 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.
 - (v) The fair values of the Company's investments accounted for under the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.
 - (vi) The fair values of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- (b) Gains recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$67,847 thousand and NT\$13,114 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\$38,692,278 thousand and NT\$56,579,590 thousand, respectively, and financial assets exposed to cash flow risk from variable interest rate were NT\$899,044 thousand and NT\$6,767 thousand, respectively.
- (d) Interest income recognized from financial assets and financial liabilities that are not at fair value through profit or loss amounted to NT\$347,417 thousand and NT\$420,185 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 loss 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. Please refer to Note 4.(9) to the financial statements for details.
- (e) As of December 31, 2010 and 2009, the Company did not have impairment loss on financial assets.

b.

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

(b) Information of financial risks

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

Market risk

Market risk mainly includes currency risk. It comes from purchase or sale activities which are not denominated in the Company's functional currency. The Company reviews its assets and liabilities denominated in foreign currency and enters into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Had the USD moved against NTD by increasing 1 cent, the fair value of the forward exchange contracts would decrease by NT\$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's exposure to credit risk arises from potential default of the counter-party or other third-party. The level of exposure depends on several factors including concentrations of credit risk, components of credit risk, the price of contract and other receivables of financial instruments.

Since the counter-party or third-party to the foregoing forward exchange contracts are all reputable financial institutions, management believes that the Company's exposure to default by those parties is minimal. The Company's credit risk mainly comes from the collectibility of accounts receivable while receivable balances are monitored on an ongoing

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

basis and an allowance for doubtful receivables is provided. Thus, the net book value of accounts receivable are properly evaluated and reflect the credit risk the Company expose to. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk, which arises when the counter-party or the third-party to a financial instrument fails to discharge an obligation and the Company suffers a financial loss as a result. Credit risk of credit-linked deposits, exchange rate-linked deposits and convertible bond arises if the issuing banks breached the contracts or the debt issuer could not pay off the debts; the maximum exposure is the carrying value of credit-linked deposits. Therefore, the Company minimized the credit risk by only transacting with counter-party who is reputable, transparent and in good financial standing.

Liquidity risk

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

Except for financial assets carried at cost, bond portfolios with no active market and investments accounted for using the equity method that may have significant liquidity risks resulted from lack of an active market, the equity securities, bonds and funds held by the Company are traded in active markets and can be sold promptly at the prices close to their fair values. Since the exchange rates of forward exchange contracts are fixed at the time the contracts are entered into and the Company does hold and anticipates to hold sufficient financial assets denominated in USD, no significant additional cash requirement is anticipated.

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

Cash flow risk from variable interest rate

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

MEDIATEK INC.**NOTES TO 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	\$246,266	\$29.08	\$7,161,413	\$172,967	\$32.16	\$5,562,831
Non-monetary item						
USD	\$9,000	\$29.08	\$261,720	\$-	\$-	\$-
<u>Financial liabilities</u>						
Monetary item						
USD	\$227,399	\$29.08	\$6,612,764	\$125,889	\$32.22	\$4,056,773
JPY	\$500,000	\$0.37	\$186,700	\$-	\$-	\$-

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

11. Segment Information**(1) Major Customers**

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

Customers	For the year ended December 31,			
	2010		2009	
	Amounts	%	Amounts	%
A	\$25,839,089	35.89	\$31,540,857	40.80
B	11,684,282	16.23	11,634,439	15.05
C	8,448,900	11.74	11,570,783	14.96
Total	\$45,972,271	63.86	\$54,746,079	70.81

(2) Export Sales

The Company's export sales totaled NT\$65,893,099 thousand and NT\$72,183,226 thousand for the years ended December 31, 2010 and 2009, respectively, representing 91.53% and 93.37% of the Company's net sales for corresponding years.

(3) Geographic data

The Company has no significant foreign operation.

(4) Industry data

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