

MediaTek Inc.

2009 Annual Report

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2009 MediaTek Annual Report

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1. Letter to Shareholders

Dear Shareholders,

MediaTek posted record highs in both revenue and net income in 2009. Consolidated net income rose to NT\$115.5 billion, a 28% increase from 2008. Net income rose 91% to NT\$36.7 billion. Earnings per share topped all listed companies in Taiwan at NT\$34.12. MediaTek was among the few fabless companies ranked in the top 10 to post earnings growth. As a result MediaTek moved up to 4th place from 5th place among global IC design companies and became one of the top 15 semiconductor companies in the world. According to Gartner Research, output value for the semiconductor industry declined 10% in 2009, which further highlighted MediaTek's unique accomplishment in terms of significant growth in both revenue and net income.

In the past year, MediaTek successfully launched a wide range of products that included state-of-the-art Blu-ray single chip, multimedia TV and Internet TV chips, mobile handset single-chip solutions, 3G and smartphone solutions. MediaTek not only strengthened its leading position in optical storage, Blu-ray DVD players, and DTV chips, it also successfully helped its clients in the mobile handset industry expand their overseas market share. Further, MediaTek saw breakthroughs with tier-one international manufacturers and telecommunication operators with its mobile handset solutions. These new products and newly developed markets will help fuel MediaTek's future growth.

On the organizational front, MediaTek expanded its workforce by more than 10% in spite of the global contraction while improving the operational efficiency. MediaTek continued its commitment to corporate responsibility in 2009 and was again awarded by numerous magazines and institutions for its efforts in technology sponsorship, environmental protection, and promotion of rural education. MediaTek received the "Corporate Citizenship Award" for the third consecutive year from CommonWealth Magazine. In addition, IR Magazine awarded MediaTek with the "Best Investor Relations by a CEO." MediaTek was the only company from Taiwan to be nominated for the "Best Corporate Governance in Asia" award by AsiaMoney Magazine. In terms of research and development, MediaTek was the only Taiwanese company to publish its papers in the International Solid State Circuits Conference (ISSCC) for seven consecutive years. These awards and recognitions clearly demonstrate MediaTek's achievements in the fields of management and technology.

Although the global economy has begun to recover from the 2008 financial crisis, challenges remain ahead. Though MediaTek's future performance is tied to the global economy to a certain degree, it aims to outperform regardless of the overall market conditions by leveraging its product positioning, market strategy, operational efficiency, intellectual property, human capital, and client relationships. MediaTek intends to focus its resources on developing high margin products and lowering production and operating costs. A balance will be struck between mid- to long-term R&D investment and short-term market demands. Further, MediaTek's strong portfolio of intellectual property can be harnessed to create a formidable entry barrier to competitors, and generate synergy within the company. These efforts will lead MediaTek closer to its goal of becoming the industry leader.

Looking forward, the continued rapid growth in China and other emerging markets' economies has led to expeditious increase of consumer purchasing power, which is driving a tremendous demand for entertainment, communication, and information products/services. This trend, in turn, is forming a huge market and new opportunities for us. However, along with rapid technological developments and new business model innovations comes the convergence and crossover of business fields, leading to changes in the industry structure and the competitive landscape. To meet new challenges and opportunities, MediaTek will continue to carry out its vision of improving and enriching people's lives through innovation, and to improve its market position by advancing company capability, skillfully navigating the changing market conditions, and leveraging its own technological advantages. Fundamentally, MediaTek remains firmly committed to building a solid, long-term business foundation with the goal of creating the best possible returns for our investors.

Ming-Kai Tsai
Chairman

Ching-Jiang Hsieh
President

2. Company Profile

2.1. MediaTek Company Profile

MediaTek Inc. was founded on May 28, 1997 and has been listed on Taiwan Stock Exchange (TSE) since July 2001. The company is headquartered in Taiwan with sales and research subsidiaries in Mainland China, the United States, the United Kingdom, Denmark, India, Japan, South Korea, and Singapore. The company provides System-on-a-Chip (SoC) solutions for wireless communication, high-definition digital TV, optical storage, high-resolution DVD players, etc. and is a leader in all of these markets.

MediaTek has had a compounded annual growth rate of 29% since the company was founded and ranks among top 10 IC design companies in the world. The company has leading positions in both technology and market share. While the company continues its revenue and market share expansion, it also strives to innovate and improve its product value for solid and sustainable profitability.

2.2. Milestones

Year	Milestones
2009	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's High Sensitivity GPS SoC by Science-based Industrial Park Administration (SIPA) ■ Published four research papers in the ISSCC – "A Multi-Format Blu-ray Player SoC in 90nm CMOS", "A 1.2V 2MHz BW 0.084mm² CT ΔΣ ADC with -97.7dBc THD and 80dB DR Using Low-Latency DEM", "A 250Mb/s-to-3.4Gb/s HDMI Receiver with Adaptive Loop Updating Frequencies and an Adaptive Equalizer", and "A 110nm RFCMOS GPS SoC with 34mW -165dBm Tracking Sensitivity". ■ (First high-tech company in Taiwan to publish its research papers in the ISSCC for five consecutive years. MediaTek has been published in the ISSCC a total of 7 times and is the only Taiwanese company in the industry to be published in the ISSCC this year) ■ Awarded "Asia Pacific Leadership Council Award" by Global Semiconductor Alliance (GSA). ■ Awarded "Best Investor Relations by a CEO Award" and "Best Investor Relations for a Corporate Transaction" by IR Magazine ■ Awarded "Best Corporate Governance in Taiwan and in Asia" by Asiamoney Magazine ■ Awarded the third annual "Top 50 Corporate Citizens" by Commonwealth Magazine
2008	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's Full-HD ATSC DTV SoC, by Science-based Industrial Park Administration (SIPA). ■ Launched Blu-ray DVD player chipset, GSM/GPRS/EDGE handset baseband chip, and next-generation ATSC and DVB-T digital TV single-chip. ■ Awarded "Corporate Social Responsibility Award" by Global View Magazine. ■ Awarded the second annual "Top 50 Corporate Citizens" by Commonwealth Magazine. ■ Awarded "Best Financially Managed Company" by Global Semiconductor Alliance (GSA).

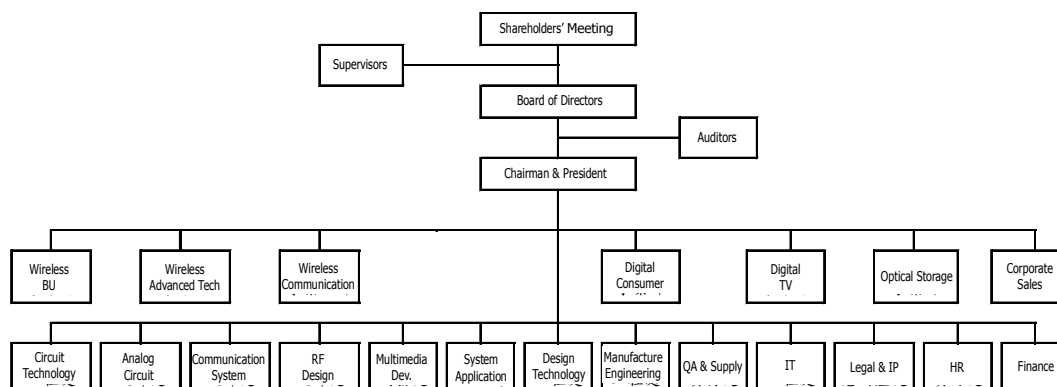
<p>2007</p>	<ul style="list-style-type: none"> ■ Awarded "Distinguished Innovation Accomplishment" at the 15th ITA Award by the Ministry of Economic Affairs. ■ Launched high-performance GPS signal receiver single-chip, first generation Bluetooth chip, and next-generation 120Hz video processing chip. ■ Published 2 research papers in the ISSCC – "A 1V 11b 200MS/s Pipelined ADC with Digital Background Calibration in 65nm CMOS," and "A Fractional Spur Free All-Digital PLL with Loop Gain Calibration and Phase Noise Cancellation for GSM/GPRS/EDGE" (First high-tech company in Taiwan to publish its research papers in the ISSCC for five consecutive years. MediaTek has been published in the ISSCC a total of 7 times and is the only Taiwanese company in the industry to be published in the ISSCC this year) ■ IEEE IRPS (International Reliability Physics Symposium) research paper publication – "A New Device Reliability Evaluation Method for Overdrive Voltage Circuit Application." ■ Awarded "The Asian Top 50" by "Forbes Asia." ■ Awarded the 12th annual "Most Admired Company in Taiwan" by Commonwealth Magazine. ■ Awarded "Corporate Social Responsibility Award" by Global View Magazine. ■ Awarded "Top 50 Corporate Citizens" by Commonwealth Magazine. ■ Awarded "Best Financially Managed Company" by Global Semiconductor Alliance (GSA).
<p>2006</p>	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's Blu-ray DVD player chipset, by SIPA. ■ Launched GSM/GPRS/EDGE high-resolution camcorder chipset for mobile phones. ■ Awarded "The Asian Top 50" by "Forbes Asia." ■ Research publication in the ISSCC - Fully Integrated CMOS SoC for 56/18/16 CD/DVD-dual/RAM Applications ■ Awarded "Best Financially Managed Company" by Fabless Semiconductor Association (FSA, now renamed as GSA).
<p>2005</p>	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's multimedia GSM/GPRS mobile phone chipset, by SIPA. ■ Launched ATSC and DVB-T high-resolution LCD TV chipset. ■ Research publication in the ISSCC – "Multi-Format Read/Write SoC for 7x Blu-ray/16x DVD/56x CD" and "DLL-Based Clock Recovery in a PRML Channel." ■ Awarded "The Asian Top 50" by "Forbes Asia." ■ Awarded the 10th annual "Most Admired Company in Taiwan" by Commonwealth Magazine.
<p>2004</p>	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's DVD-Recorder Backend single-chip, by SIPA. ■ Launched GSM/GPRS baseband handset chips. ■ Ranked #3 in the high-tech industry in Taiwan as part of Euromoney's "Best Corporate Governance" survey in 2004. ■ Awarded the 9th annual "Most Admired Company in Taiwan" by Commonwealth Magazine.
<p>2003</p>	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's 8x DVD-read/write (DVD-R/W) optical storage chipset, by SIPA. ■ Awarded "National Quality Award" by the Executive Yuan of Taiwan R.O.C. ■ Launched DVD-Dual chipset. ■ Awarded Top High-Tech Company in Taiwan by "Business Next Magazine."
<p>2002</p>	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's high-speed COMBI optical storage chipset by SIPA. ■ Launched 48x CD-R/W chipset. ■ Launched CD/DVD COMBI chipset.
<p>2001</p>	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's high-integration DVD-Player chipset by SIPA. ■ Awarded the 9th annual MOEA Award for Industrial Technology Advancement. ■ Listed on the Taiwan Stock Exchange (TSE) under ticker of "2454".

2000	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's high-speed CD-R/RW chipset by SIPA. ■ Launched 12x DVD-ROM chipset.
1999	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's 12x DVD-ROM chipset by SIPA. ■ Launched 12-x DVD-ROM chipset.
1998	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's CD-ROM digital data/servo processor by SIPA. ■ Launched the highest performance 48x CD-ROM chipset in the world.
1997	<ul style="list-style-type: none"> ■ Founded on May 28th.

3. Corporate Governance

3.1. Organization

3.1.1. Organization Chart



3.1.2. Functions of Key Divisions

Division	Functions
Wireless Connectivity Business Unit (BU)	Research, design and promotion of wireless local area network (LAN) and personal area network (PAN) chips
Wireless Advanced Technology BU	Research, design and promotion of advanced high-speed mobile communication chips
Wireless Communication BU	Research, design and promotion of mobile communication chips
Digital Consumer BU	Research, design and promotion of digital consumer chips
Digital TV BU	Research, design and promotion of digital TV chips
Optical Storage BU	Research, design and promotion of optical storage chips
Corporate Sales Division	Product sales, market strategy development, customer relations, sales operations and management, etc.
Circuit Technology Engineering Division	Research and development of cell libraries, packaging design, computer aided design (CAD), printed circuit board (PCB), circuit layout, etc.
Analog Circuit Design Division	Research and design of audio/video analog front end (AFE) and amplifier, assorted wire-line transmission interfaces, optical disc drive servo and read-write controllers, and power management circuits
Communication System Design Division	Research and development of communication system architecture and design
RF Design Division	Research and design of radio frequency technologies for wireless communication
Multimedia Development Division	Research and development of multimedia technologies for video and imaging applications
System Application Division	Mobile communication system and application development, certification, and technical support to customers
Design Technology Engineering Division	Design services and technical platform development
Manufacturing Engineering Division	Pilot run of newly developed products and technology development

Quality Assurance and Supply Management Division	Product quality and reliability management, customer satisfaction management, production planning and procurement
Information Technology Division	Information system architecture, e-commerce strategy, information system development and operation
Legal & Intellectual Property Division	Corporate legal affairs, contracts, patents, and the management of other intellectual property rights
Human Resources Division	Human resource management and organization development, general affairs, plant administration, and labor safety
Finance Division	Finance and accounting, tax, treasury and asset management, strategic investment, and investor relations
Auditors	Internal audit and operation procedure management

3.2. Directors and Supervisors

3.2.1. Information Regarding Board Members & Supervisors

As of March 31, 2010. Unit: Shares

Title/Name	Date Elected	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Selected Education & Past Positions	Current Positions at MediaTek and Other Companies
				Shares	%	Shares	%	Shares	%		
Chairman Ming-Kai Tsai	June 10, 2009	3	May 21, 1997	40,547,187	3.78%	40,704,512	3.73%	48,981,909	4.49%	- Master, Electrical Engineering, University of Cincinnati, USA - President of the 2 nd Business Group, UMC	- CEO, MediaTek, Inc. - Director/Chairman of MediaTek's Affiliates - Chairman of Andes Technology, and JMicro Technology - Director of Alpha Imaging Technology, Ali Corp., Mobitek Communication Corp.
Vice Chairman Jyh-Jer Cho	June 10, 2009	3	May 21, 1997	30,117,007	2.80%	30,197,282	2.77%	10,762,890	0.99%	- Master, Electrical Engineering, National Chiao Tung University - Manager, Multimedia R&D Team, UMC	- Vice CEO, MediaTek, Inc.
Director Ching-Jiang Hsieh	June 10, 2009	3	June 13, 2005	4,364,101	0.41%	4,336,908	0.40%	2,078,771	0.19%	- Master, Electrical Engineering, National Taiwan University - Engineer, Multimedia R&D Team, UMC	- President, MediaTek, Inc. - Director/Chairman of MediaTek's Affiliates
Director National Taiwan University Representative: Ming-Je Tang	June 10, 2009	3	June 3, 2002	2,863	0.00%	2,868	0.00%	0	0.00%	- Ph.D., Business Management, MIT, USA	- Vice President, National Taiwan University - Director, Trend Technology and Education Foundation
Director National Chiao Tung University Representative: Ching-Teng Lin	June 10, 2009	3	June 3, 2002	2,863	0.00%	2,868	0.00%	0	0.00%	- Ph.D., (E.E.), Purdue University, USA	- Dean, Academic Affairs of NCTU - Director, The Spring Foundation of NCTU
Supervisor MediaTek Capital Co. Representative: Paul Wang	June 10, 2009	3	June 21, 2006	7,763,004	0.72%	7,778,530	0.71%	0	0.00%	- Ph.D., Physics, Carnegie-Mellon, USA - Senior Consultant of IBM, USA	- Chairman of Pacific Venture Group and SerComm Corp. - Director, Mustek Technology - Independent Director of Prosperity Dielectrics Co., Mitac Inc., and Taiwan Prosperity Chemical Corp. - Supervisor of Les Enfants, TECO Electric and Machinery Co.
Supervisor National Tsing Hua University Representative: Chung-Lang Liu	June 10, 2009	3	May 16, 2003	2,044	0.00%	2,048	0.00%	0	0.00%	- Ph.D., (E.E.), MIT, USA - President, National Tsing Hua University	- Chairman, Dramexchange Technology Inc. - Director of CMSC Inc., Macronix Intl. Co. Ltd - Independent Director of Anpec Electronics Corp., MotoTech Inc., UMC, and PSC - Supervisor, Andes Technology Corp.
Supervisor National Cheng-Kung University Representative: Yan-Kuin Su	June 10, 2009	3	June 21, 2006	204	0.00%	204	0.00%	0	0.00%	- Ph.D., (E.E.), National Cheng Kung University - Dean of Academic Affairs, National Cheng Kung University	- President, Kun Shan University

Remarks: No member of the Board of Directors and Supervisors held MediaTek shares by nominee arrangement. No member of the Board of Directors had a spouse or relative within two degrees of consanguinity serving as a manager or director at MediaTek.

3.2.2. Major Shareholders of Important Institutional Shareholders

MediaTek Capital Co. is a MediaTek's supervisor and institutional shareholder. MediaTek Capital Co. is 100% owned by MediaTek Investment Co., which is 100% owned by MediaTek Inc.

3.2.3. Directors and Supervisors' Professional Qualifications and Independent Analysis

Name/ Criteria	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	Criteria (Note)										Number of other public companies concurrently serving as an independent director	
				1	2	3	4	5	6	7	8	9	10		
Chairman Ming-Kai Tsai			✓				✓	✓	✓	✓	✓	✓	✓	✓	0
Vice Chairman Jyh-Jer Cho			✓				✓	✓	✓	✓	✓	✓	✓	✓	0
Director Ching-Jiang Hsieh			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Director Ming-Je Tang	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Director Ching-Teng Lin	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Supervisor Paul Wang			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Supervisor Chung-Lang Liu	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	4
Supervisor Yan-Kuin Su	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note: Directors or Supervisors with a "✓" sign meet the following criteria:

1. Not an employee of the company or any of its affiliates;
2. Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, or any subsidiary in which the company holds, directly or indirectly, more than 50% of the voting shares;
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the company or ranking in the top 10 in holdings;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the company or that holds shares ranking in the top five in holdings;
6. Not a director, supervisor, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial or business relationship with the company;
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultations to the company or to any affiliate of the company, or a spouse thereof;
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company;
9. Not been a person of any conditions defined in Article 30 of the Company Law; and
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.2.4. Remunerations Paid to Directors and Supervisors

3.2.4.1. Remunerations Paid to Directors

Unit: Share/NT\$1,000

Title/Name	Remunerations Paid to Directors								(A+B+C+D) as % of 2009 Net Income		Compensations Earned as Employee of MediaTek or of MediaTek Affiliates								(A+B+C+D+E+F+G) as % of 2009 Net Income		Other compensations from non-subsidiary affiliates				
	Salary (A)		Pension (B)		Profit Sharing (C)		Business Expense (D)				Salary, Bonus, etc. (E)		Pension (F)		Employee Profit Sharing (G)							Employee Option (H)			
	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek		Consolidated Entities		MediaTek	Consolidated Entities	MediaTek	Consolidated Entities					
													Cash	Stock	Cash	Stock									
Chairman Ming-Kai Tsai																									
Vice Chairman Jyh-Jer Cho																									
Director Ching-Jiang Hsieh	-	-	-	-	41,192	41,192	105	105	0.11	0.11	45,734	45,734	216	216	120,860	53,225	120,860	53,225	-	-	0.71	0.71	None.		
Director National Taiwan University (Rep: Ming-Je Tang)																									
Director National Chiao Tung University (Rep: Ching-Teng Lin)																									

Note:

- The policies, standards, combinations, procedures and performance of remunerations paid to directors: The compensations are determined in accordance with the procedures set forth in MediaTek's Articles of Incorporation which authorized Board of Directors to resolve the compensation based on the industry level. The Articles of Incorporation also provides that MediaTek shall allocate the compensations to its directors and supervisors at 0.5% maximum of the earnings available after deducting the amount of legal reserve.
- The Board of Directors resolved on March 18, 2010 meeting that NT\$41,192,000 of 2009 earnings to be allocated as remunerations to Directors. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting on June 10, 2009. The updated information shall be posted on the Company's website.
- The Company's didn't have pension payment in 2009. The total pension expense provision in 2009 was NT\$216,000.
- The Board of Directors resolved on March 18, 2010 meeting that NT\$12,226,536,000 to be allocated as employee profit sharing. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting on June 15, 2010. The updated information shall be posted on the Company's website. Before this report is put in printing, distribution of profit sharing to employees was still unresolved. The above figures were only estimation.

	Compensation Paid to Directors (A+B+C+D)		Total Compensation Paid to Directors (A+B+C+D+E+F+G)	
	MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek
Less than NT\$2 million	-	-	-	-
NT\$2 million ~ \$5 million	-	-	-	-
NT\$5 million ~ \$10 million	Ming-Kai Tsai, Jyh-Jer Cho, Ching-Jiang Hsieh, National Taiwan University, National Chiao Tung University		Jyh-Jer Cho, National Taiwan University, National Chiao Tung University	
NT\$10 million ~ \$15 million	-	-	-	-
NT\$15 million ~ \$30 million	-	-	-	-
NT\$30 million ~ \$50 million	-	-	Jyh-Jer Cho	
NT\$50 million ~ \$100 million	-	-	Ming-Kai Tsai	
Above NT\$100 million	-	-	Ching-Jiang Hsieh	
Total		5		5

3.2.4.2. Remunerations Paid to Supervisors

Unit: Share/NT\$1,000

Title/Name	Remunerations Paid to Supervisors								(A+B+C) as % of 2009 Net Income		Other compensations from non-subsidiary affiliates
	Salary (A)		Pension		Profit Sharing (B)		Business Expense (C)		MediaTek	Consolidated Entities	
	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities			
Supervisor MediaTek Capital Co. Rep: Paul Wang											None.
Supervisor National Tsing Hua University Rep: Chung-Lang Liu	-	-	-	-	24,715	24,715	150	150	0.07	0.07	
Director National Cheng Kung University Rep: Yan-Kuin Su											

Note:

- The policies, standards, combinations, procedures and performance of remunerations paid to directors: The compensations are determined in accordance with the procedures set forth in MediaTek's Articles of Incorporation which authorized Board of Directors to resolve the compensation based on the industry level. The Articles of Incorporation also provides that MediaTek shall allocate the compensations to its directors and supervisors at 0.5% maximum of the earnings available after deducting the amount of legal reserve.
- The Board of Directors resolved on March 18, 2010 meeting that NT\$24,715,000 of 2009 earnings to be allocated as remunerations to Supervisors. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting on June 15, 2010. The updated information shall be posted on the Company's website.

	Compensation Paid to Supervisors (A+B+C)	
	MediaTek	Consolidated Entities of MediaTek
Less than NT\$2 million	-	-
NT\$2 million ~ \$5 million	-	-
NT\$5 million ~ \$10 million	MediaTek Capital Co., National Tsing Hua University, National Cheng Kung University	
NT\$10 million ~ \$15 million	-	-
NT\$15 million ~ \$30 million	-	-
NT\$30 million ~ \$50 million	-	-
NT\$50 million ~ \$100 million	-	-
Above NT\$100 million	-	-
Total	3	

3.3. Management Team

3.3.1. Profiles of Key Managers

As of March 31, 2010. Unit: Shares

Title/Name	Date on Board	Current Shareholding		Spouse & Minor Shareholding		Shareholding under the title of a 3 rd party		Selected Education & Past Positions	Current Positions at Other Companies
		Shares	%	Shares	%	Shares	%		
Chairman & CEO Ming-Kai Tsai	May 21, 1997	40,704,512	3.73%	48,981,909	4.49%	-	-	- Master, Electronic Engineering, University of Cincinnati, USA - President of the 2 nd Business Group, UMC	- Director/Chairman of MediaTek's Affiliates - Director of Alpha Imaging Technology, ALi Corp., Mobitek - Chairman of Andes Technology, and JMicro
Vice Chairman Jyh-Jer Cho	Sep. 15, 2005	30,197,282	2.77%	10,762,890	0.99%	-	-	- Master, Electronic Engineering, National Chiao Tung University - Manager, Multimedia R&D Team, UMC	(None)
President Ching-Jiang Hsieh	Sep. 15, 2005	4,336,908	0.40%	2,078,771	0.19%	-	-	- Master, Electrical Engineering, National Taiwan University - Engineer, Multimedia R&D Team, UMC	- Director/Chairman of MediaTek's Affiliates
Executive Vice President Ji-Chang Hsu	Jan. 1, 2006	22,105	0.00%	-	-	-	-	- Master, Electronic Engineering, University of California, St. Barbara - Software Manager, Conexant System, Inc.	- Director of MediaTek's affiliates
Vice President Ping-Hsing Lu	Jan. 1, 2006	455,687	0.04%	249,679	0.02%	-	-	- Ph.D., Electronics, National Chiao Tung University - President, ALi Corp. - Chairman, Alpha Imaging Technology	- Director of MediaTek's affiliates - Chairman of Alpha Imaging Technology
Vice President Chwei-Huang Chang	July 1, 2006	706,973	0.06%	684,949	0.06%	-	-	- Master, Electronic Engineering, Polytechnic University, USA - Engineer, Multimedia R&D Team, UMC	(None)
Vice President Kou-Hung Loh	July 1, 2006	208,838	0.02%	-	-	-	-	- Ph.D., Electrical Engineering, Texas A&M University - CEO and founder of Silicon Bridge	- Director of MediaTek's affiliates
Vice President Christian Kermarrec	Jan. 11, 2008	32	0.00%	-	-	-	-	- Master, Engineering, Le Conservatoire National des Arts et Metiers in Paris - Vice President of wireless BU in Analog Devices Inc.	(None)
Vice President Cheng-Te Chuang	April 7, 2009	1,105,894	0.10%	717,642	0.07%	-	-	- Master, Electronic Engineering, National Chiao Tung University - Engineer, UMC	(None)
CFO & Spokesman Mingto Yu	Aug. 31, 2001	108,639	0.01%	183,590	0.02%	-	-	- MBA, University of Pennsylvania USA, Wharton Business School - Finance Manager, TSMC	- Director/Supervisor of MediaTek's affiliates - Director of Sinocon Industrial Standards Foundaton

Note:

1. None of the managers who are spouses or within second-degree relative of consanguinity to each other.

3.3.2. Remunerations and Employee Bonus Paid to Key Managers (Note)

Unit: Share / NT\$1,000 dollars

Name / Title	Salary (A)		Pension (B)		Bonus (C)		Employee Profit Sharing (D)				(A+B+C+D) as % of Net Income		Employee Stock Options	
	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek (Note)		Consolidated Entities		MediaTek	Consolidated Entities	MediaTek	Consolidated Entities
							Cash	Stock	Cash	Stock				
Chairman & CEO Ming-Kai Tsai	17,580	32,319	648	1,303	109,375	167,345	354,560	195,151	354,560	195,151	1.85	2.05	-	-
Vice Chairman Jyh-Jer Cho														
President Ching-Jiang Hsieh														
Executive Vice President Ji-Chang Hsu														
Vice President Ping-Hsing Lu														
Vice President Chwei-Huang Chang														
Vice President Kou-Hung Loh														
Vice President Christian Kermarrec														
Vice President Cheng-Te Chuang														
CFO & Spokesman Mingto Yu														

Note:

1. The policies, standards, combinations, procedures and performance of remunerations paid to managers: The compensations are determined in accordance with the procedures set forth in MediaTek's Article of Incorporation and complied with Article 29 of the Company Law in Taiwan.
2. The company did not have pension payment in 2009. The provision for pension expense in 2009 at MediaTek and the consolidated entities were NT\$648,000 and NT\$1,303,000, respectively.
3. The Board of Directors resolved on March 18, 2010 meeting that NT\$12,226,536,000 of 2008 earnings to be allocated as remunerations to employees. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting on June 15, 2010. The updated information shall be posted on the Company's website. As of the printing date of this annual report, the distribution plan of employee profit sharing hasn't been finalized; the abovementioned numbers are based on estimation.
4. The company's remunerations and bonus paid to key managers in 2008 was NT\$356,478,000, which was 1.86% of 2008 net income.
5. None of these abovementioned key managers receive other compensation from non-subsiary affiliates.

	Compensation Paid to Key Managers	
	MediaTek	Consolidated Entities of MediaTek
Less than NT\$2 million	-	-
NT\$2 million ~ \$5 million	-	-
NT\$5 million ~ \$10 million	-	-
NT\$10 million ~ \$15 million	-	-
NT\$15 million ~ \$30 million	-	-
NT\$30 million ~ \$50 million	Jyh-Jer Cho, Christian Kermarrec	
NT\$50 million ~ \$100 million	Ming-Kai Tsai, Ching-Jiang Hsieh, Ji-Chang Hsu, Ping-Hsing Lu, Chwei-Huang Chang, Kou-Hung Loh, Mingto Yu, Cheng-Te Chuang	
Above NT\$100 million	-	-
Total	10	

Unit: Share / NT\$1,000 dollars

Title/Name	Stock Bonus	Cash Bonus	Total Bonus	% of 2009 Net Income
Chairman & CEO Ming-Kai Tsai				
Vice Chairman Jyh-Jer Cho				
President Ching-Jiang Hsieh				
Executive Vice President Ji-Chang Hsu				
Vice President Ping-Hsing Lu	354,560	195,151	549,711	1.5
Vice President Chwei-Huang Chang				
Vice President Kou-Hung Loh				
Vice President Christian Kermarrec				
Vice President Cheng-Te Chuang				
CFO & Spokesman Mingto Yu				

3.4. Corporate Governance Report

3.4.1. Board of Directors' Meeting Status

The Board of the Company has held 6 sessions in 2009. The attendance of the Directors is shown in the following table:

Title/Name	Attend in Person	By Proxy	Attendance Rate in Person (%)
Chairman Ming-Kai Tsai	6	0	100%
Vice Chairman Jyh-Jer Cho	5	1	83%
Director Ching-Jiang Hsieh	4	2	67%
Director National Taiwan University Representative: Ming-Je Tang	5	1	83%
Director National Chiao-Tung University Representative: Ching-Teng Lin	6	0	100%

Other important notes: None.

3.4.2. Supervisors' Meeting Status

The Board of the Company has held 6 sessions in 2009. The attendance of the Directors is shown in the following table:

Title/Name	Attend in Person	Attendance Rate in Person (%)
Supervisor MediaTek Capital Co. Representative: Paul Wang	4	67%
Supervisor National Tsing-Hua University Representative: Chung-Lang Liu	5	83%
Supervisor National Cheng-Kung University Representative: Yan-Kuin Su	5	83%

Other important notes:

1. Supervisors and responsibilities:

(1) Communication between Supervisors and employees, shareholders:

The Company reports to the Supervisors on a regular basis. Since the Supervisors' information are public, employees, shareholders, and interested parties are able to contact them freely.

(2) Communication between Supervisors and auditors and accountants:

The Company's internal audit managers and the Finance Division report to the Supervisors on issues relating to finance and business operations. The Supervisors audit the Company's financial reports regularly and keep communication channels with the auditors open.

2. If any Supervisor made a statement of opinion during the Board of Directors meeting, the following items shall be recorded: date of Board of Directors' meeting, proposal, board resolution, and how the company's response to the statement.

None.

3.4.3. Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission

Item	Implementation Status	Reason for Non-implementation
1. Shareholding Structure & Shareholders' Rights (1). Method of handling shareholder suggestions or complaints (2). The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders (3). Risk management mechanism and "firewall" between the Company and its affiliates	MediaTek has designated relevant departments, such as Investor Relations, Public Relations, Legal, etc. to handle shareholder suggestions or disputes. MediaTek tracks the shareholdings of directors, supervisors, officers, and shareholders holding more than 10% of the outstanding MediaTek shares. When designing the structure of its subsidiaries, the Company has implemented a firewall mechanism. The Company and its subsidiaries have established appropriate internal control systems.	None.
2. Organization & Responsibilities of the Board: (1). Independent Directors (2). Regular evaluation of external auditors' independence	The Company currently has two external Directors (NTU & NCTU) The employment or replacement of independent auditors is required by the approval of the Board, who will regularly conduct evaluations of auditor independence. To enhance the independence of auditors, the Company replaces those who have audited the Company's financial statements for five years.	The Company currently has external Directors, and will add seats for independent directors in the future if necessary.
3. Communication Channels with Stakeholders	MediaTek designates relevant departments to communicate with stakeholders on a case-by-case basis.	None.
4. Information Disclosure: (1). Establishment of a corporate website to disclose information regarding the Company's financial, business, and corporate governance status (2). Other information disclosure (e.g. maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investor conferences)	MediaTek discloses information through its website: www.mediatek.com MediaTek has designated appropriate persons to handle information collection and disclosure. Contact person: Sophia Liang, TEL: +886-(0)3-567-0766 ext.26568 MediaTek has established the spokesperson system. Spokesperson: Minto Yu; Deputy Spokesperson: Sophia Liang. MediaTek webcasts live investor conferences through its website MediaTek discloses all information to shareholders and stakeholders through the Company's website and the MOPS website.	None.
5. Operations of the Company's Nomination Committee, Compensation Committee, or other committees of the Board of Directors	MediaTek does not establish such committees. The company may set up related committee in the future in accordance to actual needs.	
6. If the Company Has Established Corporate Governance Policies based on TSE Corporate Governance Best Practice Principles, Please Describe Any Discrepancies between the Policies and Their Implementation.	MediaTek does not establish such corporate governance policies. For the status of MediaTek's corporate governance, please refer to the section titled "Corporate Governance" in this Annual Report.	
7. Other important information to Facilitate Better Understanding of the Company's Corporate Governance Practices:	(1). MediaTek discloses its financial and corporate governance information on the Chinese and English versions of its website (www.mediatek.com). The Company aims to provide free access to transparent information for employees, investors, suppliers and stakeholders. (2). MediaTek's Directors and Supervisors are experts in their professional specialties. The Company provides new regulation updates that require Director and Supervisor attention. Besides, the executive team of the Company also reports to the Board and the Supervisors periodically. Director and Supervisor training records can be found on the MOPS website. (3). The Company has already instituted internal control systems as required by the law and has properly implemented the system. The Company also conducts risk assessments on the banks, customers, and suppliers in order to reduce credit risks. (4). All Directors of the Company have avoided conflict of interest for related issues. (5). MediaTek maintains D&O insurance for its Directors, Supervisors, and key officers.	
8. If the Company Has a Self Corporate Governance Evaluation or Has Authorized Any Other Professional Organization to Conduct Such an Evaluation, the Evaluation Results, Major Deficiencies or Suggestions, and Improvements are Stated as Follows:	MediaTek was awarded "Best Corporate Governance in Taiwan Award" in 2009.	

3.4.4. Operation of the Company's Compensation Committee

None.

3.4.5. Status of Fulfilling Corporate Social Responsibility

Please refer to Section 6 of this Annual Report.

3.4.6. Corporate Governance Guidelines and Regulations

Please refer to the Company's website at www.mediatek.com

3.4.7. Other Important Corporate Governance Information

None.

3.4.8. Status of the Internal Control System Implementation

3.4.8.1. Declaration of Internal Control

MediaTek Inc.

Statement of Declaration of Internal Control

Date: March 18th, 2010

MediaTek Inc. has conducted internal audits in accordance with its Internal Control Regulations covering the period from January 1st to December 31st, 2009, and hereby declares the following:

1. The Company acknowledges and understands that the establishment, enforcement, and preservation of internal control systems are the responsibility of the Board and that the managers and the Company have already established such systems. The purpose is to reasonably ensure the efficiency of operations (including profitability, performance, and security of assets), the reliability of financial reporting, and legal compliance.
2. Internal control systems have limitations, no matter how perfectly they are designed. As such, effective internal control systems may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls systems. The internal control systems of the Company feature certain self-monitoring mechanisms. The company will take immediate corrective actions once any shortcomings are identified.
3. The Company judges the effectiveness of the internal control systems in design and enforcement according to the "Criteria for the Establishment of Internal Control Systems of Public Offering Companies" (hereinafter referred to as "the Criteria"). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control systems. There are five components for effective internal control as specified by the Criteria with which the procedures for effective internal controls are composed: (1) Control environment, (2) Risk evaluation, (3) Control operation, (4) Information and communication, and (5) Monitoring. Each of the elements in turn contains certain audit items, and the Criteria shall be referred to for details.
4. The Company has adopted the aforementioned internal control systems for an internal audit of the effectiveness of internal control design and enforcement.
5. Based on the aforementioned audit findings, the Company holds that within the aforementioned period, its internal control procedures (including the procedures to monitor subsidiaries), effectiveness and efficiency of operations, reliability of financial reporting, and compliance with relevant legal regulations, and design and enforcement of internal controls, are effective. The aforementioned goals can be achieved with reasonable assurance.
6. This statement of declaration shall form an integral part of the annual report and prospectus of the Company and shall be made public. If there is any fraud, concealment, or unlawful practices discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, 32, 171, and 174 of the Securities and Exchanges Act.
7. This statement of declaration has been approved by the Board on March 18th, 2010 with four Directors in session under unanimous consent.

MediaTek Inc.

Ming-Kai Tsai
Chairman

Ching-Jiang Hsieh
President

3.4.8.2. Disclose the Review Report of Independent Auditors if They are Retained for Reviewing the Internal Control System

None.

3.4.9. Punishment on the Company and its Staff

Punishment on the Company and its Staff in Violation of Law, or Punishment on its Employees in Violation of Internal Control System and Other Internal Regulations, Major Shortcomings and Status of Correction: None.

3.4.10. Major Resolutions of Shareholders' Meeting and Board Meetings

3.4.10.1. Major Resolutions of Shareholders' Meeting and Implementation Status

MediaTek's 2008 regular shareholder meeting was held in Hsinchu Taiwan on June 10th, 2009. At the meeting, shareholders present in person or by proxy approved the following resolutions:

- (1). The Company's 2008 Business Report and Financial Statements;
- (2). The distribution of 2008 profits;
- (3). The capitalization of 2008 dividends and employee profit sharing.
- (4). Amended the company's "Operating Procedures of Outward Loans to Others" and "Operating Procedures of Endorsement/Guarantee";
- (5). Amended the company's "Procedures Governing the Acquisition or Disposition of Assets"
- (6). Elected the 5th Board of Directors and Supervisors
- (7). Suspended the non-competition restriction on the Company's newly elected board of directors

All of the resolutions of the Shareholders' Meeting had been fully implemented in accordance with the resolutions.

3.4.10.2. Major Resolutions of Board Meetings

During the 2009 calendar year, and through the period of January 1st to the printing date of this annual report, 8 Board Meetings were convened. Major resolutions approved at these meetings are summarized below:

Convened 2009 annual general shareholders' meeting; approved 2008 operation report, financial statements, proposal of profit distribution, capitalization of 2008 dividend; approved 2009 operating budget plan; approved the issuance of employee stock option; approved 1H09 financial statements; approved the proposal to amend the company's "Operating Procedures of Outward Loans to Others" and "Operating Procedures of Endorsement/Guarantee"; approved the proposal to amend the company's "Procedures Governing the Acquisition or Disposition of Assets", approved to dispose part of the ALi Corp. shares, approved the proposal to purchase an office building in Neihu, approved 2010 operating budget plan, approved the

proposal to amend the company's Article of Incorporation; to convey 2010 annual general shareholders meeting; approved 2009 operation report, financial statements, proposal of profit distribution, and capitalization of 2009 dividend.

3.4.11. Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors

None.

3.4.12. Resignation of Personnel Related to Financial Statement Preparation from January 1st 2009 to the Printing Date of this Report

None.

3.5. Information Regarding MediaTek's Independent Auditors

3.5.1. Information on Audit Fees

	Audit Fee	Non-Audit Fee	Total
Less than NT\$2 million		✓	
NT\$2 million ~ \$4 million			
NT\$4 million ~ \$6 million	✓		
NT\$6 million ~ \$8 million			✓
NT\$8 million ~ \$10 million			
Above NT\$10 million			

Other important disclosures:

(1). Non-audit fee paid to auditors and the audit firm accounted for more than one-fourth of total audit fee: No.

(2). Replaced the audit firm and the audit fee paid to the new audit firm was less than the payment of previous year: No.

(3). Audit fee reduced more than 15% year over year: No.

3.5.2. Information on Replacement of Independent Auditors in the Last Two Years and Thereafter

The Company had previously contracted Hsin-Min Hsu and Jiang-Kuo Yang from Ernst & Young as the auditors. In the fourth quarter of 2008, Shao-Pin Kuo and Hsin-Min Hsu were assigned as the auditors due to organization changes at the audit firm.

3.5.3. The Chairman, President, CFO or CAO Who Has Worked with the Auditing Firm or Affiliates from January 1st, 2009 to the Printing Date of this Report

None.

3.6. Net Changes in Shareholding

Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders with 10% Shareholding or More

Unit: Share

Title/Name	2009		Jan. 1 to Mar. 31, 2010	
	Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & CEO Ming-Kai Tsai	157,325	-	-	-
Vice Chairman Jyh-Jer Cho	80,275	-	-	-
Director & President Ching-Jiang Hsieh	(27,193)	-	-	-
Director National Taiwan University	5	-	-	-
Director National Chiao Tung University	5	-	-	-
Supervisor MediaTek Capital Co.	15,526	-	-	-
Supervisor National Tsing Hua University	4	-	-	-
Supervisor National Cheng Kung University	-	-	-	-
Executive Vice President Ji-Chang Hsu	(298,113)	-	-	-
Vice President Ping-Hsing Lu	(40,539)	-	(45,000)	-
Vice President Chwei-Huang Chang	34,436	-	(61,000)	-
Vice President Kou-Hung Loh	470	-	(27,000)	-
Vice President Christian Kermarrec	32	-	-	-
Vice President Cheng-Te Chuang	92,429	-	(100,000)	-
CFO & Spokesman Mingto Yu	(141,920)	-	(48,000)	-

Note:

1. Cheng-Te Chuang is a newly appointed Vice President on April 7th, 2009. The information for 2009 were from April 7 to April 12, 2009.

Stock Trade with Related Party: None.

Stock Pledge with Related Party: None.

3.7. Top 10 Shareholders Who are Related Parties to Each Other

As of July 25th, 2009. Unit: Share/%

Top 10 Shareholders	Shareholding		Shareholding under Spouse and Minor		Shareholding under 3 rd Party		Top 10 Shareholders Who are Related Parties to Each Other	
	Shares	Proportion	Shares	Proportion	Shares	Proportion	Name	Relationship
Chui-Hsing Lee	49,844,909	4.57%	40,718,281	3.74%	-	-	Ming-Kai Tsai	Spouse
Capital World Growth and Income Fund Inc.	47,051,014	4.32%	-	-	-	-	-	-
Ming-Kai Tsai	40,718,281	3.74%	49,844,909	4.57%	-	-	Chui-Hsing Lee	Spouse
Jyh-Jer Cho	30,117,241	2.77%	10,762,890	0.99%	-	-	-	-
Capital Income Builder, Inc.	19,762,446	1.81%	-	-	-	-	-	-
Trustee Account of MediaTek Employee Bonus	17,902,049	1.64%	-	-	-	-	-	-
EuroPacific Growth Fund	17,527,986	1.61%	-	-	-	-	-	-
Saudi Arabian Monetary Agency	17,350,244	1.59%	-	-	-	-	-	-
GIC - Government of Singapore	16,927,381	1.55%	-	-	-	-	-	-
Ding-Jen Liu	12,117,969	1.11%	4,328,522	0.40%	-	-	-	-

3.8. Long-Term Investment Ownership

As of December 31, 2009. Unit: Share/%

Long-Term Investments	Investments by MediaTek (1)		Investments Directly or Indirectly Controlled by Directors, Supervisors, and Managers of MediaTek (2)		Total Investment (1) + (2)	
	Shares	Portion	Shares	Portion	Shares	Portion
MediaTek Investment Co.	1,426,754,351	100%	-	0%	1,426,754,351	100%
Hsu-Chuang Investment Corp.	156,356,953	100%	-	0%	156,356,953	100%
Hsu-Xin Investment Corp.	156,356,962	100%	-	0%	156,356,962	100%
Hsu-Ta Investment Ltd.	Not Applicable	100%	Not Applicable	0%	Not Applicable	100%
Hsu-Kang Investment Ltd.	Not Applicable	100%	Not Applicable	0%	Not Applicable	100%
Hsu-Chia Investment Ltd.	Not Applicable	100%	Not Applicable	0%	Not Applicable	100%
ALi Corp.	64,098,383	21.09%	-	0%	64,098,383	21.09%
Yuantonix, Inc.	300,000	3.75%	-	0%	300,000	3.75%

4. Capital and Shares

4.1. Capital and Shares

4.1.1. Capitalization

As of March 31, 2010. Unit: 1,000 shares/NT\$1,000

Month /Year	Issue Price (per share)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Date of Approval & Approval Document No.
May 1997	10	20,000	200,000	20,000	200,000	Initial capital	Technology & Patent: \$30,000	May 28, 1997 Yuan-Shang-Tze No.10164
Sep. 1997	10	80,000	800,000	55,000	550,000	Stock offering: \$350,000	-	Sep. 26, 1997 Yuan-Shang-Tze No.19782
Aug. 1998	10	80,000	800,000	62,916	629,162	Retained Earnings: \$79,162	-	Aug. 5, 1998 Yuan-Shang-Tze No.19355
Aug. 1999	10	220,000	2,200,000	116,774	1,167,743	Retained Earnings: \$538,581	-	Aug. 21, 1999 Yuan-Shang-Tze No.018036
Sep. 2000	10	220,000	2,200,000	216,866	2,168,666	Retained Earnings: \$1,000,923	-	Sep. 15, 2000 Yuan-Shang-Tze No.020099
Sep. 2001	10	570,000	5,700,000	316,006	3,160,056	Retained Earnings: \$991,390	-	July 11, 2001 Tai-Tsai-Cheng-I No.144160
Sep. 2002	10	570,000	5,700,000	460,465	4,604,654	Retained Earnings: \$1,444,598	-	Aug. 1, 2002 Tai-Tsai-Cheng-I No.0910142914
Aug. 2003	10	896,000	8,960,000	641,547	6,415,473	Retained Earnings: \$1,810,819	-	June 20, 2003 Tai-Tsai-Cheng-I No.0920127376
Aug. 2004	10	896,000	8,960,000	772,773	7,727,729	Retained Earnings: \$1,312,256	-	July 8, 2004 Chi-I-Tze No.0930130229
Sep. 2004	10	896,000	8,960,000	769,336	7,693,359	Cancel Treasury Stock: (\$34,370)	-	Oct. 15, 2004 Yuan-Shang-Tze No.0930029178
Aug. 2005	10	896,000	8,960,000	864,051	8,640,506	Retained Earnings: \$947,147	-	July 15, 2005 Chen-I-Tze No.0940128790
Aug. 2006	10	1,200,000	12,000,000	968,313	9,683,127	Retained Earnings: \$1,042,621	-	July 13, 2006 Chen-I-Tze No.0950130197
July 2007	10	1,200,000	12,000,000	1,037,412	10,374,120	Retained Earnings: \$690,993	-	June 25, 2007 Chen-I-Tze No.0960031987
Sep. 2007	10	1,200,000	12,000,000	1,040,854	10,408,538	Share Swap: \$34,418	69% of NuCORE Technology shares	Aug. 30, 2007 Chen-I-Tze No.0960045488
July 2008	10	1,200,000	12,000,000	1,073,152	10,731,523	Retained Earnings: \$322,985	-	June 25, 2008 Chen-I-Tze No.0970031744
July 2009	10	1,200,000	12,000,000	1,090,119	10,901,189	Retained Earnings: \$169,666	-	June 24, 2009 Chen-Fa-Tze No.0980031350

As of March 31, 2010. Unit: 1,000 shares/NT\$1,000

Type of Stock	Authorized Capital			Remark
	Outstanding	Un-Issued	Total	
Common Stock	1,090,118,854	109,881,146	1,200,000,000	Listed on TSE

Shelf Registration: None.

4.1.2. Composition of Shareholders

As of July 25, 2009

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Persons	Individuals	Total
Number of Shareholders	1	70	602	1,448	59,241	61,362
Shareholding (shares)	3,347,480	39,596,882	114,763,075	545,378,480	387,032,937	1,090,118,854
Holding Percentage (%)	0.31%	3.63%	10.53%	50.03%	35.50%	100.00%

4.1.3. Distribution of Shareholding

As of July 25, 2009

Common Share Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership (Share)	Ownership (%)
1 ~ 999	25,330	2,453,277	0.23%
1,000 ~ 5,000	28,031	47,165,864	4.33%
5,001 ~ 10,000	3,435	22,148,024	2.03%
10,001 ~ 15,000	1,326	15,029,142	1.38%
15,001 ~ 20,000	573	9,634,257	0.88%
20,001 ~ 30,000	653	15,258,073	1.40%
30,001 ~ 40,000	336	11,312,321	1.04%
40,001 ~ 50,000	192	8,434,619	0.77%
50,001 ~ 100,000	533	37,343,682	3.43%
100,001 ~ 200,000	388	53,167,590	4.88%
200,001 ~ 400,000	221	61,740,684	5.65%
400,001 ~ 600,000	114	56,199,403	5.16%
600,001 ~ 800,000	53	36,255,677	3.33%
800,001 ~ 1,000,000	31	27,364,279	2.51%
Over 1,000,001	146	686,611,962	62.98%
Total	61,362	1,090,118,854	100.00%

Preferred Share: None.

4.1.4. Major Shareholders

As of July 25, 2009

Top 10 Shareholders	Total Shares Owned	Ownership (%)
Chui-Hsing Lee	49,844,909	4.57%
Capital World Growth and Income Fund Inc.	47,051,014	4.32%
Ming-Kai Tsai	40,718,281	3.74%
Jyh-Jer Cho	30,177,241	2.77%
Capital Income Builder, Inc.	19,762,446	1.81%
Trustee Account of MediaTek Employee Bonus	17,902,049	1.64%
EuroPacific Growth Fund	17,527,986	1.61%
Saudi Arabian Monetary Agency	17,350,244	1.59%
GIC - Government of Singapore	16,927,381	1.55%
Ding-Jen Liu	12,117,969	1.11%

4.1.5. Market Price, Net Worth, Earnings, Dividends per Common Share

Unit: NT\$ / Share

Item		2008 (Distributed in 2009)	2009 (Distributed in 2010)	Jan. 1 ~ Mar. 31, 2010	
Market Price Per Share (Note 1)	Highest	429.6	558.0	590.0	
	Lowest	162.7	228.0	495.0	
	Average	313.2	412.9	533.3	
Net Worth Per Share	Before Distribution	76.6	100.59	**	
	After Distribution	66.55	*	*	
Earnings Per Share	Weighted Average Shares	1,065,389,295	1,075,843,776	1,090,118,854	
	EPS	Not-Adjusted	18.01	34.12	**
		Adjusted	17.98	*	**
Dividends Per Share	Cash Dividends	14.00	*	**	
	Stock Dividend	From Retained Earnings	0.02	*	**
		From Capital Surplus	-	*	**
	Accumulated Undistributed Dividend	-	-	**	
Return on Investment	Price/Earnings Ratio (Note 2)	17.42	12.10	**	
	Price/Dividend Ratio (Note 3)	22.37	*	**	
	Cash Dividend Yield (Note 4)	4.5%	*	**	

* : Pending shareholders' approval in 2010 Annual General Shareholders' Meeting.

** : Not applicable.

Note 1: Retroactively adjusted for stock dividends and stock bonuses to employees

Note 2: Price/Earnings Ratio = Average Market Price / Earnings Per Share

Note 3: Price/Dividend Ratio = Average Market Price / Cash Dividends Per Share

Note 4: Cash Dividend Yield = Cash Dividends Per Share / Average Market Price

4.1.6. Dividend Policy and Status of Execution

4.1.6.1. Dividend Policy under the Article of Incorporation

Since the Company is in an industry that's in a growth phase, the dividend policy shall take into consideration factors such as the Company's current and future investment environment, needs for capital, domestic and overseas competition, capital budgeting plans, etc., to come out with a proposal that strike a balance among shareholders' benefits and the Company's long-term financial plans. Each year, the Board of Directors shall prepare a profit distribution proposal and report it at the shareholders' meeting. After considering financial, business and operational factors, the Company may distribute the whole of distributable profits for the year; dividends to shareholders may be distributed in cash or in stock, and the cash dividends shall not be lower than 10% of total dividends to shareholders.

4.1.6.2. Proposal to Distribute 2009 Profits

The Board adopted a proposal for 2009 profit distribution as below:

A. Stock dividend to common shareholders: NT\$21,802,000.

(2 shares for each 1,000 shares owned)

B. Cash Dividends to Common Shareholders: NT\$28,343,090,000.

(NT\$26.0 per share)

The proposed profit distribution will be effected according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders' Meeting.

4.1.7. Effect of 2009 Share Dividends to Operating Performance and EPS

Not applicable.

4.1.8. Employee Bonus and Directors and Supervisors Compensation

4.1.8.1. Employee Bonus and Directors and Supervisors Compensation as Stated in the Article of Incorporation

When allocating the net profits for each fiscal year, the following order shall be followed: (1). Reserve for tax payments; (2). Offset losses in previous years, if any; (3). Legal reserve, which is 10% of leftover profits; (4). Allocation or reverse of special reserves as required by law or government authorities. The remuneration to Directors and Supervisors, at a maximum of 0.5% of remaining net profits after deducting item (1) to (4) shall be paid in cash. The remaining net profits, after considering retained earnings from previous years and amounts set aside for distribution in future years, shall be allocated as employees' profit sharing and shareholders' dividend. The guideline for employee profit sharing is, the amount of employee profit sharing shall not be lower than 1% of the sum of employee profit sharing and shareholder dividends. Employee profit sharing may be paid in cash or in stock to qualified employees of the Company and its affiliate companies. The Board of Directors shall be authorized to set criteria for qualified employees.

4.1.8.2. Proposed 2009 Employee Profit Sharing Plan and Remuneration to Directors and Supervisors

The Board adopted a proposal on March 18, 2010 for 2009 employee cash bonus of NT\$8,558,575,000, stock bonus of NT\$3,667,961,000 and remuneration to Directors and Supervisors of NT\$65,907,000. In accordance with new accounting regulations requiring expensing of employee profit sharing, MediaTek's 2009 net profit was the net of employee profit-sharing and remuneration to Directors and Supervisors.

The number of shares to be distributed will be calculated based on the closing price of MediaTek common shares on June 14, the day before the Company's

2010 Annual Shareholders' Meeting. However, the maximum new shares issued for employee profit-sharing shall not exceed 10,901,000 shares; shall the market value of 10,901,000 shares be worth less than NT\$3,667,961,000, the difference will be distributed to employees in cash. After considering employee bonus and directors and supervisors compensation, earnings per share for the year were NT\$34.12.

Remuneration to Directors and Supervisors was NT\$65,906,870 (0.20% of 2009 earnings available for distribution). There is a difference of NT\$25,367,548 with the estimated Directors' compensation (NT\$91,274,418). The estimate was calculated based on 0.277% of the distributable earnings while the actual compensation was calculated based on 0.20% of the distributable earnings. The difference shall be accounted as "cumulative effect of changes in accounting principles" and be booked in the next fiscal year's financial report, after approved in the annual shareholders' meeting.

4.1.8.3. Earnings Retained in Previous Period Allocated as Employee Bonus and Directors and Supervisors Compensation

Unit: share / NT\$1,000

	AGM resolution	Estimate	Difference	Shares	Share price (NT\$)	Reason of difference
Employee Stock Bonus	5,442,886	5,442,886	-	14,820,251	367.26	-
Employee Cash Bonus	960,509	960,509	-	-	-	-
Remuneration to Directors & Supervisors	42,494	50,993	8,499	-	-	(Note)

Note: The difference was mainly because the actual payment was less than the estimated amount, and the difference shall be accounted as "cumulative effect of changes in accounting principles" and be booked in the next fiscal year's financial report, after approved in the annual shareholders' meeting.

4.1.9. Repurchase of Company Shares

None in the period from January 1st, 2009 to March 31st, 2010.

4.2. Status of Corporate Bonds

None.

4.3. Status of Preferred Stocks

None.

4.4. Status of GDR/ADR

None.

4.5. Status of Employee Stock Option Plan

4.5.1. Issuance of Employee Stock Options

As of March 31, 2010

Employee Stock Options Granted	First Grant	Second Grant	Third Grant
Approval Date by the Securities & Futures Bureau	Dec. 19, 2007	Dec. 19, 2007	Jul. 27, 2009
Issue (Grant) Date	Mar. 31, 2008	Aug. 28, 2008	Aug. 18, 2009
Number of Options Granted	1,134,119	1,640,285	1,382,630
Percentage of Shares Exercisable to Outstanding Common Shares	0.11%	0.15%	0.13%
Option Duration	10 years	10 years	10 years
Source of Option Shares	New Common Share	New Common Share	New Common Share
Vesting Schedule	2 nd Year: Up to 30% 3 rd Year: Up to 60% 4 th Year: Up to 100%	2 nd Year: Up to 30% 3 rd Year: Up to 60% 4 th Year: Up to 100%	2 nd Year: Up to 30% 3 rd Year: Up to 60% 4 th Year: Up to 100%
Shares Exercised	0	0	0
Value of Shares Exercised (NT\$)	0	0	0
Shares Unexercised	1,019,512	1,435,745	1,335,028
Adjusted Exercise Price Per Share (NT\$)	382.00	365.20	473.00
Percentage of Shares Unexercised to Outstanding Common Shares	0.09%	0.13%	0.12%
Impact to Shareholders' Equity	Dilution to shareholder's equity is limited		

4.5.2. Employee Stock Option Granted to Management Team and to Top 10 Employees with an Individual Grant Value over NT\$30 million

None.

4.6. Status of New Shares Issuance in Connection with Mergers and Acquisitions

None.

4.7. Financing Plans and Implementation

Not applicable.

5. Business Activities

5.1. Business Scope

5.1.1. Business Scope

5.1.1.1. The Main Business Activities of MediaTek

- A. Research, develop, produce, and sell the following products:
 - a. Multimedia Integrated Circuits (IC);
 - b. Computer peripheral ICs;
 - c. High-end digital consumer ICs;
 - d. Other application specific ICs;
 - e. Patent and circuit-layout licensing and services of the above-mentioned products.
- B. Provide the above-mentioned products with software and hardware application design, test, maintenance, and technological consultation services
- C. Import and export of the above-mentioned products.

5.1.1.2. Revenue Mix (2009)

Product Category	Multimedia Chipsets	Others*
Revenue Mix	99.38%	0.62%

*Note: Others include revenue from technical services and licensing fees.

5.1.1.3. Products Currently Offered by MediaTek

- A. Mobile communication chipsets;
- B. Bluetooth chips;
- C. Wireless LAN (WLAN) chips;
- D. GPS chips;
- E. WiMax Chips;
- F. Optical storage chipsets;
- G. DVD player system-on-a-chip (SoC);
- H. Blu-ray DVD player chipsets;
- I. Highly integrated digital TV controller chips;
- J. ATSC and DVB-T TV decoder and demodulator chipsets.

5.1.1.4. New Products Planned for Development

- A. Next generation highly-integrated mobile communication chipsets;
- B. Next generation high-sensitivity and low power consumption GPS receiver chips;
- C. Integrated Bluetooth, FM radio, WLAN, GPS combo chips;
- D. Next generation highly-integrated mobile TV chips;
- E. Highly integrated Blu-ray single-chip;

5.1.2. Industry Outlook

5.1.2.1. The Relationship between the Upstream, Midstream, and Downstream of the Industry:

The semiconductor industry can be categorized as: Upstream – IC design companies, midstream – wafer foundries, and downstream – IC packaging and testing service providers. The horizontal specialization is the main difference that sets Taiwan’s IC industry apart from its overseas peers. Major international semiconductor companies usually operate vertically across the value chain, from IC design and manufacturing, to packaging, testing and even systems integration. However, in an industry environment that evolves very rapidly and requires increasingly high capital investments, Taiwan’s specialized model proves to be performing better than the integrated model.

The major operation of an IC design company is to design and sell semiconductor devices, or to design the chip according to customers’ requirements. IC design is the upstream of the industry value chain; other players in the backend of supply chain include photo mask providers, wafer foundries, packaging and testing companies, etc. In general, IC companies outsource almost 100% of photo mask, wafer fabrication, and IC packing to specialized manufacturing partners. Most companies outsource their chip testing tasks to specialized testing houses, while some IC design companies keep certain portion of testing in-house.

In the semiconductor food chain, the IC design industry is a knowledge-intensive industry with relatively high return on investment. Thanks to Taiwan’s complete semiconductor industry ecosystem and the ample talents, IC design is a thriving industry in Taiwan.

5.1.2.2. Industry Outlook, Trends and Competition

A. Optical Storage Industry:

The optical storage industry is closely related to the PC market. Nowadays the PC market still has volume growth each year, which supports the growth of the optical storage industry. Among the major segments of PC, the growth of notebook computers outpaced the overall PC industry, so the slim-type optical storage used in notebooks has a higher growth rate. Regarding the existing optical storage product types, DVD-ROM, CD-R/RW, COMBI, and DVD-Rewritable are all mature products. Although there are competitors in this sector, MediaTek still maintains a high market share by continuously enhancing its core competitiveness and customer service.

As for the next generation optical storage technology, with the industry standard of Blu-ray, and high-definition flat panel displays becoming more popular, we saw Blu-ray optical storage gain traction, and expect its market to take off this year. MediaTek will continue to leverage its experience and use the spirit of innovation and service to expand its market share by meeting the demands of its customers worldwide.

B. Digital Consumer Products:

Although the DVD player market in developed countries has been saturated, the overall DVD player unit shipments still maintain momentum, thanks to demands from emerging markets. Meanwhile, the demand for next generation Blu-ray DVD players has been gaining momentum in Europe and the US, thanks to these factors: (1). The popularized high-resolution flat panel TVs spike demand for video players that can support high-resolution video playback; (2). The increased video/audio streaming services boost demand for Internet-enabled multimedia players; (3) Newly introduced 3D contents. Compound with lower selling price in the end market, the Blu-ray DVD player has great growth potential going forward.

C. Wireless Communications Products:

The global 3G network deployment was not stalled by the financial crisis in the past year; most significantly, India and emerging countries in southeastern Asia have started their 3G rollout recently. In China, China Mobile has been increasing the promotion of TD-SCDMA, a 3G standard backed by the government; not only the TD-SCDMA base station coverage been largely expanded, China Mobile also provides financial aids to TD-SCDMA chip companies and handset manufacturers to accelerate the growth of the industry. China Unicom has also formally announced the commercial roll-out of the WCDMA network in 2009. Along with the popularity of 3G mobile broadband networks, Mobile Internet business and Cloud Computing are creating new opportunities and challenges for the industry.

For the mainstream 2G, the demand was not withered in light of 3G network deployment; on the contrary, since handset penetration rate in emerging markets such as India, Middle East, Africa and South America is still relatively low, it is expected that the 2G handset market will continue to grow in the next three years.

Connectivity peripheral chips are also important growth drivers, because handsets nowadays are packing with rich features, and the attachment rates of Bluetooth, WLAN, and GPS in feature phones and smart phones continue to increase. Bluetooth has been widely used in handsets, earphones, notebook computers; WLAN is also broadly deployed in notebook computers, mid-to-high-end mobile phones, and game consoles. GPS function is now built in devices such as handheld device, PND and mobile phones.

D. Digital TV Products

With the continued growth of digital television and the switch from analog signal to digital signal, the digital flat panel TV shipment should exceed 130 million units worldwide at the end of 2009. North America is the largest market for digital TV. Europe, China and other developing countries are also seeing rapid growth of TV market. As conversion plans go in effect, ATSC/DVB-T and other digital signal receivers have become standard equipment for flat panel TVs. Consumers' desire for eco-friendly products is helping the expansion of low-power LED backlight TV. As for mobile TV, the attachment rate of analog TV in mobile phone is ramping up.

5.1.3. Technology and R&D

5.1.3.1. R&D Spending

MediaTek's R&D spending in 2009 was NT\$24,184,886,000, and from January 1st 2010 to the printing date of this annual report, the R&D spending was NT\$5,509,757,000.

5.1.3.2. Successfully Developed Technologies or Products in the Last Fiscal Year and Year-to-Date

- A. Highly integrated GSM/GPRS SOC for multimedia phones;
- B. Highly integrated EDGE chipsets for smartphones;
- C. Highly integrated WCDMA chipsets;
- D. Highly integrated WLAN SOC;
- E. High Performance/Cost Bluetooth SOC;
- F. Highly integrated Bluetooth and FM Radio Combo chip;
- G. Highly integrated 22x DVD-Rewritable single-chip;
- H. 12x Blu-ray multifunction rewritable chipset;
- I. Highly integrated Blu-ray DVD player SOC;
- J. Multimedia TV Chips;
- K. Internet TV chipsets and related networking applications.

5.1.4. Long- and Short-Term Business Development Plans

5.1.4.1. Optical Storage Products

In addition to maintaining MediaTek's high market share of existing product lines, other business goals include expanding market share through the launch of higher performance DVD-Rewritable chips, and developing next generation highly-integrated Blu-ray controller chips to gain the upper hand in the early stage of this market. Besides, there is a consolidation trend among optical storage players; MediaTek intends to cement an even tighter relationship with its customers by providing better services.

5.1.4.2. Digital Consumer Products

MediaTek will continue to reduce costs for the DVD player single-chip and develop Blu-ray player chips that come with higher integration and more new functions at competitive price.

5.1.4.3. Wireless Communication Products

MediaTek will continue to launch handset chipsets and peripheral chips with more integrated multimedia functions and higher connectivity for different market segments. By providing very competitive products with a high performance-to-cost ratio, we can strengthen our partnership with telecom operators and distributors worldwide. We will also work closely to support current customers' global expansion, while developing 3G/3.5G and open operating system (Open OS) technologies to expand our customer base.

5.1.4.4. Digital TV

MediaTek will continue to develop digital TV chips that have higher integration, more features, and lower cost. Besides, MediaTek will also accelerate the development of mobile TV chips to maintain industry leadership.

5.2. Market, Production, and Sales Outlook

5.2.1. Market Analyst

5.2.1.1. Major Markets

Region	Year 2008	
	Sales (NT\$1,000)	Percentage
Export sales	102,301,716	88.56%
Domestic sales	13,209,909	11.44%
Total	115,511,625	100.00%

5.2.1.2. Market Share

According to an iSuppli Report published on March 2010, worldwide semiconductor device industry revenue was US\$229.9 billion in 2009; MediaTek's market share was 1.5% and ranked no. 16 worldwide, which was a significant advance compared with the previous year's no. 24.

5.2.1.3. Major Markets

A. Optical Storage Products

MediaTek is currently the only IC company in the world that can provide a complete spectrum of products, ranging from CD-ROM controller chips to DVD-Rewritable products, and next generation Blu-ray DVD products. Besides providing a comprehensive product range, our total services also help accelerate customers' time-to-market and time-to-profit. This is why MediaTek has been able to maintain a large market share despite stiff competition.

On the supply side, the main CD-ROM IC supplier is MediaTek; the main DVD-ROM and COMBI IC suppliers are MediaTek and Panasonic; the main DVD-Rewritable suppliers are MediaTek, Renesas, NEC, and Panasonic. Major Blu-ray optical storage IC suppliers, other than MediaTek, the others are Japanese companies such as SONY, NEC, Panasonic, Renesas, Toshiba, etc. There are other domestic and overseas vendors trying to enter the optical storage industry, but their impact so far has been limited.

Going forward, as the global economy is recovering from the financial crisis, corporate IT spending is on the rise and hence drives up the demand for PC and optical storage. Notebook computers will continue to grow and provides momentum for the slim-type optical drives. Moreover, game consoles such as the Wii, PS3, Xbox, and high-resolution flat panel displays are getting popular, and these are important drivers for optical storage chipsets in the future.

B. Digital Consumer Products

MediaTek has established leading positions in the DVD player IC market. By continuously launching more cost competitive products, we expect to keep the volume shipments at a steady range. For the next generation Blu-ray DVD player market, we'll continue to develop competitive IC products and establish long-term relationships with

important electronic consumer companies. We expect the volume of Blu-ray DVD players continue increasing.

C. Wireless Communications Products

We expect these factors will continue to drive the handset demand: emerging markets, ultra-low-cost phones, and replacement cycles. We've seen two product development trends for the wireless communication products: (1). The fast evolution of communication technologies that pushes 2G (GSM/GPRS/EDGE) users to move to 3G/3.5G standards; (2). Handset platforms are more frequently integrating multimedia and connectivity functions, such as digital cameras, music players, Bluetooth, Wi-Fi, GPS, Mobile TV, WiMax, etc.

In developed countries, smart phones are coming with 3.5G HSPA+ so the telecom operators are providing more mobile Internet applications and services to make good use of the data transmission bandwidth. Moreover, not only are high-end multimedia phones coming with 3G – Telecom operators, to yield faster returns for their bulky 3G infrastructure investments, are also cooperating with handset OEM/ODM companies to launch low-cost 3G phones. Multimedia and location based services (LBS) will become more and more important in the future.

In emerging countries, since 2G/2.5G/2.75G product technologies have become mature, the cost and time for developing new models have been reduced. Handset manufacturers have been adding new hardware and software features in high/mid/low end product segments for differentiation. Handset OEM/ODMs have also been working with telecom operators, distributors and local brands around the world to provide localized and customized phones for different regional markets. MediaTek will continue to launch higher end products and different platform solutions for different market segmentation and help our customers gain market share worldwide.

MediaTek's handset solutions also come with assorted peripheral chips, such as Bluetooth, WLAN and GPS. The Company is also promoting the handset peripheral chips to international handset manufacturers. The attachment rate of Bluetooth in handset has been relatively high; MediaTek will continue to promote its Bluetooth solution to different market segments. WLAN chips are mainly used in notebook computers and smartphones; as the price of smartphone coming down and coverage of mobile network increasing, more end users are using the mobile phones to access Internet services. Since WLAN is a good complement to the 3G network, it is expected that WLAN will become a must-have feature in mid to high end mobile phones. Besides, the Company is also exploring new market opportunities for WLAN in TV, Set-Top-Box, game console, portable game devices, e-Book Readers, and digital photo frames, etc. The demand for GPS chipsets is mainly from PND and handsets. As the quality of maps been improved and new applications introduced, the PND market is becoming matured. MediaTek's GPS solution has been adopted by leading PND vendors and we expected this product segment will continue to grow. Besides, as the 3G network and location-based services become more popular, the GPS attachment rate in handset is going to increase, too.

D. Digital TV

With an increased digital TV penetration rate, the demand for digital TV chips is also increasing. By providing the most highly integrated digital TV single-chip, MediaTek has penetrated international tier-one TV companies' supply chains and will continue to expand its market share.

5.2.1.4. Competitive Advantage

A. Outstanding Team

MediaTek's management team has been working together in the multimedia industry for years and has grown with the participation of outstanding talents. Many of our staff consists of senior IC design and system engineers and 90%+ of the employees has a Master's degree or higher. The exceptional quality of human resources and the team spirit developed through long-term cooperation are the key factors that have enabled MediaTek's continuous innovation and cultivated a great culture for the company's long-term prosperity.

B. Strength in System-on-a-Chip (SoC) Development

SoC has been a hot topic of the technology industry for many years. MediaTek has a large pool of talented IC and system designers; through their joint efforts, we've been able to launch competitive SoC products every year.

5.2.1.5. Favorable and Unfavorable Factors and the Countermeasures

Favorable Factors

A. New Applications for Handsets Getting Popularity

MediaTek has always invested heavily in the development of new mobile phone applications to equip our customers with convenient and robust integrated solutions. The market's appetite for richer multimedia features is a positive factor for MediaTek's peripheral chips such as Bluetooth, FM, WLAN, GPS and TV. We aim to shorten our customers' development cycle for new handset products by providing highly integrated total solution. Besides, after MediaTek launched its 3G and Open OS platform solutions in 2009, the Company expects to increase its market share in 3G by leveraging the strength and customer base build in the 2G segment.

B. Optical Storage Introduced to More New Market Segments

In recent years, the PC market hasn't grown as fast as it had in the past, so some heavyweight optical storage vendors are shifting their focus from the PC market to digital home electronic products. Optical disc drives are no longer just a PC peripheral but are also used in audio-visual entertainment products. New market segments for optical disc drives include game consoles and camcorders. MediaTek will benefit from this trend and move in the direction of 3C integration.

C. Blu-ray DVD Players Becoming Mainstream

In developed countries, Blu-ray players have been replacing traditional DVD players. This upgrading trend will help us increase the blended average selling price (ASP) and gross margin for the DVD player IC.

D. Comprehensive IC Manufacturing Infrastructure in Taiwan

Taiwan has a well-developed IT industry and world-leading manufacturing capability. The large demand in China is MediaTek's biggest opportunity and Taiwan's outstanding semiconductor manufacturing system provides fast and efficient supply to fulfill our customers' needs.

Unfavorable Factors and Countermeasures

The information technology industry is moving at a fast pace and new technologies may appear at any time. As a result, the lifecycle of our products may be cut short and the pricing pressures may increase. In an extremely competitive technology industry, MediaTek is always prepared and has been aggressively developing new products, improving competitiveness, and providing better products from our high-quality employees. In addition to continuing to market our existing products, we also work proactively on next generation products. We aim to increase our competitiveness by bringing high-quality products to the market ahead of our competitors.

5.2.2. Key Product Applications and Manufacturing Processes

5.2.2.1. Key Product Applications

MediaTek's major products include optical storage chipsets, high-end consumer electronics chipsets, wireless communication chipsets, and digital TV chipsets. Key product applications are listed below:

A. Wireless Communication

Wireless communication chipsets are mainly used in cell phones. MediaTek's wireless communication offerings range from the high-end smartphones, mainstream GSM/GPRS/EDGE/WCDMA/TD-SCDMA multimedia phones, to entry-level voice-only mobile phones. Peripheral chips such as Bluetooth, WLAN and GPS are mainly used in mobile phones, but can also be used in other applications such as game consoles, notebook computers, mobile TVs, e-book readers, and PND, etc.

B. Optical Storage

DVD-ROM chipsets have two major applications. The first is in game console storage devices and the other in multimedia PC storage devices. COMBI chipsets are mainly used in slim-type optical drives and high-end PC storage devices. DVD-Rewritable chipsets are used in high-end PC storage devices and recordable DVD players.

C. DVD Player

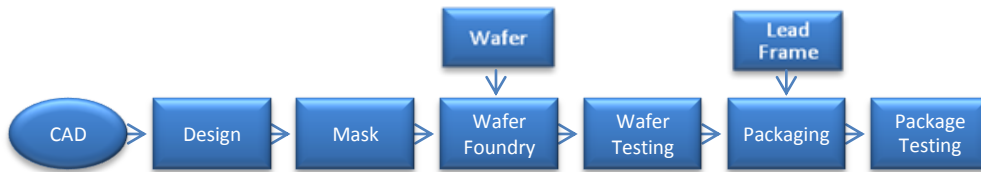
DVD player chipsets are mainly used in digital home appliances for DVD players. BD-Player SOC is mainly used in higher resolution and richer functionality next-generation Blu-ray DVD Players.

D. Digital TV

Digital TV decoder chips and demodulator chips are used to receive and decode digital TV signals. Digital TV controller chipsets are mainly used in the latest digital TVs, including LCD TV and plasma TV.

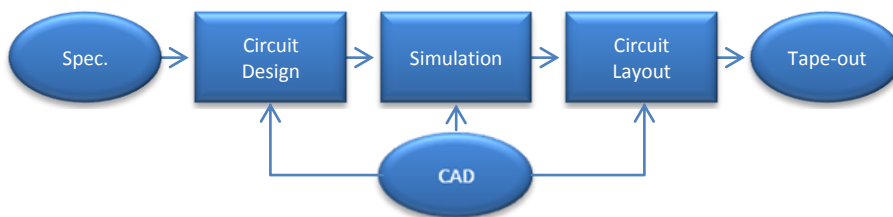
5.2.2.2. Key Product Manufacturing Process

The chart below shows the process of developing an IC product:



A. Design Process

After the product specifications being defined, IC design engineers will start doing the circuit design, using computer-aided design (CAD) tools. Their job is to a blueprint that can be placed into production.



B. Mask Process

The finished IC circuit designs are stored in a tape as a database for masking company to produce the mask sets. There are four stages in the manufacturing of mask; namely glass process, Cr film coating, resist coating and shipping. The finished masks are then delivered to a wafer foundry.

C. Wafer Foundry Process

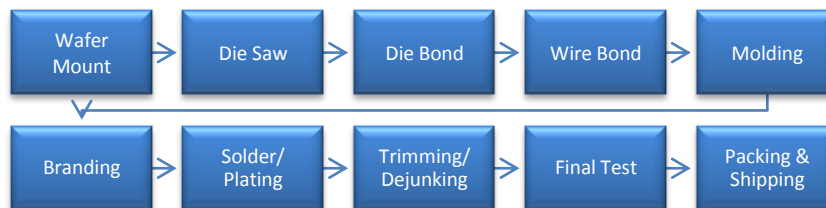
Wafer fabrication is outsourced to the foundry. The wafer manufacturing process begins by entering a module, going through etching, photo, thin film and diffusion with masks. The finished wafers must be tested before shipping to the next stage.

D. Wafer Testing Process

A finished wafer must be checked for conformity in electrical function. Dysfunctional "bad dies" will be marked and sorted out later.

E. Packaging Process

The "good dies" on the wafer will go through the final packaging and testing process:



5.2.3. Supply of Essential Raw Materials

Wafers are our major product materials and they mainly come from our foundry partners United Microelectronics Corporation (UMC), Taiwan Semiconductor Manufacturing Limited Company (TSMC), Dongbu Electronics (DBE), Chartered Semiconductor Manufacturing Company (CSM), and Siltera. These suppliers have been able to maintain good quality and process capability, satisfying MediaTek's requirements. We negotiate pricing with suppliers according to the market supply and demand status. We also review the production and service quality periodically with our suppliers. MediaTek not only continue to strengthen our cooperation with existing manufacturing partners, we also actively survey and contact other potential suppliers to ensure secured supply, high quality and low cost.

5.2.4. Key Supplies & Customers

5.2.4.1. Key Suppliers

Names of suppliers accounting for more than 10% of the total purchase in any of the previous two years:

Supplier	2008		2009		2010.Q1	
	Amount Purchased (NT\$1,000)	% of Total Purchase	Amount Purchased (NT\$1,000)	% of Total Purchase	Amount Purchased (NT\$1,000)	% of Total Purchase
Supplier A	6,330,676	45.91%	8,690,908	47.10%	2,959,451	61.38%
Supplier B	6,256,734	45.38%	8,664,910	46.99%	1,761,200	36.53%
Others	1,201,350	8.71%	1,082,256	5.87%	100,643	2.09%
Total	13,788,760	100%	18,438,074	100%	4,821,294	100%

Note: Note of the major suppliers are related party.

5.2.4.2. Key Customers

Names of customers accounting for more than 10% of the total sales in any of the previous two years:

2008			2009			2010.Q1		
Customer	Sales (NT\$1,000)	% of Total Revenue	Customer	Sales (NT\$1,000)	% of Total Revenue	Customer	Sales (NT\$1,000)	% of Total Revenue
Customer A	26,491,570	29.30%	Customer A	37,452,249	32.42%	Customer A	10,031,203	30.67%
Customer B	11,291,191	12.49%	Customer D	14,802,548	12.82%	Customer D	3,866,621	11.82%
Customer C	10,035,503	11.10%	Customer C	13,461,890	11.65%	Customer C	2,811,781	8.60%
Customer D	9,797,197	10.84%	Customer B	7,171,650	6.21%	Customer B	2,055,926	6.29%
Others	32,786,580	36.27%	Others	42,623,288	36.90%	Others	13,941,420	42.62%
Total	90,402,041	100.0%	Total	115,511,625	100.0%	Total	32,706,951	100.0%

Note: Reasons for change: Changes in product mix. None of the top customers are related party.

5.2.5. Production Volume and Value in the Past Two Years

	2008			2009		
	Production Capacity	Production Volume (1,000 pieces)	Production Value (NT\$1,000)	Production Capacity	Production Volume (1,000 pieces)	Production Value (NT\$1,000)
Multimedia and Handset Chipsets	N/A	1,465,957	42,972,755	N/A	2,240,907	58,367,065

Note: MediaTek outsourced manufacturing to wafer foundries, packaging houses and testing companies. There's no in-house production capacity.

5.2.6. Sales Volume and Value in the Past Two Years

	2008				2009			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Volume (1,000 pieces)	Value (NT\$1,000)	Volume (1,000 pieces)	Value (NT\$1,000)	Volume (1,000 pieces)	Value (NT\$1,000)	Volume (1,000 pieces)	Value (NT\$1,000)
Multimedia Chipsets	38,711	13,303,517	1,796,553	76,523,860	132,890	12,982,791	1,773,696	101,865,311
Others	N/A	168,867	N/A	405,797	N/A	227,118	N/A	436,405
Total	38,711	13,472,384	1,796,553	76,929,657	132,890	13,209,909	1,773,696	102,301,716

5.3. Employees

		2008	2009	2010 (As of March 31)
Number of Employees	Management	213	239	280
	R&D	3,535	3,640	3,755
	Sales & Marketing	97	127	146
	Manufacturing	74	76	94
	Total	3,919	4,082	4,275
Average Age		35.9	32.6	35.4
Average Years of Service		3.0	2.3	3.0
Education	Doctoral	5.10%	4.99%	4.90%
	Master	61.94%	63.17%	63.90%
	University & College	32.00%	31.02%	30.30%
	High School	0.96%	0.82%	0.90%
	Total	100.0%	100.0%	100.0%

5.4. Important Contracts

Agreement Type	Counterparty	Term	Summary	Restrictions
Licensing & Settlement	ESS Technology International, Inc. and ESS Technology, Inc.	Permanently effective from June 11, 2003	MediaTek licensed ESS technology and settled the legal dispute	None.
Licensing & Settlement	VIA Technologies Inc. and Western Digital Taiwan Co., Ltd.	Start from Aug. 3, 2004	MediaTek settled the legal dispute with VIA and its subsidiary Western Digital. MediaTek also licensed part of its intellectual property to Western Digital (permanent licensing of copyright and business secrets; 5-year license on patents)	Only applicable to Western Digital optical storage products built before May 15, 2004 that used MediaTek intellectual property (IP)
Licensing	Zoran Corporation and Oak Technology, Inc.	Permanently effective from Jan. 25, 2006	MediaTek licensed Zoran's certain IP and its derivative IP	None.
Acquiring Assets	Pollex Co., Ltd. (Beijing)	From Oct. 27 2006 to May 3, 2007	MediaTek acquired a total of 77 pieces of Pollex know-how regarding middleware & application software for mobile communication devices	None.
Investment	NuCORE Technology Inc.	April 19, 2007	MediaTek acquired 69% of NuCORE shares	None.
Acquiring Assets	Analog Devices, Inc.	Sep. 10, 2007	MediaTek acquired ADI's RF and baseband chipset operations	None.
Acquiring Assets	Allied Integrated Patterning Corp	Dec. 30, 2008	MediaTek acquired AIPC's office building	None.
IP Agreement	Qualcomm	Nov. 30, 2009	Patent peace agreement regarding CDMA and WCDMA core patents owned by both parties	None
Strategic Alliance	AST Technology (Suzhou)	Jan. 15, 2010	Cooperation in TD-SCDMA market	None.

6. Corporate Social Responsibility

6.1. Corporate Promise

6.1.1. Employee Relations

MediaTek Corporation has followed its “humanistic” principle in cultivating a healthy relationship with its employees. The designated Employee Relations Department is responsible for planning, promoting, and implementing initiatives that lead to a positive and proactive relationship, which is one of the key elements of MediaTek’s ability to maintain growth. The framework for how MediaTek manages its employee relations is as follows:

A. Communication with Employees

A variety of mechanisms are in place for the purpose of triggering communication between employees and supervisors as well as evaluating the effectiveness of communication. Some of the initiatives include “Understanding MediaTek’s Business Operations,” “Knowing Your Manager,” “Improving the Working Environment,” and “Reaching a Consensus,” which are conducted both in-person and electronically. These initiatives are carried in a matrix-type framework so that employees can better understand and carry out MediaTek’s policies, while improving the work environment. For example, during the employee representative communication meeting, employees regularly give a 4.1 or higher rating on a 5-point scale. The “BU Head Tea Time” yielded a 4.5 or higher rating. These initiatives and mechanisms are integral to a healthy communication between MediaTek and its employees as well as a cohesive environment.

B. Employee Cohesiveness

Beside the formal channels of communication, MediaTek also hosts different types of events. There are company sponsored events such as year-end parties and MediaTek corporate days; holiday celebrations on Engineers’ Day, Valentine’s Day, Mother’s Day, Father’s Day, summer break, Mid-Autumn Festival; and departmental activities such as the department’s Family Day and joint birthday celebrations, volunteer days, travels, and clubs, etc. The key to success is to design activities that fit the employee’s needs so that employees will participate with their families. Through these activities we can strengthen the interaction and connection between MediaTek and its employees. In the three short years since MediaTek began promoting and guiding the various employee clubs, the total number of clubs has reached 29 with about 2,300 employees. 45% of our employees belong to at least one club. MediaTek effectively promotes the expansion of these clubs through company reimbursements and allowances. These clubs are highly valued as they create employee cohesion and a sense of community.

C. Health Promotion

MediaTek firmly believes that “healthy employees are essential to high productivity” and is deeply committed to promoting both the mental and physical health of its employees. In terms of physical health, MediaTek has provided high quality health

checks and post-check consultations to its employees for the past four consecutive years. Higher-risk groups such as executives, female staff, and testing staff receive additional testing such as eyesight checks, mammograms, cervical smear tests, and blood lead concentration tests, etc. The focus is placed on preventive care so that effective treatments can be given before actual symptoms occur.

MediaTek places equally emphasis on the physiological aspect of overall healthcare. Employees are encouraged to use onsite fitness centers or participate in cross-departmental competitions such as the "Let's Move", where the BU Heads lead the fun group activities. This type of initiative is aimed at helping the staff develop regular exercise routines. The utilization rate for the various sports facilities at the Health & Lifestyle Center (including a fitness center, badminton court, basketball court, table tennis room, aerobics room) is currently near 100% in the evenings. MediaTek also hires blind masseurs recommended by the Taipei Association of Blind Masseurs whose services are provided inside the fitness center. The proceeds from the massages were donated to the Hsinchu Development Association for the Blind to help the association set up massage stations at the three major hospitals in Hsinchu, providing a steady source of income for the blind masseurs. MediaTek plans to donate the 2009 proceeds to the Institute for the Blind of Taiwan to aid their efforts in building an educational institution for the blind. The institution will help the blind acquire marketable skills so that they can be self-sufficient and eventually give back to society.

D. Humanistic Services

Humanistic services include not only MediaTek's overall policies and software/hardware, but also an employee-friendly working environment. Such an environment would also meet the employees' personal needs. There are authorized stores, ticket/gift certificate ordering services, and concierge services that help employees plan for wedding parties/baby showers and order greeting cards and flowers for Valentine's Day or Mother's Day. These thoughtful services help the employees save a great deal of time and stress.

E. Care for the Employees and Their Families

The Employee Relations Department provides one-on-one care and assistance to individual employee issues and needs. The services provided by the department range from emergency assistance (such as car accidents or family emergencies) and psychological counseling/referral. The regular "Employee Satisfaction Survey" which identifies departments with lower-than-average results and further diagnoses the problems through a "Department Morale Survey", focus group interviews, and random interviews to help the department take necessary rectification measures.

Also, MediaTek understands that behind every hard-working employee is a supportive family. The "Family Network" is one of the company's initiatives in helping employee families understand the company, build a community for the employee families and provide information such as medical care, childcare and education, apartment rental and home buying, etc. There is also a family activity room in the Health-and-Life-Style Center where families can charter their own classes and create a strong bond amongst the community.

F. Employee Welfare Committee

MediaTek has established an Employee Welfare Committee (herein referred to as the Committee) in accordance to the Council of Labor Affairs "Rules Governing Organization of Employee's Welfare Committee." The Committee is responsible for promoting various employee activities and funding those activities. The Committee aims to organize a wide-range of activities that achieve both employee cohesiveness and personal flexibility. For example, the Committee offers allowance for Family Days and birthday celebrations for each department. It encourages each department to organize team-building activities for both the staff and their family members. Employees can choose to use their travel allowances on personal travel or company-sponsored group travel. Since the Committee's inception, the utilization rate of various welfare allowances have exceeded 95%, which reflects the true spirit of the employee's welfare committee.

G. Continuing Education and Training System

MediaTek provides a comprehensive, humanistic training system. The training system is integral to MediaTek's continuous growth by serving as a learning environment that allows employees to meet their full potential. There are four types of training, each based on the employee's rank and nature of work:

(a) Management Training System: The management training system helps managers develop their training blueprint based on the skills required for their positions.

(b) Engineer Training System: The engineer training system provides training and development courses for engineers who wish to grow professionally.

(c) Professional Knowledge Training System: The professional knowledge training system offers non-engineering training, such as basic management, legal affairs, intellectual property, information technology, human resources, accounting and financing, etc.

(d) New Staff Training System: The new staff training system provides training for new employees and engineers.

Total education and training costs accounted for NT\$25,267,000 in 2009 and NT\$5,512,000 year-to-date.

H. Retirement system

MediaTek's retirement system was designed in accordance to the Labor Standards Law and the Labor Pension Act. The retirement system makes monthly reserves depositing the funds in the Supervisory Committee on Labor Retirement Funds account at the Central Trust of China. Since the promulgation of the Labor Pension Act on July 1st of 2005, employees have been given the option to stay with the Old System or the New System (but keep the number of working years). For employees who chose the New System, the company makes monthly reserves of at least 6% of the employee's monthly salary statements in accordance with Financial Accounting Standard No.18 "Employer's Accounting for Pension Plans" and provides actuarial reports and recognizes the reserve as a pension liability on the balance sheet.

6.1.2. Supplier Management

As a responsible corporate citizen, MediaTek is committed to implementing environmental-friendly and carbon-reducing initiatives. MediaTek has established the "MediaTek Environment-Friendly and Carbon-Reducing Products Policy," which encompasses four major areas of demands for its suppliers. This policy demands suppliers to make changes in the areas of design, material, transport, and minor details. Descriptions of each item are as follows:

A. Design: simplify product structure through green design in order to reduce the use of consumables and the use of pure gold in IC packaging.

B. Material: The entire product line should meet the European Directive on the "Restriction of the Use of Certain Hazardous Substances." The manufacturing process should incorporate halogen-free material and reduce the use of chemicals.

C. Transport: Use recyclable material and reduce the use of consumables during the process of loading and transporting ICs.

D. Minor Details: Inspect the IC manufacturing process for excessive waste of resources, such as water and electricity.

6.2. Social Participation

6.2.1. Social Contributions

6.2.1.1. Sponsor the "NTHU - MediaTek Dr. Wu Ta-You Scholarship"

The scholarship was established to honor the spirit of Dr. Wu Ta-You, who believed in cultivating top university students' interest in academic research and cross-strait academic exchanges. Since 2005, MediaTek has sponsored National Tsing Hua University with the Dr. Wu Ta-You Scholarship. Each year, 30~50 outstanding NTHU sophomores and juniors receive a NT\$20,000 scholarship and an opportunity to attend a 2-month-long research seminar in China (Shanghai Jiao Tong University, Tsing Hua University, Zhejiang University, University of Science and Technology of China, Xi'an JiaoTong University, Harbin Institute of Technology.) The sponsorship program also includes inviting 30~50 outstanding students from these mainland China universities to visit Taiwan to advance the mutual understanding academically and socially.

6.2.1.2. Establish the MediaTek Fellowship

MediaTek is deeply committed in its efforts to promote science education. The MediaTek Fellowship was established in 2002 with the purpose of encouraging graduate students who wish to go on to a Ph.D. program. The fellowship is intended to reward outstanding graduate students in the field of electric engineering and information technology. Since 2002, 24 students have received the fellowship, each receiving NT\$50,000 per month for as long as 36 months. The fellowship allows the students to dedicate themselves to research. Some of the fellowship recipients have entered the industry or back to academia and begun making contributions in the field of research.

6.2.1.3. Establish the MediaTek Cross-Strait Scholarship

Starting from 2009, MediaTek Foundation provides scholarship to cross-strait exchange students and researchers to fund graduate students, Ph.D. students, and post-doctoral researchers of electronic engineering, electronic machinery, and computer science related fields. Each year, around 15 candidates are entitled to up to 12 months of scholarship.

6.2.1.4. Partnership with Academia and Research Publications

MediaTek regularly sponsors scholarships in its efforts to promote science education. The company has sponsored the NTU-MediaTek Wireless Research Lab for eight consecutive years. Currently the project is in their third phases, which will last four years. The NTU-MediaTek Wireless Research Lab aims to be a world-class lab with a focus on analog radiofrequency wireless communication systems. The Lab has published over 125 research papers in the past four years. Of the 125 papers, 23 relating to solid-state circuits were published in the International Solid State Circuits Conference (ISSCC). The Lab has filed 17 patent applications and has been rewarded 4 patents, demonstrating a high level of achievement.

In addition, MediaTek founded the NCTU-MediaTek Lab in a partnership with National Chiao Tung University (NCTU) in 2003. The NCTU-MediaTek Lab is focused on the Internet technology, human-machine interfaces, digital content, and radio frequencies, etc. The Lab refocused its research into two areas, "WiMAX" and "Gigabit Wireless" in 2008, which has led to even greater results. The Lab has published 217 research papers in the past four years. Of the 36 patent applications the Lab has filed, 12 have received patent approval.

MediaTek also began a partnership with National Tsing Hua University in 2008 and established the "NTHU-MediaTek Embedded System Laboratory." The lab focuses its research on embedded systems and developing related designers for the system and system software. In the first five years, the research has focused on two areas, Linux-based software platforms for mobile handset use and personal communication devices with Wibree functionality.

MediaTek's partnerships have reached beyond the top universities in Taiwan. Academic institutions sponsored by MediaTek can be found in the United States, Singapore, and Mainland China. The company believes that more research opportunities can be exploited by developing talents worldwide.

MediaTek's long-term partnership with top universities serves as a bridge between the high-technology industry and academia. MediaTek's commitment to innovative research is also evidenced through its research publications. Particularly, MediaTek has been published in the ISSCC for seven consecutive years, the only company to accomplish that in Taiwan. The ISSCC is widely recognized as the "Semiconductor Olympia" of the electrical engineering field and a platform where the latest technological developments can be found. Since 2004, MediaTek has been published in the ISSCC 12 times. More impressively, MediaTek has been published twice in the field of Data Converters, a field where few papers have been published from Taiwan's academia or industry.

Research publications from MediaTek can also be seen in top academic forums such as VLSI Design/CAD, A-SSCC, and IPRS. These accomplishments demonstrate MediaTek's capability in circuit design, thus elevating Taiwanese research and bringing international recognition.

6.2.1.5. Exclusive Sponsorship of the Lung Yingtai Cultural Foundation's "MediaTek Lectures"

The MediaTek Foundation is committed to helping Taiwanese youth broaden their horizons, elevate their critical thinking skills, and gain an international view of the world. The "MediaTek Lectures" was a partnership with the Lung Yintai Cultural Foundation for that very purpose. The "MediaTek Lectures" broke away from the traditional definition of "experts." Respected professionals and leaders from the field of economics, politics, science, and literature were invited to speak at the event.

An impressive list of speakers was on hand at this event in 2009: Peter H. Raven, Jane McAdam Freud, Ang Lee, Paul Chu, and Lung Yingtai. The speakers encouraged the attendees to reach for creativity and innovation in the global arena. The "MediaTek Lectures" were not only well received by the attendees but critically lauded.

6.2.2. Charitable Donations

Since MediaTek was founded in 1997, it has been committed to helping government and non-profit disaster relief efforts, including donations made to the September 21st Earthquake in 1999, the SARS Medical Team of the Hsinchu General Hospital in 2003, and the 2008 China Sichuan Earthquake.

In 2009, Typhoon Morakot devastated southern Taiwan; MediaTek employees initiated donation for the victims of the natural disaster, and the Company also make special donations totaled NT\$50 million to the Red Cross and Tzuchi. For the heavily damaged Pingtung County, MediaTek also donated NT\$25 million to the local government for helping residents in Jiadong, Linbian, Donggang, and Fangliao Township. By end of 2009, a total of 1,324 families were helped.

6.2.3. Community Involvement

6.2.3.1. Support the Arts and Culture – Exclusive sponsorship of IC 97.5 FM's "I Talk, You Laugh" and "Talking with History" Programs

Real changes can only be made through elevating people's social and cultural accomplishments. In response to IC 97.5 FM's slogan of "I Care, I Can, I Change," MediaTek sponsored the two programs exclusively: "I Talk, You Laugh," hosted by former President of NTHU, Dr. Chung-Laung Liu, and "Talking with History," hosted by renowned historian, Hu Zhongxin. These two programs offered insightful analysis to history that served as valuable lessons for the community. By examining historical values and ideas, people can better think critically and independently, which ultimately leads to civic

participation. This sense of civic responsibility and participation is crucial to the betterment of our living standards.

6.2.3.2. "Save a Life by Donating Blood" in 2009

"Save a Life by Donating Blood" was a blood drive organized by MediaTek employees and promoted through the media. Since 2007, MediaTek employees have organized regular blood drives to the Hsinchu Blood Center during periods of low supply. In 2009, 123 employees participating and 167 bags of blood were donated.

6.2.3.3. Relay the Hope to Rural Schools for a Brighter Future

Education is the foundation upon which we build our future. The MediaTek Foundation understands that education requires systematic investment over a long period of time. The foundation has combined its management skills and experience working with higher education, such as fellowships and research partnerships with NTU, NTHU, and NCTU, and put them to use at twelve rural elementary schools in the Hsinchu area. Historically, these rural schools have relied on sporadic donations but have lacked the ability to consolidate resources in a systematic manner. Thus it has been extremely difficult to make long-term progress and changes. The foundation is committed to bringing the quality of classroom equipment up to par with other elementary schools so that students can not only successfully graduate but also give back to the community. The foundation plans to take its experiences with the schools in the Hsinchu area and eventually apply them to other parts of the country as part of its efforts to promote education.

6.3. Environmental Efforts

6.3.1. Long-Term and Short-Term Goals

6.3.1.1. Short-Term Environmental Goals

The company's short-term environmental goals are to comply with environmental, safety, and health standards and promote green and zero-hazard initiatives, as well as implement ISO14001 and OHSAS 18001 (occupational health and safety).

6.3.1.2. Mid-Term Environmental Goals

Mid-term environmental goals are to strengthen training in the areas of environment, safety, and health. Employees are encouraged to reduce and recycle material and reduce carbon footprint. The importance of occupational health and safety is also impressed upon the entire staff.

6.3.1.3. Long-Term Environmental Goals

Long-term environmental goals are to fully implement green design for our products, avoid any toxic material, and strengthen green purchasing and green management so that product services and packaging can meet international green standards. Further, these policies have been announced to the public to demonstrate the company's commitment to the environment and employee safety.

6.3.2. MediaTek's Energy-Savings Measures and Results

MediaTek believes that being environmentally friendly and reducing the carbon footprint is part of its social responsibility. Some of the company's achievements in this area are as follows:

A. Air Conditioning System: Compared to traditional air conditioning systems, MediaTek's Variable Air Volume (VAV) AC system, saves 25.7% more energy, which translates to about NT\$1.545 million a year.

B. Lighting System: Lighting control in public areas and parking structures use lighting that is CNS compliant and approved by the Energy Bureau. These measures lead to an annual saving of NT\$1.536 million.

C. Energy Reduction for Parking Structures: Controlled parking on the weekends leads to an annual saving of NT\$2.61 million.

D. Water Reduction: Condensed water from the company's air conditioners is reused for plant watering. Approximately 5,400 metric tons of condensed water is reused each year.

E. Waste Management and Recycling: The first step is to reduce overall waste, followed by proper sorting, recycling, and re-use. Continual improvement is also made to waste storage, transport, and processing with an emphasis on reducing the environmental impact. Waste processing and recycling vendors are first carefully chosen then monitored and audited at irregular intervals. The company takes full accountability for its waste management.

F. Promote Environmental Initiatives: The Company implements a policy of company-wide use of non-disposable utensils, organize video showings and seminars on environmental issues to employees and their families, promote energy reduction on computer use, organize emission inspection for employee's scooters, and promote a car pool network.

7. Financial Status, Operating Results and Status of Risk Management

7.1. Financial Status

7.1.1. Parent Company

Unit: NT\$1,000

Item	2008	2009	Change	% of Change
Current Assets	\$45,752,665	\$69,190,377	\$23,437,712	55.23
Funds & Investment	35,131,777	48,207,732	13,075,955	37.22
Fixed Assets	5,243,216	5,896,167	652,951	12.45
Intangible Assets	10,259,038	9,380,709	(878,329)	(8.56)
Other Assets	200,730	241,321	40,591	20.22
Total Assets	96,587,426	132,916,306	36,328,880	37.61
Current Liability	14,893,337	23,767,572	8,874,235	59.59
Long-Term Liability	-	-	-	-
Other Liability	83,188	279,249	196,061	235.68
Total Liabilities	14,976,525	24,046,821	9,070,296	60.56
Capital Stock	10,731,523	10,901,189	169,666	1.58
Capital Reserve	2,757,311	8,267,826	5,510,515	199.85
Retained Earnings (include statutory reserve and special reserve)	68,451,526	90,111,571	21,660,045	31.64
Accumulated Conversion Adjustments	(17,915)	(527,304)	(509,389)	2843.37
Unrealized Gain of Financial Assets	(255,574)	172,173	427,747	(167.37)
Treasury Stock	(55,970)	(55,970)	-	-
Total Shareholders' Equity	81,610,901	108,869,485	27,258,584	33.40

Changes that exceed 20% and reach NT\$10 million in the past two quarters and explanation for those changes:

- (1) Increase in current assets: Mainly due to increase in operating cash inflow and increase of inventory due to market demands.
- (2) Increase in funds and investments: Recognition of the investee company's increased net income.
- (3) Increase in other assets: Increase in refundable deposit to secure manufacturing capacity.
- (4) Increase in total assets: Mainly due to increase in current assets, funds & investment, and other assets.
- (5) Increase in current liability: Due to increased account payables to manufacturing partners, and higher accrued employee profit sharing expenses associated with higher sales.
- (6) Increase in other liability: Mainly due to increase in deferred income tax liabilities – non-current.
- (7) Increase in total liability: Due to increase in accrued expenses and increase in deferred income tax liabilities.
- (8) Increase in capital reserve: Due to issuance of new shares for employee profit sharing.
- (9) Increase in retained earnings: Mainly due to increase of net income.
- (10) Decrease in accumulated conversion adjustments: Due to volatility in foreign exchange.
- (11) Increase in unrealized gain of financial assets: Due to increase of unrealized gain of financial assets in the equity-method investee companies.
- (12) Increase in total shareholders' equity: Due to increase in capital reserve, retained earnings, and unrealized gain of financial assets.

7.1.2. Consolidated Report

Unit: NT\$1,000

Item	2008	2009	Change	% of Change
Current Assets	\$71,225,877	\$114,038,269	\$42,812,392	60.11
Funds & Investment	8,969,627	6,661,594	(2,308,033)	(25.73)
Fixed Assets	6,504,012	6,888,829	384,817	5.92
Intangible Assets	12,029,070	10,622,893	(1,406,177)	(11.69)
Other Assets	345,818	381,701	35,883	10.38
Total Assets	99,074,404	138,593,286	39,518,882	39.89
Current Liability	17,232,353	29,454,365	12,222,012	70.92
Long-Term Liability	-	-	-	-
Other Liability	83,188	248,318	165,130	198.50
Total Liabilities	17,315,541	29,702,683	12,387,142	71.54
Capital Stock	10,731,523	10,901,189	169,666	1.58
Capital Reserve	2,757,311	8,267,826	5,510,515	199.85
Retained Earnings (include statutory reserve and special reserve)	68,451,526	90,111,571	21,660,045	31.64
Accumulated Conversion Adjustments	(17,915)	(527,304)	(509,389)	2843.37
Unrealized Gain of Financial Assets	(255,574)	172,173	427,747	(167.37)
Treasury Stock	(55,970)	(55,970)	-	-
Minority Stock	147,962	21,118	(126,844)	(85.73)
Total Shareholders' Equity	81,758,863	108,890,603	27,131,740	33.19

Changes that exceed 20% and reach NT\$10 million in the past two periods and explanation for those changes:

- (1) Increase of current assets: Mainly due to increase in operating cash inflow and increase of inventory due to market demands.
- (2) Decrease in funds and investments: Disposal of available-for-sale financial assets – non-current, and held-to-maturity financial assets – non-current.
- (3) Increase in total asset: Due to increase in current assets.
- (4) Increase in current liability: Due to increased account payables to manufacturing partners, and higher accrued employee profit sharing expenses associated with higher sales.
- (5) Increase in other liabilities: Mainly due to increase in deferred income tax liabilities – non-current.
- (6) Increase in total liability: Due to increase in accrued expenses and increase in deferred income tax liabilities – non-current.
- (7) Increase in capital reserve: Due to issuance of new shares for employee profit sharing.
- (8) Increase in retained earnings: Mainly due to increase of net income.
- (9) Decrease in accumulated conversion adjustments: Due to volatility in foreign exchange.
- (10) Increase in unrealized gain of financial assets: Due to increase of unrealized gain of financial assets in the equity-method investee companies.
- (11) Decrease in minority stock: Mainly due to MediaTek did not hold controlling shares of Airoha Technology Corp. after May 2009, so Airoha was not included in the 2009 consolidated financial reports.
- (12) Increase in total shareholders' equity: Due to increase in capital reserve, retained earnings, and unrealized gain of financial assets.

7.2. Operating Results

7.2.1. Parent Company

Unit: NT\$1,000

Item	2008	2009	Change	% of Change
Revenue	71,248,417	83,948,316	\$12,699,899	17.82
Less: Sales Returns & Discounts	(3,232,874)	(6,637,564)	(3,404,690)	105.31
Net Sales	68,015,543	77,310,752	9,295,209	13.67
Cost of Goods Sold	(32,138,731)	(31,191,078)	947,653	(2.95)
Gross Profit	35,876,812	46,119,674	10,242,862	28.55
Operating Expenses	(18,786,416)	(24,673,078)	(5,886,662)	31.33
Income from Operation	17,090,396	21,446,596	4,356,200	25.49
Non-Operating Incomes	4,605,861	15,845,255	11,239,394	244.02
Non-Operating Expenses	(726,440)	(13,908)	712,532	(98.09)
Earnings Before Tax	20,969,817	37,277,943	16,308,126	77.77
Corporate Income Tax	(1,779,820)	(572,303)	1,207,517	(67.84)
Net Income	19,189,997	36,705,640	17,515,643	91.27

Changes that exceed 20% and reach NT\$10 million in the past two periods and explanation for those changes:

- (1) Increase in sales returns and allowances: Due to increase in sales allowances in this period.
- (2) Increase in gross profit: Mainly due to higher gross margin.
- (3) Increase in operating expenses: Due to higher personnel expenses associated with increased headcounts, and increased service charge, technology licensing fee and royalty.
- (4) Increase in net income: Due to higher revenue and gross margin.
- (5) Increase in non-operating profit: Due to higher investment gain.
- (6) Decrease in non-operating loss: In second half of 2008 there's recognition of investment loss due to financial crisis, while in 2009 the market was relatively stable.
- (7) Decrease in income tax expenses: Due to estimated increases in income tax in 2008.
- (8) Increase in net income: As the result of the above explanations.

7.2.2. Consolidated

Unit: NT\$1,000

Item	2008	2009	Change	% of Change
Revenue	\$94,560,270	\$124,142,262	\$29,581,992	31.28
Less: Sales Returns & Discounts	(4,158,229)	(8,630,637)	(4,472,408)	107.56
Net Sales	90,402,041	115,511,625	25,109,584	27.78
Cost of Goods Sold	(43,065,722)	(47,694,235)	(4,628,513)	10.75
Gross Profit	48,583,025	67,817,390	20,481,071	43.27
Operating Expenses	(26,275,097)	(31,430,226)	(5,155,129)	19.62
Income from Operation	21,061,222	36,387,164	15,325,942	72.77
Non-Operating Incomes	2,320,950	1,224,948	(1,096,002)	(47.22)
Non-Operating Expenses	(2,284,042)	(192,026)	2,092,016	(91.59)
Earnings Before Tax	21,098,130	37,420,086	16,321,956	77.36
Corporate Income Tax	(1,923,890)	(724,620)	1,199,270	(62.34)
Consolidated Net Income	19,174,240	36,695,466	17,521,226	91.38
Net Income Attributed to Shareholders of the Parent	19,189,997	36,705,640	17,515,643	91.27

Changes that exceed 20% and reach NT\$10 million in the past two quarters and explanation for those changes:

- (1) Increase in revenue, net sales and gross profit: Due to increase in sales volume and improved gross margin.
- (2) Increase in sales returns and allowances: Due to increase in sales in this period.
- (3) Increase in net income: Due to increase in revenue and gross margin.
- (4) Decrease in non-operating revenue and gains: Due to reduced interest income and foreign exchange gain.
- (5) Decrease in non-operating expenses: In second half of 2008 there's recognition of investment loss due to financial crisis, while in 2009 the market was relatively stable.
- (6) Decrease in income tax expenses: Due to estimated increases in income tax in 2008.
- (7) Increase in net income: As the result of the above explanations.

7.3. Evaluation on Assets and Liabilities

MediaTek assesses its assets and liabilities on a monthly basis as required by the financial accounting standards, and state relevant allowances. The basis of assessment is elaborated as follows:

7.3.1. Allowance for Doubtful Receivables

Details of provisions for notes receivables, account receivables, and account receivables – related parties are as follows:

Days Overdue	% of allowance for bad debts
0 Day	2
1~30 Days	8
31~60 Days	10
61~90 Days	20
More than 90 Days	100

7.3.2. Inventory Loss Provision

Estimated loss on slow-moving inventories that stay at the same stage for more than 60 days are recognized and included in the allowance for inventory loss. Details are in the table below:

Days of Inventory Stayed at the Same Stage	% of Inventory Loss Provision
60 Days and Less	0
61~90 Days	20
91~120 Days	60
More than 121 Days	100

7.4. Financial Assets Impairment Loss Analysis

The Company has implemented quarterly evaluation for asset impairment since January 1st of 2005, in accordance with SFAS No. 35, "Accounting for the Impairment of Assets". The impact of this change on The Company's net income, earnings per share, and total assets for fiscal year 2009 is as follows:

Unit: NT\$1,000

Effect on 2009 Financial Status	Parent Company	Consolidated
Net Income	-	(\$99,449)
EPS	-	(\$0.09)
Total Assets	-	(\$99,449)

7.5. Cash Flow Analysis

7.5.1. Parent Company

Unit: NT\$1,000

Cash Balance Dec. 31, 2008	Net Cash Provided by Operating Activities in 2009	Net Cash Outflows from Investing and Financing Activities in 2009	Cash Balance Dec. 31, 2009	Remedy for Cash Shortfall (Investment & Financing Plan)
\$35,750,448	\$37,627,396	\$(15,492,686)	\$57,885,158	-

7.5.1.1. Analysis of the Change in Cash Flow in 2009

Operation: Net cash inflow of NT\$37,627,396, mainly from operating profits.

Investment: Net cash outflow of NT\$468,408, mainly due to the purchase of fixed assets and intangible assets.

Financing: Net cash outflow of NT\$15,024,278, mainly due to the distribution of earnings.

7.5.1.2. Remedial Actions for Cash Shortfall

The company has ample cash on-hand; remedial actions are not required.

7.5.1.3. Cash Flow Projection for Next Year

Not applicable.

7.5.2. Consolidated

Unit: NT\$1,000

Cash Balance Dec. 31, 2008	Net Cash Provided by Operating Activities in 2009	Net Cash Outflows from Investing and Financing Activities in 2009	Cash Balance Dec. 31, 2009	Remedy for Cash Shortfall (Investment & Financing Plan)
\$53,021,544	\$55,240,273	\$(13,613,925)	\$94,647,892	-

7.5.2.1. Analysis of the Change in Cash Flow in 2009

Operation: Net cash inflow of NT\$55,240,273,000, mainly from operating profits.

Investment: Net cash inflow of NT\$1,768,721,000, mainly due to the disposal of financial assets.

Financing: Net cash outflow of NT\$14,889,043,000, mainly due to the distribution of earnings.

7.5.2.2. Remedial Actions for Cash Shortfall

The company has ample cash on-hand; remedial actions are not required.

7.5.2.3. Cash Flow Projection for Next Year

Not applicable.

7.6. Major Capital Expenditure

7.6.1. Major Capital Expenditure and Sources of Funding

As of March 31, 2010. Unit: NT\$1,000

Plan	Actual or Planned Source of Capital	Estimated Capital Requirement (as of Dec 31, 2009)	Status of Actual or Projected Use of Capital			
			2007	2008	2009	2010
Office Building	Cash flow generated from operation	\$2,806,629	\$313,259	\$121,528	\$1,044,427	(note)
R&D Equipments & Software	Cash flow generated from operation	\$1,966,806	\$626,279	\$540,739	\$296,360	(note)
Intangible Assets	Cash flow generated from operation	\$6,111,752	\$699,257	\$3,858,537	\$847,761	(note)

Note: The company's capital expenditure budget for 2010 is NT\$4.1 billion, in which includes budget for office buildings, R&D equipments and software, intangible assets, technology licensing and royalty and other assets expenditures.

7.6.2. Expected Future Benefits

7.6.2.1. Expected Increase of Sales Volume and Revenue

Unit: NT\$1,000

Year	Item	Production Volume (1,000 pieces)	Sales Volume (1,000 pieces)	Revenue (NT\$1,000)	Other Benefits
2009	Multimedia & Handset Chipsets	774,950	71,322	25,960,950	Please refer to 7.6.2.2

7.6.2.2. Other Benefits

Other benefits of capital expenditure are listed below:

(1) Office buildings:

Investment in proper and well-planned space is necessary for attracting talents who are responsible for developing new products. Product development is crucial to The Company's sustainability.

(2) R&D equipment and software:

Equipment and software can help The Company's R&D process become more efficient and thus shortening the product development cycle.

(3) Intangible assets: technology and patents:

It is necessary for The Company' to strengthen its patent protection in order to navigate the current competitive landscape, which is often mired in complex patent disputes. The Company has continued its efforts to obtain high-value patents to improve The Company's patent portfolio. These patents can be applied in many of The Company's advanced products.

7.7. Investment Policies

The Company's investments are long-term strategic investments. Investment gain from equity method investment in 2009 was NT\$198,857,000. The Company will keep its long-term strategic investment policy and evaluate investment plans prudentially.

7.8. Risk Management

7.8.1. Risks Associated with Interest Rate Fluctuation, Foreign Exchange Volatility, and Inflation

This year the global economy is recovering from the financial crisis, but the Euro Zone is still under the shadow of Greek credit crisis. It is expected that the interest rates will go up this year, but the increase shall be limited. The Company will continue to manage its cash position carefully and endeavor to increase the returns with minimal risks. The Company's asset and liability denominated in a foreign currency are mostly in USD. Volatility in foreign exchange can adversely impact the Company's financial status; Therefore the Company engages in foreign exchange forward contracts to minimize possible losses stemming from foreign exchange volatility. The Finance Division is responsible for related risk management.

7.8.2. Risks Associated with High-Risk/High-Leveraged Investment; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions

As part of The Company's conservative financial management, it does not engage in investments that are either high-risk or high-leveraged. The Company has in place a complete and thorough policy and internal control scheme governing lending, endorsements, guarantees for other parties, and financial derivative transactions. The Company only engages in derivative transactions for hedging purposes. Any gains or losses from such transactions should roughly cancel out gains or losses in the underlying assets. For fiscal year 2009, The Company has provided lease guarantees for its subsidiaries MediaTek Wireless, Inc.(USA) and MTK Wireless Limited (UK) in the amount of NT\$134,015,000 and NT\$19,654,000. The Finance Division is responsible for related risk management.

7.8.3. Future R&D Plans and Expected R&D Spending

R&D Project Name	Schedule
2.75G and 3G Mobile Phone Chipsets	End of 2010
High Sensitivity and Low Power Consumption GPS Receiver Chips	
Combo chips with Bluetooth, FM Radio, WLAN and GPS	
Mobile TV Chips	
Blu-ray DVD Player Single Chip	
Highly Integrated Internet DTV Chips	

The above plans account for 50%+ of total corporate R&D budget in 2010.

7.8.4. Risk Associated with Changes in the Political and Regulatory Environment

MediaTek's management team closely monitors political and regulatory developments that could have a material impact on the Company's business and operation. MediaTek's actual tax rate has increased steadily since the

implementation of the Alternative Minimum Tax on January 1st, 2006. Since the expensing of employee profit sharing was put in place on January 1st, 2008, MediaTek has allocated 25% of pro forma net income as provisions for employee profit sharing, and started from January 1st, 2010, the employee profit sharing ratio has been adjusted to 20% of pro forma net income; half of the employee profit sharing expense shall be accounted as bonus and paid after approved in the annual general shareholders' meeting, and the other half shall be accounted and paid as allowances. The Finance Division and the Legal and Intellectual Property Division are responsible for risk associated with changes in the political and regulatory environment.

7.8.5. Impact of New Technology and Industry Changes

Technologies used in the electronics and semiconductor industries are constantly changing. New standards and applications continuously emerge in wireless communication, optical storage and digital home segments. The Company will continue to invest in research and development, to improve operating efficiency, and to monitor the latest trend of the market, in order to secure and expand our market share. The Company's Business Units are responsible for risks associated with new technology and industry changes.

7.8.6. Changes in Corporate Image and Impact on Company's Crisis Management

MediaTek prides itself on its corporate image. The management has always maintained a humanistic philosophy toward management. MediaTek provides a working environment that is both challenging and nurturing for its employees, who are able to grow and realize their full potential. Those are some of the reasons that MediaTek has been able to attract the top talents in the industry and maintain its leading position in global IC Design. At the same time, MediaTek's has maintained its core values, such as trust, respect, integrity, honesty, introspection, life-long learning, creativity, and team-work. As of the Annual Report's publication date, there has been no event that adversely impact in MediaTek's corporate image and impact on company's crisis management. The business units are responsible for risks associated with corporate image and impact on company's crisis management.

7.8.7. Risks Associated with Mergers and Acquisitions

None.

7.8.8. Risks Associated with Plant Expansion

MediaTek purchased the plant on No. 15, Lane 91, Neihu 1st Road in Taipei City in 2009 and plans to move in 2010. The plant purchase provides additional space for office work and meetings for employees in Taipei and also provides room for future growth. The plant expansion was funded with MediaTek's own funds.

MediaTek will also reduce risks associated with the bidding process through carefully selection and adequate insurance. The Human Resources Division is responsible for managing the risks associated with plant expansion.

7.8.9. Risks Associated with Purchase Concentration and Sales Concentration

MediaTek's production allocation is flexible and diversified, and is able to deal with any emergencies from any of its production lines. Therefore there is no risk associated with purchase concentration. Sales concentration does not pose any risks since MediaTek's products are sold to many clients throughout Japan, Korea, Europe, Southeast Asia, and Greater China. The business units are responsible managing the risks associated with purchase concentration and sales concentration.

7.8.10. Risks Associated with Sales of Significant Numbers of Shares by MediaTek's Directors and Major Shareholders Who Own 10% or More of MediaTek's Total Outstanding Shares

In 2009, and as of the date of this Annual Report, there were no such risks for MediaTek.

7.8.11. Risks Associated with Change in Management

In 2009, and as of the date of this Annual Report, there were no such risks for MediaTek.

7.8.12. Risks Associated with Litigations

In November 2009, British Telecommunication (BT) filed a lawsuit against MediaTek Wireless, Inc. (MWS), a MediaTek subsidiary, and claimed that it infringed its US Patent US.5,153,591 (Patent 591). The product in dispute was from the acquisition of Analog Devices, Inc.'s wireless communication business unit. MediaTek believes MWS product did not infringe BT's patent 591; besides, the patent had expired. The Company will carefully manage risks associated with litigation.

7.9. Other Material Events

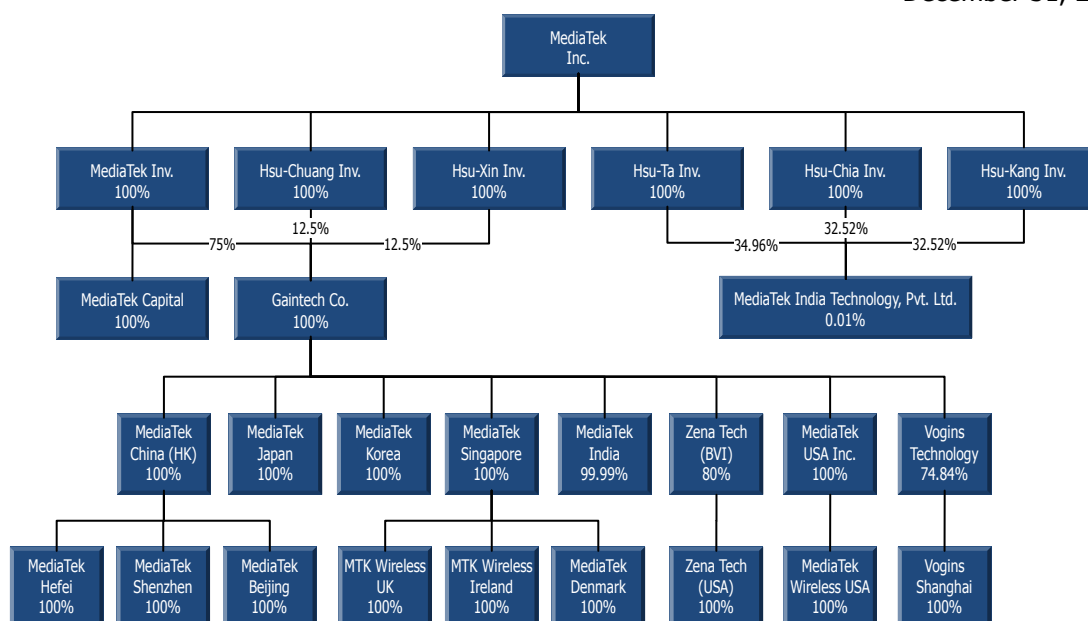
None.

8. Other Special Notes

8.1. MediaTek Affiliates

8.1.1. MediaTek Affiliated Companies Chart

December 31, 2009



Definition of Affiliates:

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.

8.1.2. MediaTek Affiliated Companies

Unit: NT\$1,000 / Foreign Currency 1,000

Company Name	Date of Incorporation	Place of Registration	Capital Stock	Major Business
MediaTek Investment Co.	July 2000	Taiwan	NTD 14,267,544	Investment
MediaTek Capital Co.	Sep. 2000	Taiwan	NTD 3,334,041	Investment
Hsu-Ta Investment Ltd.	Sep. 2002	Taiwan	NTD 3,913,808	Investment
Hsu-Kang Investment Ltd.	Sep. 2002	Taiwan	NTD 3,634,700	Investment
Hsu-Chia Investment Ltd.	Sep. 2002	Taiwan	NTD 3,634,418	Investment
Hsu-Chuang Investment Corp.	May 2008	Taiwan	NTD 1,563,570	Investment
Hsu-Xin Investment Corp.	May 2008	Taiwan	NTD 1,563,570	Investment
Gaintech Co. Limited	Aug. 2000	Cayman Islands	USD 319,975	Investment
CoreTech Resources Inc.	Nov. 2002	B.V.I.	USD 57,200	Investment
MediaTek Singapore Pte. Ltd.	June 2004	Singapore	SGD 111,994	R&D and sales
MediaTek India Technology Pvt. Ltd.	May 2004	India	INR 55,000	R&D
MediaTek Inc. China	Sep. 2007	Hong Kong	HKD 143,000	Investment
MediaTek (Heifei) Inc.	Aug. 2003	China	USD 5,400	Customer support & service
MediaTek (ShenZhen) Inc.	Oct. 2003	China	USD 8,000	Customer support & service
MediaTek (Beijing) Inc.	Nov. 2006	China	USD 3,400	Customer support & service
MTK Wireless Limited (UK)	Aug. 2007	UK	GBP 4,414	R&D
MediaTek Wireless Limited (Ireland)	Oct. 2007	Ireland	EUR 1,970	R&D
MediaTek Denmark ApS	Oct. 2007	Denmark	DKK 20,000	R&D
MediaTek USA Inc.	May 1997	USA	USD 0.1	R&D
MediaTek Wireless, Inc. (USA)	Aug. 2007	USA	USD 16,900	R&D
MediaTek Japan Inc.	June 1997	Japan	JPY 355,000	Technological services
MediaTek Korea Inc.	Feb. 2007	S. Korea	KRW 2,000,000	Technological services
Zena Technologies Inc. (USA)	Apr. 2008	USA	USD 10	R&D
Zena Technologies Intl. Inc. (BVI)	Apr. 2008	B.V.I.	USD 8	Investment
Vogins Technology Co. Ltd.	Dec. 2005	B.V.I.	USD 904	Investment
Vogins (Shanghai)	Mar. 2007	China	USD 2,620	Software development

8.1.3. Common Shareholders of MediaTek and Its Subsidiaries or Its Affiliates with Actual or Deemed Control

None.

8.1.4. Business Scope of MediaTek and Its Affiliated Companies

Business scope of MediaTek and its affiliates include the investment, R&D, promotion, after service for optical storage products, digital consumer products, wireless communication, digital TV, etc. MediaTek affiliates support the Company's core business by acquiring leading technology through investment.

8.1.5. List of Directors, Supervisors and Presidents of MediaTek's Affiliated Companies

December 31, 2009 (Unit: share / %)

Company Name	Title	Name or Representative	Shares	% of Holding
MediaTek Investment Co.	Chairman	MediaTek Inc. Rep.: Ching-Jiang Hsieh	1,426,754,351	100%
	Director	MediaTek Inc. Rep.: Mingto Yu		
	Director	MediaTek Inc. Rep.: David Ku		
	Supervisor	MediaTek Inc. Rep.: Kirin Liu		
MediaTek Capital Co.	Chairman	MediaTek Investment Co. Rep.: Ching-Jiang Hsieh	333,404,065	100%
	Director	MediaTek Investment Co. Rep.: Mingto Yu		
	Director	MediaTek Investment Co. Rep.: David Ku		
	Supervisor	MediaTek Investment Co. Rep.: Kirin Liu		
Hsu-Ta Investment Ltd.	Director	MediaTek Inc. Rep.: Mingto Yu	Not applicable	100%
Hsu-Kang Investment Ltd.	Director	MediaTek Inc. Rep.: Mingto Yu	Not applicable	100%
Hsu-Chia Investment Ltd.	Director	MediaTek Inc. Rep.: Mingto Yu	Not applicable	100%
Hsu-Chuang Investment Corp.	Chairman	MediaTek Investment Co. Rep.: Ching-Jiang Hsieh	156,356,953	100%
	Director	MediaTek Investment Co. Rep.: Mingto Yu		
	Director	MediaTek Investment Co. Rep.: David Ku		
	Supervisor	MediaTek Investment Co. Rep.: Kirin Liu		
Hsu-Xin Investment Corp.	Chairman	MediaTek Investment Co. Rep.: Ching-Jiang Hsieh	156,356,962	100%
	Director	MediaTek Investment Co. Rep.: Mingto Yu		
	Director	MediaTek Investment Co. Rep.: David Ku		
	Supervisor	MediaTek Investment Co. Rep.: Kirin Liu		
Gaintech Co. Limited	Director	MediaTek Investment Co. Hsu-Chuang Investment Corp. Hsu-Xin Investment Corp. Rep.: Mingto Yu	319,975,440	100%
CoreTech Resources Inc.	Director	Hsu-Ta Investment Ltd. Hsu-Chia Investment Ltd. Hsu-Kang Investment Ltd. Rep.: Mingto Yu	57,200,000	100%
MediaTek Singapore Pte. Ltd.	Director	Gaintech Co. Limited Rep.: Ming-Kai Tsai	111,993,960	100%
	Director	Gaintech Co. Limited Rep.: Mingto Yu		
MediaTek India Technology Pvt. Ltd.	Director	Gaintech Co. Limited Rep.: Ji-Chiang Hsu	5,499,999	99.99%
	Director	Gaintech Co. Limited Rep.: Mingto Yu		
	Director	Gaintech Co. Limited Rep.: David Ku		
MediaTek Inc. China	Director	Gaintech Co. Limited Rep.: Mingto Yu	143,000,000	100%
MediaTek (Heifei) Inc.	Chairman/ Director	MediaTek Inc. China Rep.: Wen-Hsin Wang	Not applicable	100%
	Director	MediaTek Inc. China Rep.: Ching-Jiang Hsieh		
	Director	MediaTek Inc. China Rep.: Mingto Yu		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		

(cont.)

MediaTek (ShenZhen) Inc.	Chairman/ Director	MediaTek Inc. China Rep.: Wen-Hsin Wang	Not applicable	100%
	Director	MediaTek Inc. China Rep.: Ching-Jiang Hsieh		
	Director	MediaTek Inc. China Rep.: Mingto Yu		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
MediaTek (Beijing) Inc.	Chairman/ Director	MediaTek Inc. China Rep.: Wen-Hsin Wang	Not Applicable	100%
	Director	MediaTek Inc. China Rep.: Ching-Jiang Hsieh		
	Director	MediaTek Inc. China Rep.: Mingto Yu		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
MTK Wireless Limited (UK)	Director	MediaTek Singapore Pte. Ltd. Rep.: David Ku	4,414,003	100%
MediaTek Wireless Limited (Ireland)	Director	MediaTek Singapore Pte. Ltd. Rep.: David Ku	1,969,707	100%
	Director	MediaTek Singapore Pte. Ltd. Rep.: Donald Bergin		
MediaTek Denmark ApS	Director	MediaTek Singapore Pte. Ltd. Rep.: David Ku	20,000,000	100%
MediaTek USA Inc.	Director	Gaintech Co. Limited Rep.: David Ku	100,000	100%
MediaTek Wireless, Inc.	Director	MediaTek USA Inc. Rep.: David Ku	100,000	100%
MediaTek Japan Inc.	Chairman/ Director	Gaintech Co. Limited Rep.: David Ku	7,100	100%
	Director	Gaintech Co. Limited Rep.: Jeffrey Ju		
	Director	Gaintech Co. Limited Rep.: Osamu Ito		
	Supervisor	Gaintech Co. Limited Rep.: Kirin Liu		
MediaTek Korea Inc.	Director	Gaintech Co. Limited Rep.: Ping-Hsing Lu	200,000	100%
	Director	Gaintech Co. Limited Rep.: Mingto Yu		
	Director	Gaintech Co. Limited Rep.: David Ku		
	Supervisor	Gaintech Co. Limited Rep.: Kirin Liu		
	Director	Chorng-Kuang Wang	-	-
Zena Technologies Intl. Inc. (BVI)	Chairman/ Director	Gaintech Co. Limited Rep: Cheng-Fong Lee	600,000	80%
	Director	Gaintech Co. Limited Rep: HC Lee		
	Director	Zhi-Hua Tang	150,000	20%
	Director	Fawaz Habbal	-	-
	Director	Mario Kurosaki	-	-
Zena Technologies Inc. (USA)	Chairman/ Director	Zena Technologies Intl. Inc. (BVI) Rep: Cheng-Fong Lee	10,000	100%
	Director	Zena Technologies Intl. Inc. (BVI) Rep: Zhi-Hua Tang		
	Director	Zena Technologies Intl. Inc. (BVI) Rep: Fawaz Habba		
Vogins Technology Co. Ltd.	Chairman/ Director	Hu Zhu-Tao	330,000	4.56%
	Director	Vogins Investment Co., Ltd Rep.: Zhang Rong-Xia	630,410	8.71%
	Director	Gaintech Co. Limited Rep.: Steven Yuen	5,413,693	74.84%
	Director	Gaintech Co. Limited Rep.: David Ku		
	Director	Gaintech Co. Limited Rep.: Jane Chen		
	Director	Gaintech Co. Limited Rep.: Richard Wang		
	Director	Gaintech Co. Limited Rep.: WH Chen		
Vogins (Shanghai)	Chairman/ Director	Vogins Technology Co. Ltd. Rep.: Hu Zhu-Tao	Not applicable	100%

8.1.6. Operation Highlights of MediaTek Affiliated Companies

Dec. 31, 2009, Unit, NT\$1,000

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income	EPS (after tax)
MediaTek Investment Co.	14,267,544	30,435,437	-	30,435,437	11,425,275	11,424,347	11,423,067	8.01
MediaTek Capital Co.	3,334,041	8,363,414	7,803	8,355,611	355,435	355,251	334,543	1.00
Hsu-Ta Investment Ltd.	3,913,808	3,732,894	9,890	3,723,004	40,776	(21,179)	(30,711)	Not applicable
Hsu-Kang Investment Ltd.	3,634,700	3,468,605	8,912	3,459,693	36,045	(21,586)	(29,948)	Not applicable
Hsu-Chia Investment Ltd.	3,634,418	3,468,037	8,925	3,459,112	36,116	(21,515)	(30,118)	Not applicable
Hsu-Chuang Investment Corp.	1,563,570	3,654,203	-	3,654,203	1,847,292	1,847,134	1,845,311	11.80
Hsu-Xin Investment Corp.	1,563,570	3,654,203	-	3,654,203	1,847,292	1,847,134	1,845,311	11.80
Gaintech Co. Limited	10,248,813	27,477,126	3,884	27,473,242	15,268,489	14,834,606	14,834,606	46.36
CoreTech Resources Inc.	1,832,116	2,532,526	49	2,532,477	140,656	(174,240)	(174,240)	(3.05)
MediaTek Singapore Pte. Ltd.	2,554,067	15,953,891	7,239,048	8,714,843	38,641,982	14,805,351	14,595,779	130.33
MediaTek India Technology Pvt. Ltd.	37,967	179,115	26,875	152,240	159,132	28,231	20,190	3.67
MediaTek Inc. China	590,704	913,983	-	913,983	141,711	141,425	141,425	0.99
MediaTek (Heifei) Inc.	172,962	438,541	198,527	240,014	329,180	24,346	23,014	Not applicable
MediaTek (ShenZhen) Inc.	256,240	519,514	90,971	428,543	765,792	57,270	58,063	Not applicable
MediaTek (Beijing) Inc.	108,902	446,712	206,203	240,509	789,837	58,389	60,632	Not applicable
MTK Wireless Limited (UK)	228,330	408,261	109,646	298,615	501,321	32,797	24,449	5.54
MediaTek Wireless Limited (Ireland)	90,357	33,871	3,129	30,742	58,831	(63,586)	(71,281)	(36.19)
MediaTek Denmark ApS	123,372	281,818	121,489	160,329	319,219	19,184	1,184	0.06
MediaTek USA Inc.	3	3,212,349	51,376	3,160,973	726,758	(57,364)	146,244	1,462.44
MediaTek Wireless, Inc. (USA)	541,307	1,298,986	375,554	923,432	1,715,631	128,271	141,353	1,413.53
MediaTek Japan Inc.	122,227	142,705	14,600	128,105	196,402	12,849	4,761	670.57
MediaTek Korea Inc.	55,000	88,894	34,190	54,704	126,834	8,298	4,272	21.36
Zena Technologies Inc. (USA)	320	39,353	23	39,330	-	(40,339)	(40,110)	Not applicable
Zena Technologies Intl. Inc. (BVI)	240	42,539	-	42,539	1	(40,546)	(40,546)	Not applicable
Vogins Technology Co. Ltd.	28,963	50,121	-	50,121	-	(10,616)	(10,616)	Not applicable
Vogins Shanghai	83,919	45,504	3,693	41,811	23,289	(14,801)	(15,136)	Not applicable

Note: The amount of capital, asset, liabilities and net worth in this table were calculated using the exchange rate at end of 2009. The net sales, income from operation, net income and EPS numbers were calculated using the average exchange rate in 2009.

8.2. Private Placement Securities

None.

8.3. Holding or Disposition of MediaTek Stocks by Subsidiaries

Unit: NT\$1,000 / share / %

Subsidiary	Paid-in Capital	Source of Funding	% Owned by MediaTek	Transaction Date	Acquire Share & Amount	Disposal Shares	Investment Gain	Balance (share & amount)	Balance of Pledged Shares	Balance of Guarantee Provided by MediaTek	Balance of Financing Provided by MediaTek
MediaTek Capital Co.	3,334,041	None	100%	July 25, 2009	15,526 share, NT\$0 (note)	-	-	7,778,530 shares, NT\$55,970,000	-	-	-

Note: Stock dividend distributed in 2008

8.4. Other Significant Events

Any Events in 2009 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Rights or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

8.5. Other Necessary Supplement

None.

9. Financial Information

9.1. Condensed Balance Sheet

9.1.1. Condensed Balance Sheet – Parent Company

Unit: NT\$1,000

Item	2005	2006	2007	2008	2009
Current assets	40,636,546	47,496,552	62,612,568	45,752,665	69,190,377
Funds and investments	14,387,476	21,151,006	27,579,761	35,131,777	48,207,732
Fixed assets	3,841,696	4,814,984	5,221,845	5,243,216	5,896,167
Intangible assets	2,493,732	2,081,243	1,478,649	10,259,038	9,380,709
Other assets	1,359,805	1,122,400	397,515	200,730	241,321
Total assets	62,719,255	76,666,185	97,290,338	96,587,426	132,916,306
Current liabilities – Before distribution	9,917,489	9,079,678	11,285,891	14,893,337	23,767,572
Current liabilities – After distribution	20,444,881	24,642,566	34,337,696	29,917,469	(Note)
Long-term liabilities	-	-	-	-	-
Other liabilities	57,516	60,977	67,390	83,188	279,249
Total liabilities – Before distribution	9,975,005	9,140,655	11,353,281	14,976,525	24,046,821
Total liabilities – After distribution	20,502,397	24,703,543	34,405,086	30,000,657	(Note)
Capital stock	8,640,506	9,683,127	10,408,538	10,731,523	10,901,189
Capital reserve	263,536	404,409	2,539,843	2,757,311	8,267,826
Retained earnings – Before distribution	44,287,929	55,297,498	72,636,319	68,451,526	90,111,571
Retained earnings – After distribution	32,717,916	39,043,617	49,261,529	53,405,931	(Note)
Unrealized gains from financial instruments	-	2,679,976	808,374	(255,574)	172,173
Accumulated conversion adjustment	(391,751)	(483,510)	(400,047)	(17,915)	(527,304)
Treasury stock	(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
Total shareholders' equity – before distribution	52,744,250	67,525,530	85,937,057	81,610,901	108,869,485
Total shareholders' equity – after distribution	42,216,858	51,962,642	62,885,252	66,586,769	(Note)

Note: Pending on approval of shareholders at 2010 Annual General Shareholders' Meeting on June 15, 2010

9.1.2. Condensed Balance Sheet – MediaTek & Subsidiaries

Unit: NT\$1,000

Item	2005	2006	2007	2008	2009
Current assets	56,522,823	61,096,428	80,162,022	71,225,877	114,038,269
Funds and investments	1,702,926	7,347,772	7,646,960	8,969,627	6,661,594
Fixed assets	4,527,054	5,055,525	5,921,529	6,504,012	6,888,829
Intangible assets	2,821,633	2,107,139	4,351,857	12,029,070	10,622,893
Other assets	2,453,083	1,137,468	784,166	345,818	381,701
Total assets	68,027,519	76,744,332	98,866,534	99,074,404	138,593,286
Current liabilities – Before distribution	11,438,965	9,157,825	12,720,880	17,232,353	29,454,365
Current liabilities – After distribution	21,966,357	24,720,713	35,722,685	32,256,485	(Note)
Long-term liabilities	921,672	-	9,016	-	-
Other liabilities	214,921	60,977	67,390	83,188	248,318
Total liabilities – Before distribution	12,575,558	9,218,802	12,797,286	17,315,541	29,702,683
Total liabilities – After distribution	23,102,950	24,781,690	35,849,091	32,339,673	(Note)
Capital stock	8,640,506	9,683,127	10,408,538	10,731,523	10,901,189
Capital reserve	263,536	404,409	2,539,843	2,757,311	8,267,826
Retained earnings – Before distribution	44,287,929	55,297,498	72,636,319	68,451,526	90,111,571
Retained earnings – After distribution	32,717,916	39,043,617	49,261,529	53,405,931	(Note)
Unrealized gains from financial instruments	-	2,679,976	808,374	(255,574)	172,173
Accumulated conversion adjustment	(391,751)	(483,510)	(400,047)	(17,915)	(527,304)
Treasury stock	(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
Minority Interest	2,707,711	-	132,191	147,962	21,118
Total shareholders' equity – before distribution	55,451,961	67,525,530	86,069,248	81,758,863	108,890,603
Total shareholders' equity – after distribution	44,924,569	51,962,642	63,017,443	66,734,731	(Note)

Note: Pending on approval of shareholders at 2010 Annual General Shareholders' Meeting on June 15, 2010

9.2. Condensed Income Statement

9.2.1. Condensed Income Statement – Parent Company

Unit: NT\$1,000

Item	2005	2006	2007	2008	2009
Revenue	46,491,209	52,941,605	74,778,579	68,015,543	77,310,752
Gross profit	25,383,784	30,654,218	42,226,397	36,884,812	46,119,674
Income from operations	17,254,611	23,815,569	31,426,760	17,090,396	21,446,596
Non-operating income and gains	1,181,605	906,246	3,573,546	4,605,861	15,845,255
Non-operating expenses and losses	(37,357)	(355,629)	(167,376)	(726,440)	(13,908)
Income from operations of continued segments – before tax	18,398,859	24,366,186	34,832,930	20,969,817	37,277,943
Income from operations of continued segments – after tax	18,273,633	22,571,944	33,592,702	19,189,997	36,705,640
Accumulated adjustment due to change in accounting principle	-	7,638	-	-	-
Net income	18,273,633	22,579,582	33,592,702	19,189,997	36,705,640
Earnings per share	21.31	23.50	32.59	18.01	34.12
Earnings per share – adjusted	17.17	21.22	31.54	17.98	(Note)

Note: Pending on approval of shareholders at 2010 Annual General Shareholders' Meeting on June 15, 2010

9.2.2. Condensed Income Statement – MediaTek & Subsidiaries

Unit: NT\$1,000

Item	2005	2006	2007	2008	2009
Revenue	52,802,760	56,397,285	80,671,769	90,402,041	115,511,625
Gross profit	27,277,268	31,878,481	45,330,881	47,336,319	67,817,390
Income from operations	17,174,397	23,265,179	31,889,180	21,061,222	36,387,164
Non-operating income and gains	2,002,479	2,107,815	3,753,812	2,320,950	1,224,948
Non-operating expenses and losses	(180,416)	(388,322)	(790,707)	(2,284,042)	(192,026)
Income from operations of continued segments – before tax	18,996,460	24,984,672	34,852,285	21,098,130	37,420,086
Income from operations of continued segments – after tax	18,860,663	23,145,896	33,390,134	19,174,240	36,695,466
Accumulated adjustment due to change in accounting principle	-	9,314	-	-	-
Net income – consolidated	18,860,663	23,155,210	33,390,134	19,174,240	36,695,466
Net income – parent company	18,273,633	22,579,582	33,592,702	19,189,997	36,705,640
Earnings per share	21.31	23.50	32.59	18.01	34.12
Earnings per share – adjusted	17.17	21.22	31.54	17.98	(Note)

Note: Pending on approval of shareholders at 2010 Annual General Shareholders' Meeting on June 15, 2010

9.3. Independent Auditors' Opinions

Year	CPA Firm	Name of Auditors (CPA)	Audio Opinion
2005	Ernst & Young	Hwei-Hsin Yeh, Ting-Ming Chang	Unqualified Opinions
2006	Ernst & Young	Hwei-Hsin Yeh, Ting-Ming Chang	Revised Unqualified Opinions
2007	Ernst & Young	Hsin-Ming Hsu, Chien-uo Yang	Unqualified Opinions
2008	Ernst & Young	Shou-Pin Kuo, Hsin-Ming Hsu	Revised Unqualified Opinions
2009	Ernst & Young	Shou-Pin Kuo, Hsin-Ming Hsu	Unqualified Opinions

9.4. Financial Statements for the Past 5 Years

9.4.1. Financial Statements – Parent Company

Item		2005	2006	2007	2008	2009
Capital structure analysis	Debt ratio (%)	15.90	11.92	11.67	15.51	18.09
	Long-term fund to fixed assets ratio (%)	1,372.94	1,402.40	1,645.72	1,556.50	1,846.45
Liquidity analysis (%)	Current ratio (%)	409.75	523.11	554.79	307.20	291.11
	Quick ratio (%)	376.61	483.82	468.90	282.85	269.13
	Times interest earned (Times)	N/A	N/A	N/A	N/A	N/A
Operating performance analysis	Average collection turnover (Times)	11.67	12.72	15.21	16.20	27.74
	Average accounts receivable days (Days)	31	29	24	23	13
	Average inventory turnover (Times)	5.92	6.11	4.71	4.39	5.17
	Average payment turnover (Times)	5.57	4.83	5.96	6.15	5.50
	Average inventory turnover (Days)	62	60	77	83	71
	Fixed assets turnover (Times)	15.84	12.23	14.90	13.00	13.88
	Total assets turnover (Times)	0.84	0.76	0.86	0.70	0.67
Profitability analysis	Return on total assets (%)	33.14	32.4	38.62	19.80	31.99
	Return on equity (%)	38.32	37.55	43.78	22.91	38.54
	Operating income to paid-in capital (%)	199.69	245.95	301.93	168.64	196.74
	Pre-tax income to paid-in capital (%)	212.94	251.71	334.66	195.40	341.96
	Net profit margin (%)	39.30	42.65	44.92	28.21	47.48
	Basic earnings per share (NT\$)	21.31	23.50	32.59	18.01	34.12
	Earnings per share – adjusted (NT\$)	17.17	21.22	31.54	17.98	N/A
Cash flow	Cash flow ratio (%)	232.53	257.00	243.65	224.17	158.31
	Cash flow adequacy ratio (%)	254.70	215.68	170.33	151.35	174.03
	Cash flow reinvestment ratio (%)	28.53	19.75	14.06	14.27	22.16
Leverage	Operating leverage	1.16	1.16	1.71	2.77	2.71
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Changes that exceed 20% in the past two years and explanation for those changes:

- (1) Average collection turnover increased by 71% and average accounts receivable days decreased by 43%: Mainly due to increase in sales.
- (2) Average inventory turnover increased by 22%: Mainly due to decrease of average inventory in this period.
- (3) Return on total assets increased by 62%, return on equity increased by 68%, operating income to paid-in capital increased by 75%, net profit margin increased by 68%, and earnings per share increased by 89%: Mainly due to higher revenue and net profit that led to higher pre-tax income and net profit in this period.
- (4) Cash flow ration decreased by 29%: Mainly due to the growth of revenue and net profit that led to higher accounts payables and employee profit sharing expense liabilities.
- (5) Cash flow reinvestment ratio increased by 55%: Mainly due to increase of operating cash inflow and decrease of cash dividend.

9.4.2. Financial Statements – MediaTek & Subsidiaries

Item		2005	2006	2007	2008	2009
Capital structure analysis	Debt ratio (%)	18.49	12.01	12.94	17.48	21.43
	Long-term fund to fixed assets ratio (%)	1,245.26	1,333.68	1,453.65	1,257.05	1,580.68
Liquidity analysis (%)	Current ratio (%)	494.13	667.15	630.16	413.33	387.17
	Quick ratio (%)	461.51	628.14	545.23	379.12	358.50
	Times interest earned (Times)	990.04	3,662.59	533.70	2,101.36	59,873.14
Operating performance analysis	Average collection turnover (Times)	12.20	12.65	14.10	13.91	17.62
	Average accounts receivable days (Days)	30	29	26	26	21
	Average inventory turnover (Times)	6.50	6.14	4.74	4.71	5.37
	Average payment turnover (Times)	6.13	4.93	5.98	6.92	5.71
	Average inventory turnover (Days)	56	59	77	77	68
	Fixed assets turnover (Times)	15.88	11.77	14.70	14.55	17.25
	Total assets turnover (Times)	0.91	0.78	0.92	0.91	0.97
Profitability analysis	Return on total assets (%)	32.59	32.00	38.08	19.38	30.88
	Return on equity (%)	38.40	37.66	43.48	22.85	38.50
	Operating income to paid-in capital (%)	198.77	240.27	306.38	207.87	333.79
	Pre-tax income to paid-in capital (%)	219.85	258.02	334.84	196.60	343.27
	Net profit margin (%)	35.72	41.06	41.39	21.21	31.77
	Basic earnings per share (NT\$)	21.31	23.50	32.59	18.01	34.12
	Earnings per share – adjusted (NT\$)	17.17	21.22	31.54	17.98	N/A
Cash flow	Cash flow ratio (%)	207.60	257.80	206.28	206.58	187.55
	Cash flow adequacy ratio (%)	241.75	217.81	165.42	149.55	179.19
	Cash flow reinvestment ratio (%)	28.54	20.17	12.93	17.57	39.61
Leverage	Operating leverage	2.23	1.79	1.87	2.94	2.42
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Changes that exceed 20% in the past two years and explanation for those changes:

- (1) Debt ratio increased by 23%: Mainly due to increase in revenue and net profit that derived the increase of current liability associated with account payables and employee profit sharing expensing.
- (2) Long-term fund to fixed assets ratio increased by 26%: Mainly due to increase in shareholders' equity derived from higher net income in the period.
- (3) Times interest earned increased by 2,749%: Due to increased pre-tax net income and reduced interest expenses in the period.
- (4) Average collection turnover increased by 27%: Mainly due to increase in sales.
- (4) Return on total assets increased by 59%; return on equity increased by 68%; operating income to paid-in capital increased by 61%; Pre-tax income to paid-in capital increased by 75%, net profit margin increased by 50%; earnings per share increased by 89%: Mainly due to higher revenue and net profit that led to higher pre-tax income and net profit in this period.
- (5) Cash flow reinvestment ratio increased by 125%: Due to increase of cash inflow from operation and the decrease in cash dividend.

Glossary:

1. Capital Structure Analysis:

- (1). Debt ratio = Total liabilities / Total assets
- (2). Long-term fund to fixed assets ratio = (Shareholders' Equity + Long-term liabilities) / Net fixed assets ratio

2. Liquidity Analysis:

- (1). Current ratio = Current assets / Current liabilities
- (2). Quick ratio = (Current assets – Inventories – Prepaid Expenses) / Current liabilities
- (3). Times interest earned = Earnings before interest and taxes / Interest expenses

3. Operating Performance Analysis:

- (1). Average collection turnover = Net sales / Average balance of receivable in all periods
- (2). Average accounts receivable days = 365 / Average collection turnover
- (3). Average inventory turnover = Cost of goods sold / Average inventory
- (4). Average payment turnover = Cost of goods sold / Average balance of payable
- (5). Average inventory turnover days = 365 / Inventory turnover
- (6). Fixed assets turnover = Net sales / Net fixed assets
- (7). Total assets turnover = Net sales / total assets

4. Profitability Analysis:

- (1). Return on total assets = [Earnings + Interest expenses x (1 – tax rate)] / Average total assets
- (2). Return on shareholders' equity = Earnings / Net average shareholders' equity
- (3). Net profit margin = Earnings / Net sales
- (4). Earnings per share = (Earning - Preferred stock dividend) / Weighted average outstanding shares

5. Cash Flow:

- (1). Cash flow ratio = Net cash flow from operation / Current Liabilities
- (2). Cash flow adequacy ratio = Net cash flow from operation over the last five years / (Capital spending + increase in inventory + cash dividend) in the last five years
- (3). Cash flow reinvestment ratio = (Net cash flow from operation – Cash dividend) / (Gross fixed assets + Long-term investment + other assets + working capital)

6. Leverage:

- (1). Operation leverage = (Net income from operation – Variable operating cost and expenses) / Income from operation
- (2). Financial leverage = Income from operation / (Income from operation – Interest expenses)

9.5. Supervisors' Review Report

MediaTek Inc. Supervisors' Report

The Financial Statements of MediaTek Inc. in fiscal year 2009 have been duly audited by Ernst & Young and are believed to fairly represent the financial standing, operation results and cash flows of MediaTek Inc. We, the Supervisors, have duly reviewed the Financial Statements along with the Business Report and proposal for profits distribution and hereby verify that they comply with the requirements of Company Law and relevant regulations. This report is duly submitted in accordance with Article 219 of the Company Law, and we hereby submit this report.

To MediaTek Inc. 2010 Annual General Shareholders' Meeting

MediaTek Inc.

Supervisor: Paul Wang (MediaTek Capital Corp., representative)

Supervisor: Chung-Lang Liu (National Tsing Hua University, representative)

Supervisor: Yan-Kuin Su (National Cheng Kung University, representative)

March 26, 2010

9.6. Financial Statements and Independent Auditors' Report – Parent Company

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

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

Independent Auditors' Report

(English translation of a report originally issued in Chinese)

To the Board of Directors and Shareholders
of MediaTek Inc.

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

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

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

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

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

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

Notice to Readers

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

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

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

(Amounts in thousands of New Taiwan Dollars)

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

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Minto Yu

MEDIATEK INC.

STATEMENTS OF INCOME

For the years ended December 31, 2009 and 2008

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

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

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIATEK INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2009 and 2008
(Amounts in thousands of New Taiwan Dollars)

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

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

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIATEK INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2009 and 2008

(Amounts in thousands of New Taiwan Dollars)

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

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

**MEDIATEK INC.
NOTES TO FINANCIAL STATEMENTS**

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

1. Organization and Operation

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

As of December 31, 2009 and 2008, total numbers of employees of the Company were 2,331 and 2,134, respectively.

2. Summary of Significant Accounting Policies

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

Cash Equivalents

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

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

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

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

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

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

Financial Assets and Financial Liabilities

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

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

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

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

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.

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

Allowance for Doubtful Accounts

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

Inventories

Prior to January 1, 2009, inventories were carried at lower of cost or market value. Cost was determined based on the weighted average method. Replacement cost is used to determine the market value of raw materials. Net realizable value is used to determine the market value of work in

process and finished goods. The lower of cost or market value is applied on a gross basis to the entire inventory. Inventories that were not sold or moved for further production were assessed allowance and set aside to reflect the potential loss from stock obsolescence.

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

Investment Accounted for Using the Equity Method

- A. Long-term investments in which the Company holds an interest of 20% or more or has the ability to exercise significant influence are accounted for under the equity method of accounting. The difference between the cost of the investment and the net equity value of the investee ("investment premium") at the date of acquisition is amortized over 5 years. Effective from January 1, 2006, pursuant to the newly revised R.O.C. SFAS No. 25 "Business Combinations - Accounting Treatment under Purchased Method", investment premiums, representing goodwill, are no longer amortized but are assessed for impairment at least on an annual basis. In some cases, the fair value of the net identifiable assets of the investee will exceed the investment cost, that excess represents investment discount. Investment discounts generated before January 1, 2006, continue to be amortized over the remaining period. Investment discounts generated after December 31, 2005 shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired noncurrent assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain in profit or loss. Adjustment to capital reserve and long-term investment is required when the holding percentage changes due to unproportional subscription to investee's new shares issued. If the capital reserve is insufficient, retained earnings are adjusted. An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an investee and shall account for the investment in accordance with the R.O.C. SFAS No. 34 "Accounting for Financial Instruments" from that date. The carrying amount of the investment at the date that the Company ceases to have significant influence over the investee shall be regarded as its cost on initial measurement as a financial asset.
- B. Unrealized gains and losses arising from intercompany transactions are deferred and recognized when realized.
- C. For equity investees in which the Company does not possess control, the Company recognizes its investee's losses only to the extent of the Company's long-term investment on that investee. However, if the Company intends to provide further financial support for the investee company, or the investee company's losses are temporary and there exists sufficient evidence showing imminent return to profitable operations, then the Company shall continue to recognize investment losses in proportion to the stock ownership percentage. Such credit balance for the long-term investment shall first be offset by the advance (if any) the Company made to the investee company, the remaining shall be recorded under other liabilities. For equity investees in which the Company possesses control, the Company recognizes its investee's total losses unless other investors are obligated to and have the ability to assume a portion of the loss. Once the investee company begins to generate profit, such profit is allocated to the Company until all the losses previously absorbed by the Company have been recovered.
- D. The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of the Company, and the accounts of investees in which the Company's ownership percentage is less than 50% but the Company has a controlling interest.

Property, Plant and Equipment

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

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

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

Capital Expenditures vs. Operating Expenditures

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

Revenue Recognition

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

Employee Retirement Benefits

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

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.

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.
- 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.

3. Reasons and Effects for Change in Accounting Principles

- A. Effective from January 1, 2008, the Company adopted the newly released R.O.C. SFAS No.39 "Accounting for Share-Based Payment". The adoption decreased the Company's net income by NT\$39,843 thousand and basic earnings per share by NT\$0.04 for the year ended December 31, 2008.
- B. Effective from January 1, 2008, the Company adopted the newly released Accounting Research and Development Foundation Interpretation No. 96-052 to account for employee bonuses and remunerations paid to directors and supervisors. The adoption decreased the Company's net income by NT\$6,327,236 thousand and basic earnings per share by NT\$5.93 for the year ended December 31, 2008.
- C. Effective from July 1, 2008, the Company adopted the second amendment of R.O.C. SFAS No. 34 "Accounting for Financial Instruments" and reclassified certain of its financial assets and liabilities in accordance with the new standards. Such a change in accounting principles increased net income by NT\$29,400 thousand and basic earnings per share by NT\$0.03 for the year ended December 31, 2008.
- D. Effective from January 1, 2009, the Company adopted the newly released R.O.C. SFAS No.10 "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value on an item-by-item basis except when the grouping of similar or related items is appropriate; (2) unallocated overheads resulted from low production or idle capacity are recognized as cost of goods sold in the year in which they are incurred; and (3) abnormal cost, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the year. Such changes in accounting principal did not have a significant impact on the Company's financial statements as of and for the year ended December 31, 2009. In addition, non-operating expense of NT\$1,076,264 thousand and non-operating income of NT\$68,994 thousand for the year ended December 31, 2008 have been reclassified to cost of goods sold.

E. According to the newly revised Income Tax Act of R.O.C., the income tax rate of profit-seeking enterprise has changed from 25% to 20% effective from January 1, 2010. Such a change in income tax rate did not have a significant impact on the Company's net income and basic earnings per share for the year ended December 31, 2009.

4. Contents of Significant Accounts

(1) Cash and Cash Equivalents

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

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

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

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

Credit-linked deposits and interest rate-linked deposits are hybrid financial instruments. Since it is impractical to measure the fair value of the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire hybrid instruments were designated as financial instruments at fair value through profit or loss. Please refer to Note 10 to the financial statements for the disclosure of relative risk information for those financial instruments.

b. Reclassification of financial instruments

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

Held-for-trading financial assets:

The Company's financial assets classified as held-for-trading are no longer for near-term trading, but did not meet the definition of loans and receivables. However, based on the relevant guidance issued by International Accounting Board, Financial Supervisory Commission, Executive Yuan, and Accounting Research and Development Foundation, the Company believes that the economy condition during third quarter of 2008 had constituted "the rare circumstances" described by the reclassification amendments in R.O.C. SAFS No. 34, thus the Company reclassified some investments originally classified as held-for-trading, which amounted to NT\$691,600 thousand, into the available-for-sale category.

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

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

(c) Gain or loss on reclassified financial assets recognized arising from variance of fair value:
For the year ended December 31, 2008, the Company recognized losses of NT\$29,400 thousand on the financial instruments reclassified during the third quarter of 2008.

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

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

c.

	As of December 31,	
	2009	2008
Held-for-trading financial liabilities-current		
Forward exchange contracts	\$-	\$2,956

The Company entered into derivative contracts during the years ended December 31, 2009 and 2008 to manage exposures to foreign exchange rate changes. The derivative contracts entered into by the Company did not meet the criteria of hedge accounting prescribed by SFAS No. 34. Therefore, they were recorded as the financial assets or liabilities at fair value through profit or loss. Please refer to Note 10 to the financial statements for the disclosure of relative risk information.

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

(1) As of December 31, 2009:

Held-for-trading financial assets:

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

(2) As of December 31, 2008:

Held-for-trading financial assets:

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

Held-for-trading financial liabilities:

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

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

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

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

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

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

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

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

(5) Accounts Receivable-Net

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

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

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

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

(6) Other Receivables

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

(7) Inventories-Net

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

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

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

(8) Funds and Investments

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

Investee Company	As of December 31, 2008			Ownership
	Type	Share/unit	Amount	
<u>Financial assets designated as at fair value</u>				
<u>through profit or loss-noncurrent</u>				
Foxconn Credit-linked Deposit	Credit-linked deposit	-	\$51,442	-
<u>Available-for-sale financial assets-noncurrent</u>				
Cathay No. 1 Real Estate Investment Trust	Mutual fund	70,000,000	\$662,200	-
IIT Private Equity Real Estate Fund	Mutual fund	4,685,006	50,554	-
Cathay No. 2 Real Estate Investment Trust	Mutual fund	50,000,000	442,000	-
Chinatrust 2006-1 Collateralized Loan Obligation-D	Securities	608	598,640	-
Chinatrust 2006-1 Collateralized Loan Obligation-E	Securities	246	245,238	-
Nanya 96-1 Corporate Bonds	Bond	250	246,445	-
Chinatrust 92-2 Financial Debenture	Financial debenture	2	202,989	-
Subtotal			2,448,066	
<u>Held-to-maturity financial assets- noncurrent</u>				
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	100,000	-
Chinatrust 96-2 Second Financial Debenture with no mortgage	Financial debenture	25	250,000	-
Taiwan Power 93-1 the Fourth Corporate Bond-E	Bond	20	98,771	-
Nanya 94-2 the Second Corporate Bond-C	Bond	400	397,295	-
Taiwan Power 92-2 the Third Corporate Bond-K	Bond	25	124,330	-
Mega 41P1 Second Financial Debenture	Financial debenture	20	188,364	-
Subtotal			1,158,760	
(To be continued)				

(Continued)

Investee Company	As of December 31, 2008			Ownership
	Type	Share/unit	Amount	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Series B Preferred stock	25,000,000	1,000,000	-
<u>Investments accounted for using the equity method</u>				
MediaTek Investment Corp.	Common share	1,164,731,096	15,118,826	100.00%
Hsu-Ta Investment Limited	Capital	-	3,626,880	100.00%
Hsu-Chia Investment Limited	Capital	-	3,371,248	100.00%
Hsu-Kang Investment Limited	Capital	-	3,371,659	100.00%
Hsu-Chung Investment Corp.	Common share	150,000,000	1,889,711	100.00%
Hsu-Xin Investment Corp.	Common share	150,000,000	1,889,711	100.00%
ALi Corporation	Common share	64,034,349	1,208,514	21.14%
Subtotal			30,476,549	
Add : Unrealized (gain) loss on disposal of long-term equity investments			(3,040)	
Subtotal			30,473,509	
Total			<u>\$35,131,777</u>	

- b. For the years ended December 31, 2009 and 2008, the Company recognized investment gain accounted for under the equity method in the amount of NT\$15,121,930 thousand and NT\$2,954,090 thousand, respectively, based on the audited financial statements of the investee companies.
- c. For the years ended December 31, 2009 and 2008, the Company recognized an unrealized gain (loss) of NT\$163,929 thousand and NT\$(862,633 thousand) in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for under the equity method, respectively.
- d. The Company issued employee stock options to subsidiaries' employees in 2009 and 2008, and recorded an increase in capital reserve in an aggregate amount of NT\$87,864 thousand and NT\$40,644 thousand, respectively. Please refer to note 4(15).
- e. In 2009 and 2008, under the equity method, the Company recognized changes in investees' capital reserve by NT\$19,286 thousand and NT\$30,787 thousand, respectively.
- f. In April 2008, the Company invested NT\$1,500,000 thousand in both Hsu-Chung Investment Corp. and Hsu-Xin Investment Corp., representing 100% of their total common shares.
- g. In August 2008, as Wiseali Technology Inc. was liquidated, the Company recognized an investment disposal loss of NT\$5,334 thousand.
- h. In 2008, the Company assessed that its investment in EoNex Technologies Inc. has been impaired and recognized an impairment loss of NT\$12,126 thousand.
- i. In 2008, the Company invested in Nanya 96-1 Corporate Bonds and Chinatrust 92-2 Financial Debenture which were classified as available-for-sale financial assets. The investment cost and face value amounted to NT\$445,347 thousand and NT\$450,000 thousand, respectively.
- j. In 2008, the Company invested in Taiwan Power 93-1 the Fourth Corporate Bond-E, Nanya 94-2 the Second Corporate Bond-C, Taiwan Power 92-2 the Third Corporate Bond-K and Mega 41P1 Second Financial Debenture which were classified as held-to-maturity financial assets. The investment cost and face value amounted to NT\$805,466 thousand and NT\$825,000 thousand, respectively.
- k. In 2009, the Company sold Foxconn Credit-linked Deposit which was classified as financial assets designated as at fair value through profit or loss at the price of NT\$50,208 thousand and recognized a valuation gain on financial assets of NT\$208 thousand.

- i. In 2009, the Company sold IIT Private Equity Real Estate Fund and other financial assets which were classified as available-for-sale financial assets at the aggregate price of NT\$1,481,150 thousand and recognized an investment disposal loss of NT\$5,106 thousand.
 - m. In March 2009, the Company sold Chinatrust 96-2 Financial Debenture which was classified as held-to-maturity financial assets before maturity at the price of NT\$242,498 thousand and recognized an investment disposal loss of NT\$7,502 thousand. The Company reclassified the remaining held-to-maturity financial assets, such as Cathay Real Estate Investment Trust-Tun Nan C, to available-for-sale financial assets-noncurrent in the amount of NT\$910,714 thousand.
 - n. In December 2005, our investment in series B preferred stocks ("Preferred B") of Chinatrust Financial Holding Company was increased by NT\$1,000,000 thousand. Terms and conditions of the stock are listed as follows:
 - (a) Duration : 7 years
 - (b) Par value : \$10 per share
 - (c) Issuing price : \$40 per share
 - (d) Dividends:
 - Dividend is at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.
 - (e) Redemption at maturity:
 - Preferred B is a 7-year preferred stock. Redemption price at maturity is at 100% of the issuing price, i.e. NT\$40 per share.
 - o. Funds and investments mentioned above were not pledged as of December 31, 2009 and 2008.
- (9) Property, Plant and Equipment
- a. No interest was capitalized for the years ended December 31, 2009 and 2008.
 - b. Property, plant and equipment were not pledged as of December 31, 2009 and 2008.

(10) Intangible Assets

a.

	For the year ended December 31, 2009		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$1,893,431	\$6,863,970	\$8,757,401
Increase - separately acquired	509,845	337,916	847,761
Decrease - elimination and others	(505,764)	-	(505,764)
Balance at end of period	<u>1,897,512</u>	<u>7,201,886</u>	<u>9,099,398</u>
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	<u>(1,629,718)</u>	<u>(4,906,182)</u>	<u>(6,535,900)</u>
Net	<u>\$267,794</u>	<u>\$2,295,704</u>	<u>\$2,563,498</u>

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

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

(11) Accrued Pension Liabilities

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

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

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

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

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

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

e. The underlying actuarial assumptions

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

(12) Common Stock

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

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

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

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

(13) Legal Reserve

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

(14) Capital Reserve

	As of December 31,	
	2009	2008
Additional paid-in capital	\$7,385,442	\$2,090,759
Treasury stock transaction	583,194	474,512
Donated assets	1,260	1,260
Long-term equity investment	169,422	150,136
Employee stock option	128,508	40,644
Total	\$8,267,826	\$2,757,311

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

The Company had paid cash dividends in the amount of NT\$108,682 thousand and NT\$146,037 thousand to the subsidiary who owned the Company's common shares for the years ended December 31, 2009 and 2008, respectively. Since the Company's shares held by the subsidiary are treated as treasury stocks, the cash dividends paid to the Company's subsidiary are accounted for as an adjustment to capital reserve; under the category of treasury stock transactions.

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

(15) Employee Stock Options

In December 2007 and July 2008, the Company was authorized by the Financial Supervisory Commission, Executive Yuan, to issue employee stock options with a total number of 5,000,000 units and 3,000,000 units, each option eligible to subscribe for one common share. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company's shareholding with voting rights, directly or indirectly, is more than fifty percent. The options are valid for ten years and exercisable at certain percentage subsequent to the second anniversary of the granted date. Under the terms of the plan, the options are granted at an exercise price equal to the closing price of the Company's common share listed on the TWSE on the grant date.

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

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

Note: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash or the appropriations of earnings) in accordance with the plan.

The compensation cost was recognized under the fair value method and the Black-Scholes Option Pricing model was used to estimate the fair value of options granted. In 2009 and 2008, the investment loss on equity investment arising from employee stock option compensation cost were NT\$87,864 thousand and NT\$40,644 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

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

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

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

The information regarding the Company's outstanding stock options as of December 31, 2009 is disclosed as follows:

	Outstanding Stock Options				Exercisable Stock Options	
	Range of Exercise Price (NTD)	Options (Unit)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Stock option plan of 2007	\$365.2~382.0	2,455,257	4.99	\$372	-	\$-
Stock option plan of 2009	473.0	1,335,028	6.13	473	-	-
		<u>3,790,285</u>		\$408	<u>-</u>	

(16) Earnings Distribution and Dividends Distribution Policy

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

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

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

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

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

current income as operating expenses for the years ended December 31, 2009 and 2008. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, the Company shall recognize the change as an adjustment to income of next year.

(17) Treasury Stock

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

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

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

Note : Stock dividends

(18) Net Operating Revenue

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

(19) Personnel, Depreciation and Amortization Expenses

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

(20) Income Tax

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

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

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

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

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

(To be continued)

(Continued)

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

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

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

c. Pursuant to Article 9-2 of the "Statute for Upgrading Industries", the Company is qualified as a technical service industry and is therefore entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. The Company has elected the tax exemption periods from January 1, 2005 through December 31, 2009, January 1, 2007 through December 31, 2011, and January 1, 2009 through December 31, 2013.

d. The Company's income tax returns for the years from 2002 to 2005 have been assessed by the tax authorities and NT\$1,835,978 thousand of additional income tax payable was imposed. The discrepancy between the Company's tax return filing and the result of tax authority's assessment was mainly due to different interpretations on calculating exempted income. After assessing the potential outcome, the Company has fully accrued the additional tax liability. Although the Company has vigorously filed several administrative appeals to tax authority and Courts, the Company has paid the amount in full.

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

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

f.

Integrated income tax information

As of December 31,

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

Note: The ratio was computed based on the amount of actual available shareholders' tax credits plus estimated income tax payable as of December 31, 2009.

g. Information related to undistributed retained earnings

As of December 31,

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

(21) Earnings Per Share

The Company's capital structure is classified as complex capital structure after the issuance of employee stock options. Both of the shares of employee stock options (if exercised) and the shares of employee bonuses as expense have dilutive effects. Basic earnings per share and dilutive earnings per share were disclosed as follows:

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

Contents	For the year ended December 31,	
	2009	2008
Common shares outstanding, beginning	1,073,152,299	1,040,853,762
Stock issuance for stockholder' bonus, July 22, 2008	-	10,408,537
Stock issuance for employees' bonus, July 22, 2008	-	21,890,000
Weighted-average of new shares issued for employees' bonus, June 10, 2009	8,323,703	-
Stock issuance for stockholder' bonus , July 25, 2009	2,146,304	2,146,304
Subtotal	1,083,622,306	1,075,298,603
Less: the Company's shares owned by the subsidiary	(7,778,530)	(7,778,530)
Weighted-average shares outstanding for the period	1,075,843,776	1,067,520,073
Effect of dilutive potential common shares:		
Bonus to employees	28,407,903	29,040,340
Stock option to employees	279,444	-
Weighted-average of dilutive shares outstanding	1,104,531,123	1,096,560,413

	Amount (Numerator)		Shares (Denominator)	Earnings per share	
	Before tax	After tax		Before tax	After tax
<u>For the year ended December 31, 2009</u>					
Basic EPS					
Net income	\$37,277,943	\$36,705,640	1,075,843,776	\$34.65	\$34.12
Effect of dilutive potential common shares:					
Bonus to employees	-	-	28,407,903		
Stock option to employees	-	-	279,444		
Diluted EPS	\$37,277,943	\$36,705,640	1,104,531,123	\$33.75	\$33.23
<u>For the year ended December 31, 2008</u>					
Basic EPS					
Net income	\$20,969,817	\$19,189,997	1,067,520,073	\$19.64	\$17.98
Effect of dilutive potential common shares:					
Bonus to employees	-	-	29,040,340		
Diluted EPS	\$20,969,817	\$19,189,997	1,096,560,413	\$19.12	\$17.50

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:

	Amount (Numerator)		Shares (Denominator)	Earnings per share	
	Before tax	After tax		Before tax	After tax
<u>For the year ended December 31, 2009</u>					
Pro-forma EPS					
Net income	\$37,277,943	\$36,705,640	1,075,843,776		
The effect of the Company's shares owned by its subsidiary not treated as treasury stock					
	108,682	108,682	7,778,530		
Total	<u>\$37,386,625</u>	<u>\$36,814,322</u>	<u>1,083,622,306</u>	<u>\$34.50</u>	<u>\$33.97</u>

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

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
Alpha Imaging Technology Corp. ("Alpha")	A subsidiary of the Company served as Alpha's director
JMicron Technology Corporation ("JMicon")	The Company's chairman doubles as JMicon's chairman
Airoha Technology, Inc. ("Airoha")	Equity investee
MediaTek Singapore Pte. Ltd. ("MSL")	Affiliated company
MTK Wireless Limited-UK ("MUK")	Affiliated company
MediaTek Wireless Limited-Ireland ("MIR")	Affiliated company
MediaTek Wireless, Inc.-USA ("MWS")	Affiliated company
MediaTek Denmark ApS (MDK)	Affiliated company
Directors, supervisors and key managers	The Company's major managers

(2) Major transactions with related parties

a. Sales

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

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

b. IC testing, experimental services and manufacturing technology services

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

c. Rental Income

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

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

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

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

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

(3) Receivables and payables resulted from the above transactions

a. Receivables from related parties

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

b. Payables to related parties

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

c. Remunerations paid to major managers

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

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

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

6. Assets Pledged As Collateral

(1) As of December 31, 2009

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

(2) As of December 31, 2008

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

7. Commitments and Contingencies

(1) Lawsuit:

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

(2) Operating Lease:

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

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

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

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

- i. The fair values of the Company's short-term financial instruments approximate their carrying values at the reporting date due to their short maturities. This method was applied to cash and cash equivalents, receivables, other receivables, payables, income tax payable, accrued expenses and payables to contractors and equipment suppliers.
- ii. The fair values of the Company's refundable deposits, deposits received and restricted deposits approximate their carrying value because the Company predicts the future cash inflows or outflows will be of similar amounts to the carrying values.
- iii. The fair values of held-for-trading financial assets and available-for-sale financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
- iv. The fair values of held-to-maturity financial assets were based on their quoted market

prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques. Such techniques use rates of returns from similar financial instruments as discount rates.

- v. The bond portfolios with no active market have no quoted price from active market but have fixed or determinable payments. Fair values are estimated using the discounted cash flow method.
- vi. The fair values of the Company's investments accounted for under the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.
- vii. The fair values of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.

(b) Gains recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$13,114 thousand and NT\$30,601 thousand for the years ended December 31, 2009 and 2008, respectively.

(c) As of December 31, 2009 and 2008, financial assets exposed to fair value risk from fixed interest rate were NT\$56,579,590 thousand and NT\$38,295,963 thousand, respectively, and financial assets exposed to cash flow risk from variable interest rate were NT\$6,767 thousand and NT\$251,650 thousand, respectively.

(d) Interest income recognized from financial assets and financial liabilities that are not at fair value through profit or loss amounted to NT\$420,185 thousand and NT\$749,912 thousand for the years ended December 31, 2009 and 2008, respectively. The Company recognized an unrealized gain of NT\$258,712 thousand and an unrealized loss of NT\$368,943 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2009 and 2008, respectively, and the amounts that were recycled from equity to loss were NT\$5,106 thousand and NT\$167,628 thousand for the years ended December 31, 2009 and 2008, respectively. The Company also recognized an unrealized gain of NT\$163,929 thousand and an unrealized loss of NT\$862,633 thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for under the equity method for the years ended December 31, 2009 and 2008, respectively. Please refer to Note 4.(8) to the financial statements for details.

(e) The impairment loss on financial assets amounted to NT\$0 and NT\$12,126 thousand for the years ended December 31, 2009 and 2008, respectively.

b.

a. Risk management policy and hedge strategy for financial instruments

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

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

b. Information of financial risks

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

Market risk

Market risk mainly includes currency risk. It comes from the purchases or sales activities which are not denominated in the Company's functional currency. The Company reviews its assets and liabilities denominated in foreign currency and enters into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Had the USD moved against NTD by increasing 1 cent, the fair value of the forward exchange contracts would decrease by NT\$550 thousand and NT\$1,150 thousand as of December 31, 2009 and 2008, respectively. Credit-linked deposits and interest rate-linked deposits are affected by interest rates. When interest rate increases, the market value may decrease and may even be below the initial investment cost, and vice versa. The fair value of exchange rate-linked deposits is affected by interest rate fluctuation. The fair value of mutual fund, government bonds and corporate bonds will be exposed to fluctuations from other market factors as well as movement in interest rates.

Credit risk

The Company's exposure to credit risk arises from potential default of the counter-party or other third-party. The level of exposure depends on several factors including concentrations of credit risk, components of credit risk, the price of contract and other receivables of financial instruments.

Since the counter-party or third-party to the foregoing forward exchange contracts are all reputable financial institutions, management believes that the Company's exposure to default by those parties is minimal. The Company's credit risk mainly comes from the collectibility of accounts receivable while receivable balances are monitored on an ongoing basis and an allowance for doubtful receivables is provided. Thus, the net book value of accounts receivable are properly evaluated and reflect the credit risk the Company expose to. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk, which arises when the counter-party or the third-party to a financial instrument fails to discharge an obligation and the Company suffers a financial loss as a result. Credit risk of credit-linked deposits and exchange rate-linked deposits arises if the issuing banks breached the contracts or the debt issuer could not pay off the debts; the maximum exposure is the carrying value of credit-linked deposits. Therefore, the Company minimized the credit risk by only transacting with counter-party who is reputable, transparent and in good financial standing.

Liquidity risk

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

Except for financial assets carried at cost, bond portfolios with no active market and investments accounted for using the equity method that may have significant liquidity

risks resulted from lack of an active market, the equity securities, bonds and funds held by the Company are traded in active markets and can be sold promptly at the prices close to their fair values. Since the exchange rates of forward exchange contracts are fixed at the time the contracts are entered into and the Company does hold and anticipates to hold sufficient financial assets denominated in USD, no significant additional cash requirement is anticipated.

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

Cash flow risk from variable interest rate

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

(2) Other information

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

11. Segment Information

(1) Major Customers

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

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

(2) Export Sales

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

(3) Geographic data

The Company has no significant foreign operation.

(4) Industry data

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

9.7. Financial Statements and Independent Auditors' Report – MediaTek & Subsidiaries

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

MEDIATEK INC. AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

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

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2009 and for the year then ended prepared under the R.O.C.'s Statement of Financial Accounting Standards No.7 (referred to as "Consolidated Financial Statements") are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as "Combined Financial Statements"). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

March 10, 2010

Independent Auditors' Report: MediaTek Inc. & Subsidiaries

(English translation of a report originally issued in Chinese)

To the Board of Directors and Shareholders
of MediaTek Inc.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MediaTek Inc. and its subsidiaries as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the R.O.C.

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

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

Notice to Readers

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIA TEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2009 and 2008

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	2009	2008	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2009	2008
Current assets				Current liabilities			
Cash and cash equivalents	2, 4(1)	\$ 94,647,892	\$ 53,021,544	Financial liabilities at fair value through profit or loss-current	2, 4(2)	\$ -	\$ 2,956
Financial assets at fair value through profit or loss-current	2, 4(2)	16,042	993,748	Accounts payable		10,008,850	4,273,034
Available-for-sale financial assets-current	2, 4(3)	2,183,335	3,207,472	Payables to related parties	5	1,785,494	633,674
Held-to-maturity financial assets-current	2, 4(4)	-	371,530	Income tax payable	2, 4(21)	985,199	839,461
Accounts receivable, net	2, 4(5)	7,266,916	5,428,620	Accrued expenses	2, 3, 4(17)	16,317,295	10,630,907
Other receivables	4(6)	901,195	739,307	Payables to contractors and equipment suppliers		9,648	89,403
Inventories, net	2, 4(7)	8,172,723	5,547,299	Leased payable -current	4(11)	-	1,392
Prepayments and other current assets		575,313	1,653,568	Other current liabilities		347,879	761,526
Deferred income tax assets-current	2, 4(21)	260,964	257,254	Total current liabilities		29,454,365	17,232,353
Restricted deposits-current	6	13,889	5,535				
Total current assets		114,038,269	71,225,877				
Funds and investments	2, 4(8)			Other liabilities			
Financial assets designated as at fair value through profit or loss-noncurrent		1,041,745	994,848	Accrued pension liabilities	2, 4(12)	87,415	82,166
Available-for-sale financial assets-noncurrent		2,101,700	3,224,681	Deposits received		983	1,022
Held-to-maturity financial assets-noncurrent		-	1,762,612	Deferred income tax liabilities-noncurrent	2, 4(21)	159,920	-
Financial assets carried at cost-noncurrent		931,566	769,806	Total other liabilities		248,318	83,188
Bond portfolios with no active market-noncurrent		1,000,000	1,000,000	Total liabilities		29,702,683	17,315,541
Investments accounted for using the equity method		1,586,583	1,208,569				
Prepayments for long-term investments		-	9,111				
Total funds and investments		6,661,594	8,969,627				
Property, plant and equipment	2, 4(9)			Shareholders' equity			
Buildings and facilities		5,059,545	4,480,979	Capital			
Machinery and equipment		227,738	266,945	Common stock	4(13)	10,901,189	10,731,523
Research and development equipment		3,101,501	2,843,007	Capital reserve			
Miscellaneous equipment		818,049	819,919	Additional paid-in capital	4(15)	7,385,442	2,090,759
Total cost		9,206,833	8,410,850	Treasury stock transaction	4(15)	583,194	474,512
Less : Accumulated depreciation		(3,016,901)	(2,181,410)	Donated assets	4(15)	1,260	1,260
Add : Construction in progress		635,650	171,562	Long-term investment transaction	4(15)	169,422	150,136
Prepayments for equipment		63,247	103,010	Employee stock option	4(15), 4(16)	128,508	40,644
Property, plant and equipment, net		6,888,829	6,504,012	Total capital reserve		8,267,826	2,757,311
Intangible assets	2, 4(10)			Retained earnings			
Software		303,469	692,988	Legal reserve	4(14)	14,943,414	13,024,414
Goodwill		6,837,672	6,945,969	Special reserve	4(17)	273,489	-
Patents, IPs and others		3,481,752	4,390,113	Undistributed earnings	4(17)	74,894,668	55,427,112
Total intangible assets		10,622,893	12,029,070	Other adjustments			
Other assets				Cumulative translation adjustments	2	(527,304)	(17,915)
Refundable deposits		328,579	103,897	Unrealized gain (loss) on financial instruments	2	172,173	(255,574)
Deferred assets		33,756	48,494	Treasury stock	4(18)	(55,970)	(55,970)
Deferred income tax assets-noncurrent	2, 4(21)	-	163,937	Total shareholders' equity attributable to parent company		108,869,485	81,610,901
Restricted deposits-noncurrent	6	19,366	29,490	Minority interests		21,118	147,962
Total other assets		381,701	345,818	Total shareholders' equity		108,890,603	81,758,863
Total assets		\$ 138,593,286	\$ 99,074,404	Total liabilities and shareholders' equity		\$ 138,593,286	\$ 99,074,404

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2009 and 2008

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

Description	Notes	2009	2008		
Gross sales		\$ 124,142,262	\$ 94,560,270		
Less : Sales returns and discounts		(8,630,637)	(4,158,229)		
Net sales	2, 4(19), 5	115,511,625	90,402,041		
Cost of goods sold	4(20), 5	(47,694,235)	(43,065,722)		
Gross profits		67,817,390	47,336,319		
Operating expenses	4(20), 5				
Selling expenses		(3,279,185)	(2,059,025)		
Administrative expenses		(3,966,155)	(2,941,169)		
Research and development expenses		(24,184,886)	(21,274,903)		
Total operating expenses		(31,430,226)	(26,275,097)		
Operating income		36,387,164	21,061,222		
Non-operating income and gains					
Interest income		494,593	1,299,883		
Gain on equity investments, net	2, 4(8)	198,857	184,393		
Gain on disposal of investments	2, 4(8)	9,091	-		
Foreign exchange gain, net	2	122,238	458,172		
Reversal of bad debts	2, 4(5)	-	152,470		
Valuation gain on financial assets	2, 4(2)	115,600	-		
Others		284,569	226,032		
Total non-operating income and gains		1,224,948	2,320,950		
Non-operating expenses and losses					
Interest expense		(625)	(10,045)		
Loss on disposal of property, plant and equipment	2	(4,661)	(3,093)		
Loss on disposal of investments	2, 4(8)	-	(39,638)		
Impairment loss	2, 4(8)	(99,449)	(1,423,139)		
Valuation loss on financial assets	2, 4(2)	-	(645,864)		
Valuation loss on financial liabilities	2, 4(2)	-	(2,956)		
Others		(87,291)	(159,307)		
Total non-operating expenses and losses		(192,026)	(2,284,042)		
Income from continuing operations before income tax		37,420,086	21,098,130		
Income tax expense	2, 4(21)	(724,620)	(1,923,890)		
Consolidated net income		\$ 36,695,466	\$ 19,174,240		
Income Attributable to :					
Shareholders of the parent		\$ 36,705,640	\$ 19,189,997		
Minority interests		(10,174)	(15,757)		
Consolidated net income		\$ 36,695,466	\$ 19,174,240		
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(22)	Before tax	After tax	Before tax	After tax
Consolidated net income		\$ 34.78	\$ 34.11	\$ 19.76	\$ 17.96
Net loss attributable to minority interests		0.01	0.01	0.02	0.02
Net income attributable to the parent		\$ 34.79	\$ 34.12	\$ 19.78	\$ 17.98
Diluted Earnings Per Share (in New Taiwan Dollars)	2, 4(22)				
Consolidated net income		\$ 33.88	\$ 33.22	\$ 19.24	\$ 17.49
Net loss attributable to minority interests		0.01	0.01	0.01	0.01
Net income attributable to the parent		\$ 33.89	\$ 33.23	\$ 19.25	\$ 17.50

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Mingto Yu

MEDIA TEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2009 and 2008
(Amounts in thousands of New Taiwan Dollars)

Description	Common stock	Capital reserve	Retained Earnings			Cumulative translation adjustments	Unrealized gain (loss) on financial instruments	Treasury stock	Total shareholder's equity attributable to parent company	Minority interests	Total shareholder's equity
			Legal reserve	Special reserve	Undistributed earnings						
Balance as of January 1, 2008	\$ 10,408,538	\$ 2,539,843	\$ 9,665,144	\$ -	\$ 62,971,175	\$ (400,047)	\$ 808,374	\$ (55,970)	\$ 85,937,057	\$ 132,191	\$ 86,069,248
Appropriation and distribution of 2007 earnings:											
Legal reserve	-	-	3,359,270	-	(3,359,270)	-	-	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(75,584)	-	-	-	(75,584)	-	(75,584)
Employees' bonuses	218,900	-	-	-	(3,418,900)	-	-	-	(3,200,000)	-	(3,200,000)
Shareholders' dividends	104,085	-	-	-	(19,880,306)	-	-	-	(19,776,221)	-	(19,776,221)
Net income attributable to parent company for the year ended December 31, 2008	-	-	-	-	19,189,997	-	-	-	19,189,997	-	19,189,997
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	(1,063,948)	-	(1,063,948)	-	(1,063,948)
Employee stock option distributed to subsidiaries' employees	-	40,644	-	-	-	-	-	-	40,644	-	40,644
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	146,037	-	-	-	-	-	-	146,037	-	146,037
Adjustment arising from changes in the percentage of ownership in investees	-	30,787	-	-	-	-	-	-	30,787	-	30,787
Cumulative translation adjustments	-	-	-	-	-	382,132	-	-	382,132	-	382,132
Increase in minority interests	-	-	-	-	-	-	-	-	-	15,771	15,771
Balance as of December 31, 2008	10,731,523	2,757,311	13,024,414	-	55,427,112	(17,915)	(255,574)	(55,970)	81,610,901	147,962	81,758,863
Appropriation and distribution of 2008 earnings (Note):											
Legal reserve	-	-	1,919,000	-	(1,919,000)	-	-	-	-	-	-
Special reserve	-	-	-	273,489	(273,489)	-	-	-	-	-	-
Shareholders' dividends	21,463	-	-	-	(15,045,595)	-	-	-	(15,024,132)	-	(15,024,132)
Bonus to employees - in stock	148,203	5,294,683	-	-	-	-	-	-	5,442,886	-	5,442,886
Net income attributable to parent company for the year ended December 31, 2009	-	-	-	-	36,705,640	-	-	-	36,705,640	-	36,705,640
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	427,747	-	427,747	-	427,747
Employee stock option distributed to subsidiaries' employees	-	87,864	-	-	-	-	-	-	87,864	-	87,864
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	108,682	-	-	-	-	-	-	108,682	-	108,682
Adjustment arising from changes in the percentage of ownership in investees	-	19,286	-	-	-	-	-	-	19,286	-	19,286
Cumulative translation adjustments	-	-	-	-	-	(509,389)	-	-	(509,389)	-	(509,389)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	(126,844)	(126,844)
Balance as of December 31, 2009	\$ 10,901,189	\$ 8,267,826	\$ 14,943,414	\$ 273,489	\$ 74,894,668	\$ (527,304)	\$ 172,173	\$ (55,970)	\$ 108,869,485	\$ 21,118	\$ 108,890,603

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

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

Chairman :Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : Minto Yu

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2009 and 2008
(Amounts in thousands of New Taiwan Dollars)

Description	Note	2009	2008
Cash flows from operating activities :			
Consolidated net income		\$ 36,695,466	\$ 19,174,240
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		3,245,009	3,294,710
Amortization of financial assets discount or premium		(37,173)	(19,043)
Bad debt provision (reversal)		87,826	(152,470)
Inventory loss provision		149,586	1,311,878
Net gain on equity investments		(198,857)	(184,393)
(Gain) loss on disposal of investment (including interest income)		(23,994)	39,638
Impairment loss		99,449	1,423,139
Cash dividends from equity investees		28,815	74,604
Adjustment of valuation of financial assets and liabilities		(45,372)	132,230
Net loss on disposal of property, plant and equipment		4,661	3,093
Deferred income tax		320,147	542,067
Employee stock option distributed		87,864	40,644
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		905,084	731,228
Accounts receivable		(1,884,208)	1,790,276
Receivables from related parties		-	4,374
Other receivables		(99,951)	90,901
Inventories		(2,856,394)	3,656,655
Prepayments and other current assets		1,068,333	(972,054)
Accounts payable		5,779,249	(2,583,108)
Payables to related parties		1,151,820	(10,984)
Income taxes payable		145,718	(1,751,783)
Accrued expenses		11,166,338	8,640,573
Other current liabilities		(554,392)	306,447
Accrued pension liabilities		5,249	15,798
Net cash provided by operating activities		<u>55,240,273</u>	<u>35,598,660</u>
Cash flows from investing activities :			
Decrease (increase) in restricted deposits		1,770	(30,359)
Increase in available-for-sale financial assets		-	(2,471,734)
Proceeds from disposal of available-for-sale financial assets		4,085,394	5,437,065
Increase in held-to-maturity financial assets		-	(1,612,351)
Proceeds from redemption of held-to-maturity financial assets		-	500,000
Proceeds from disposal of held-to-maturity financial assets		413,073	-
Proceeds from disposal of financial assets carried at cost		122,127	2,207
Increase in financial assets carried at cost		(221,124)	(217,044)
Increase in prepaid long-term investments		-	(72,861)
Purchase of property, plant and equipment		(1,573,525)	(1,704,547)
Proceeds from disposal of property, plant and equipment		1,573	38,751
Purchase of intangible assets from other enterprise	4.(10)	-	(10,060,691)
Increase in intangible assets and deferred assets		(798,574)	(547,557)
Net cash outflow from acquisition of subsidiaries		(32,345)	-
(Increase) decrease in refundable deposits		(229,648)	256,372
Net cash provided by (used in) investing activities		<u>1,768,721</u>	<u>(10,482,749)</u>
Cash flows from financing activities :			
Decrease in deposits received		(39)	-
Decrease in short-term debts		-	(25,000)
Decrease in lease payable		(1,392)	(4,845)
Decrease in long-term debts		-	(9,935)
Cash dividends		(15,024,132)	(19,776,221)
Directors' and supervisors' remuneration		-	(75,584)
Employees' bonuses		-	(3,200,000)
Cash dividends distributed to subsidiaries holding the Company's stock		108,682	146,037
Increase in minority interests		27,838	62,315
Net cash used in financing activities		<u>(14,889,043)</u>	<u>(22,883,233)</u>
Effect of exchange rate		(493,603)	200,842
Net increase in cash and cash equivalents		41,626,348	2,433,520
Cash and cash equivalents at the beginning of the year		53,021,544	50,588,024
Cash and cash equivalents at the end of the year		<u>\$ 94,647,892</u>	<u>\$ 53,021,544</u>
Supplemental disclosures of cash flow information :			
Interest paid during the year		<u>\$ 625</u>	<u>\$ 9,493</u>
Income tax paid during the year		<u>\$ 722,879</u>	<u>\$ 3,133,606</u>
Activities partially effected cash flows :			
Purchase of property, plant and equipment		\$ 1,493,770	\$ 1,595,098
Add: decrease in payables to contractors and equipment suppliers		79,755	109,449
Cash paid for the purchase of property, plant and equipment		<u>\$ 1,573,525</u>	<u>\$ 1,704,547</u>
Non-cash activities :			
Stock dividends and employees' bonuses capitalized (including additional paid-in capital)		<u>\$ 5,464,349</u>	<u>\$ 322,985</u>
Change in unrealized gain (loss) on financial instruments		<u>\$ 427,747</u>	<u>\$ (1,063,948)</u>
The accompanying notes are an integral part of these financial statements.			
Chairman : Ming-Kai Tsai	President : Ching-Jiang Hsieh	Chief Financial Officer : Mingqo Yu	

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

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

As of December 31, 2009 and 2008, total numbers of employees of the Company and subsidiaries' were 4,319 and 4,081, respectively.

2. Summary of Significant Accounting Policies

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

General Descriptions of the Consolidated Entities

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

Company	Main Business	Percentage of Ownership As of December 31,		Note
		2009	2008	
MediaTek Investment Corp.	General investing	100.00%	100.00%	-
Hsu-Chung Investment Corp.	General investing	100.00%	100.00%	1
Hsu-Xin Investment Corp.	General investing	100.00%	100.00%	1
Hsu-Ta Investment Limited	General investing	100.00%	100.00%	-
Hsu-Chia Investment Limited	General investing	100.00%	100.00%	-
Hsu-Kang Investment Limited	General investing	100.00%	100.00%	-
Wiseali Technology Inc.	IC design and sales	-	100.00%	2
Core Tech Resources Inc.	General investing	100.00%	100.00%	-
MediaTek Capital Corp.	General investing	100.00%	100.00%	-
AdvMatch Technology, Inc.	IC design	-	80.29%	3
Aimgene Technology, Co. Ltd.	Mode manufacturing	-	100.00%	4
Airoha Technology, Inc.	IC design and sales	40.93%	41.78%	5

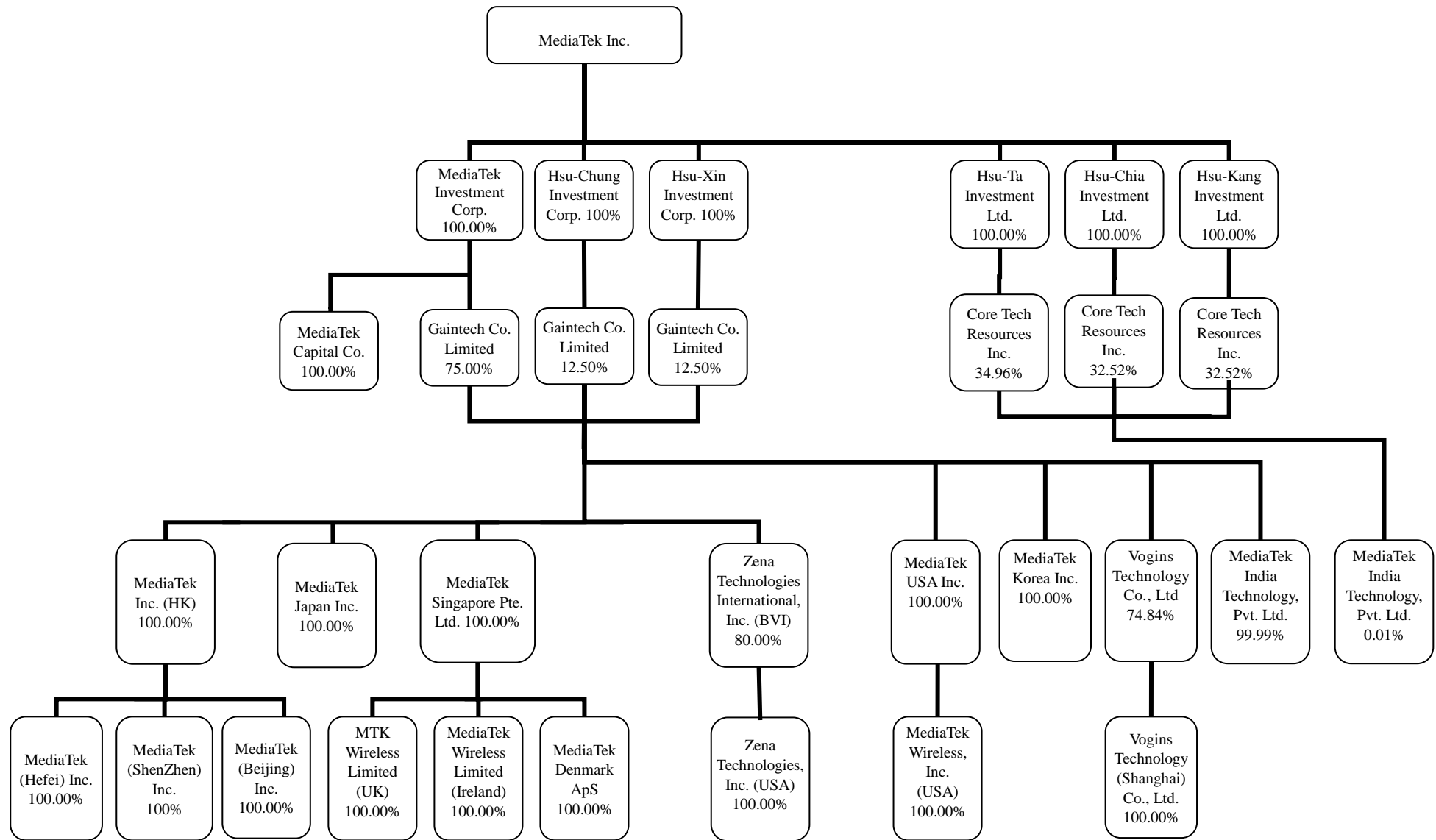
(To be continued)

(Continued)

Company	Main Business	Percentage of Ownership		Note
		2009	2008	
Airoha Technology (Samoa) Corporation	General investing	100.00%	100.00%	5, 6
Gaintech Co. Limited	General investing	100.00%	100.00%	-
MediaTek Inc. (HK)	General investing	100.00%	100.00%	7
MediaTek (Hefei) Inc.	Technology services	100.00%	100.00%	7
MediaTek (Beijing) Inc.	Technology services	100.00%	100.00%	7
MediaTek (ShenZhen) Inc.	Technology services	100.00%	100.00%	7
MediaTek Limited	General investing	-	100.00%	7
MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100.00%	100.00%	-
MTK Wireless Limited (UK)	Research	100.00%	100.00%	-
MediaTek Wireless Limited (Ireland)	Research	100.00%	100.00%	-
MediaTek Denmark ApS	Research	100.00%	100.00%	-
Zena Technologies International Inc. (BVI)	General investing	80.00%	80.00%	8
Zena Technologies, Inc. (USA)	Research	100.00%	100.00%	8
MediaTek USA Inc.	Research	100.00%	100.00%	9, 10
MediaTek North America, Inc.	General investing	-	100.00%	10
MediaTek Wireless, Inc.(USA)	Research	100.00%	100.00%	10
MediaTek Japan Inc.	Technology services	100.00%	100.00%	-
MediaTek India Technology Pvt. Ltd.	Research	100.00%	99.99%	-
MediaTek Korea Inc.	Research	100.00%	100.00%	11
Vogins Technology Co., Ltd.	General investing	74.84%	-	12
Vogins Technology (Shanghai) Co., Ltd.	Software development	100.00%	-	12
K-Will Corporation (Japan)	Equipment manufacturing	-	87.00%	13
K-WILL Corporation (USA)	Equipment manufacturing and sales	-	100.00%	13

- (1) The Company established Hsu-Chung Investment Corp. and Hsu-Xin Investment Corp. in April 2008.
- (2) Wiseali Technology Inc. has been dissolved since August 2008 and was not included in the Company's consolidated financial statements.
- (3) AdvMatch Technology, Inc. has been dissolved since December 2008 and was not included in the Company's consolidated financial statements.
- (4) Aimgene Technology, Co. Ltd. has been dissolved since November 2008 and was not included in the Company's consolidated financial statements.
- (5) MediaTek Capital Corp.'s direct and indirect shareholding in Airoha Technology, Inc.'s was under 50%. However, the Company continued to include Airoha in its consolidated financial statements since the Board of Airoha was controlled by MediaTek Capital Corp. until May 2009. In May 2009, the Company lost control over Airoha Technology, Inc. and its subsidiary - Airoha Technology (Samoa) Corporation and therefore excluded these two companies from its consolidated financial statements. However, revenues and expenses of Airoha Technology, Inc. and its subsidiary occurred before May 2009 have been included in the Company's consolidated financial statements.
- (6) Airoha Technology (Soman) Corporation was established by Airoha Technology, Inc. in February 2008.
- (7) In 2008, MediaTek Limited transferred all of its shares of MediaTek (ShenZhen) Inc., MediaTek (Hefei) Inc., and MediaTek (Beijing) Inc. to MediaTek Inc. (HK) for purpose of capital re-structuring. MediaTek Limited was dissolved in December 2009 and was not included in the Company's 2009 consolidated financial statements.
- (8) In August 2008, Zena Technologies Inc. (USA) was established by Zena Technologies International Inc. (BVI), which was invested by Gaintech Co. Limited.
- (9) MediaTek USA Inc. merged with CrystalMedia Technology Inc. in January 2008.
- (10) In July 2009, MediaTek USA Inc. merged with MediaTek North America, Inc. The subsidiary of MediaTek North America Inc., MediaTek Wireless, Inc. (USA), also transferred to MediaTek USA Inc.
- (11) MTK Korea Inc. has been renamed MediaTek Korea Inc. since November 2008.
- (12) Vogins Technology Co., Ltd. and its subsidiary Vogins Technology (Shanghai) Co., Ltd. were acquired by Gaintech Co. Limited in June 2009.
- (13) K-Will Corporation (Japan) and its subsidiary K-WILL Corporation (USA) were acquired by Gaintech Co. Limited in September 2007. In December 2008, Gaintech Co. Limited sold all its shares of K-Will Corporation (Japan).

The following diagram presented information regarding the relationship and ownership percentages among the Company and subsidiaries as of December 31, 2009.



Principles of Consolidation

- (1) The consolidated financial statements were prepared in accordance with SFAS No. 7. The transactions between the consolidated entities were appropriately eliminated in the consolidated financial statements.
- (2) Investees in which the Company and subsidiaries hold more than 50% of voting rights, including those that are exercisable or convertible, are accounted for under the equity method and shall be consolidated, since the Company and subsidiaries are considered to possess control. An entity shall also be consolidated if any of the following circumstances exists:
 - a. The total amount of voting rights held by the investee exceeds 50% due to agreement with other investors;
 - b. As permitted by law, or by contract agreements, the Company controls an entity's finances, operations and personnel affairs;
 - c. The Company has authority to appoint or discharge more than half members of board of directors (or equivalents), by whom the investee is controlled;
 - d. The Company leads and controls more than half of the members of the board of directors (or equivalents), by whom the investee is controlled;
 - e. Other indications of control possession.
- (3) A non-current asset (i.e. the subsidiary classified as a disposal group) to be sold shall be classified as held for sale in the period in which all of the following criteria are met and measured at the lower of its carrying amount or fair value less cost to sell:
 - a. Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group).
 - b. The asset (disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal groups).
 - c. An active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated.
 - d. The sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale, within one year, except that when certain criterion would be met.
 - e. The asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
 - f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
- (4) If the acquisition cost is greater or less than the proportionate book value of the investee, it is accounted for in accordance with the R.O.C. SFAS No. 25 "Business Combinations - Accounting Treatment under Purchased Method". Effective from January 1, 2006, pursuant to the newly revised SFAS No. 25, investment premiums, representing goodwill, are no longer amortized, and are assessed for impairment at least on an annual basis; while investment discounts continue to be amortized over the remaining period. In some cases, the fair value will exceed the investment cost. That excess generated after December 31, 2005 shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired noncurrent assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

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

using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in the statements of operations.

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

Cash Equivalents

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

Financial Assets and Financial Liabilities

- A. Financial asset or liability is recognized on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets are recognized using either trade date accounting on equity instrument or settlement date accounting on debt security, beneficiary certificate and derivative instrument. Financial assets and financial liabilities are derecognized when the Company loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. The Company loses such control if it realizes the rights to benefits specified in the contract, the rights expire, or the Company surrenders those rights. If a financial asset is transferred but the transfer does not satisfy the conditions for loss of control, the transferor accounts for the transaction as a secured borrowing. The Company should derecognize an entire or a part of financial liability when the obligation specified in the contract is discharged, cancelled, or it expires.

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

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

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

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

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

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

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

b. Bond portfolios with no active market

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

c. Financial assets carried at cost

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

d. Held-to-maturity financial assets

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

e. Available-for-sale financial assets

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

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

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

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

Allowance for Doubtful Accounts

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

Inventories

Prior to January 1, 2009, inventories were carried at lower of cost or market value. Cost was determined based on the weighted average method. Replacement cost is used to determine the market value of raw materials. Net realizable value is used to determine the market value of work in process and finished goods. The lower of cost or market value is applied on a gross basis to the entire inventory. Inventories that were not sold or moved for further production were assessed allowance and set aside to reflect the potential loss from stock obsolescence.

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

Investment Accounted for Using the Equity Method

- A. Long-term investments in which the Company holds an interest of 20% or more or has the ability to exercise significant influence are accounted for under the equity method of accounting. The difference between the cost of the investment and the net equity value of the investee ("investment premium") at the date of acquisition is amortized over 5 years. Effective from January 1, 2006, pursuant to the newly revised R.O.C. SFAS No. 25 "Business Combinations - Accounting Treatment under Purchased Method", investment premiums, representing goodwill, are no longer amortized but are assessed for impairment at least on an annual basis. In some cases, the fair value of the net identifiable assets of the investee will exceed the investment cost, that excess represents investment discount. Investment discounts generated before January 1, 2006, continue to be amortized over the remaining period. Investment discounts generated after December 31, 2005 shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired noncurrent assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain in profit or loss. Adjustment to capital reserve and long-term investment is required when the holding percentage changes due to unproportional subscription to investee's new shares issued. If the capital reserve is insufficient, retained earnings are adjusted. An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an investee and shall account for the investment in accordance with the R.O.C. SFAS No. 34 "Accounting for Financial Instruments" from that date. The carrying amount of the investment at the date that the Company ceases to have significant influence over the investee shall be regarded as its cost on initial measurement as a financial asset.
- B. Unrealized gains and losses arising from intercompany transactions are deferred and recognized when realized.
- C. For equity investees in which the Company does not possess control, the Company recognizes its investee's losses only to the extent of the Company's long-term investment on that investee. However, if the Company intends to provide further financial support for the investee company, or the investee company's losses are temporary and there exists sufficient evidence showing imminent return to profitable operations, then the Company shall continue to recognize investment losses in proportion to the stock ownership percentage. Such credit balance for the long-term investment shall first be offset by the advance (if any) the Company made to the investee company, the remaining shall be recorded under other liabilities. For equity investees in which the Company possesses control, the Company recognizes its investee's total losses unless other investors are obligated to and have the ability to assume a portion of the loss. Once the investee company begins to generate profit, such profit is allocated to the Company until all the losses previously absorbed by the Company have been recovered.
- D. The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of the Company, and the accounts of investees in which the Company's ownership percentage is less than 50% but the Company has a controlling interest.

Property, Plant and Equipment

- A. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment. Depreciation is computed on a straight-line basis over the following useful lives:
- | | | |
|------------------------------------|---------|-------|
| Buildings and facilities | 3 to 50 | Years |
| Machinery and equipment | 3 to 6 | Years |
| Research and development equipment | 2 to 5 | Years |
| Miscellaneous equipment | 2 to 10 | Years |
- B. Improvements and replacements are capitalized and depreciated over their estimated useful lives while ordinary repairs and maintenance are expensed as incurred.
- C. When property, plant and equipment are disposed of, their original cost, accumulated depreciation and accumulated impairment are written off and related gains or losses are included as non-operating income or expenses.

Intangible Assets

- A. Software (design software), patents, IPs and other separately identifiable intangibles with finite lives are stated at cost and amortized on a straight-line basis over the following useful lives:
- | | | |
|----------------------------|---------|-------|
| Software (design software) | 2 to 10 | Years |
| Patents, IPs and Others | 3 to 10 | Years |

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

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

Deferred Assets

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

Asset Impairment

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

Capital Expenditures vs. Operating Expenditures

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

Revenue Recognition

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

Employee Retirement Benefits

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

Income Tax

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

Employee Stock Option

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

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

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

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

Employee Bonuses and Remunerations Paid to Directors and Supervisors

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

Earnings Per Share

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

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

Treasury Stock

- A. The Company's shares owned by subsidiaries were accounted for as treasury stock in accordance with the R.O.C. SFAS No. 30 "Accounting for Treasury Stock". Cash dividends distributed to the Company's subsidiaries are deducted from investment income account and credited to capital reserves-treasury stock transaction.
- B. Treasury stock transactions are accounted for under the cost method. The acquisition cost of shares is recorded under the caption of treasury stock, a contra shareholders' equity account.
- C. When treasury stock is sold for more than its acquisition cost, the difference is credited to capital reserve-treasury stock transaction. If treasury stock is sold for less than its acquisition cost, the difference is charged to the same capital reserve account to the extent that the capital reserve account is reduced to zero. If the balance of the capital reserve is insufficient, any further reduction shall be

charged to retained earnings instead.

- D. When treasury stock is retired, the treasury stock account is credited and all capital account balances related to the treasury shares, including additional paid in capital-share issuance in excess of par and paid in capital, is debited on a proportionate basis. Any difference, if on credit side, is recorded in capital reserve-treasury stock transaction; if on debit side, it is recorded against retained earnings.

Derivative Financial Instruments-Held for Trading

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

3. Reasons and Effects for Change in Accounting Principles

- A. Effective from January 1, 2008, the Company adopted the newly released R.O.C. SFAS No.39 "Accounting for Share-Based Payment". The adoption decreased the Company's consolidated net income by NT\$39,843 thousand and basic earnings per share by NT\$0.04 for the year ended December 31, 2008.
- B. Effective from January 1, 2008, the Company adopted the newly released Accounting Research and Development Foundation Interpretation No. 96-052 to account for employee bonuses and remunerations paid to directors and supervisors. The adoption decreased the Company's consolidated net income by NT\$6,327,236 thousand and basic earnings per share by NT\$5.93 for the year ended December 31, 2008.
- C. Effective from July 1, 2008, the Company adopted the second amendment of R.O.C. SFAS No. 34 "Accounting for Financial Instruments" and reclassified certain of its financial assets and liabilities in accordance with the new standards. Such a change in accounting principles increased the Company's consolidated net income by NT\$29,400 thousand and basic earnings per share by NT\$0.03 for the year ended December 31, 2008.
- D. Effective from January 1, 2009, the Company adopted the newly released R.O.C. SFAS No.10 "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value on an item-by-item basis except when the grouping of similar or related items is appropriate; (2) unallocated overheads resulted from low production or idle capacity are recognized as cost of goods sold in the year in which they are incurred; and (3) abnormal cost, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the year. Such changes in accounting principal did not have a significant impact on the Company's financial statements as of and for the year ended December 31, 2009. In addition, non-operating expense of NT\$1,316,422 thousand and non-operating income of NT\$69,716 thousand for the year ended December 31, 2008 have been reclassified to cost of goods sold.
- E. According to the newly revised Income Tax Act of R.O.C., the income tax rate of profit-seeking enterprise has changed from 25% to 20% effective from January 1, 2010. Such a change in income tax rate did not have a significant impact on the Company's consolidated net income and basic earnings per share for the year ended December 31, 2009.

4. Contents of Significant Accounts

(1) Cash and Cash Equivalents

	As of December 31,	
	2009	2008
Petty cash	\$1,012	\$1,941
Savings and checking accounts	18,181,798	8,225,989
Time deposits	76,465,082	44,783,604
Cash equivalents- bonds-Repo	-	10,010
Total	<u>\$94,647,892</u>	<u>\$53,021,544</u>

A. As of December 31, 2008, the Company and subsidiaries were committed to selling the bonds-Repo back to the brokers in January 2009.

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

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

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

Credit-linked deposits and interest rate-linked deposits are hybrid financial instruments. Since it is impractical to measure the fair value of the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire hybrid instruments were designated as a 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.

b. Reclassification of financial instruments

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

Held-for-trading financial assets:

The Company's financial assets classified as held-for-trading are no longer for near-term trading, but did not meet the definition of loans and receivables. However, based on the relevant guidance issued by International Accounting Board, Financial Supervisory Commission, Executive Yuan, and Accounting Research and Development Foundation, the Company believes that the economy condition during third quarter of 2008 had constituted "the rare circumstances" described by the reclassification amendments in R.O.C. SAFS No. 34, thus the Company reclassified some investments originally classified as held-for-trading, which amounted to NT\$691,600 thousand, into the available-for-sale category.

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

	As of December 31, 2008	
	Book value	Fair value
Available-for-sale financial assets	<u>\$662,200</u>	<u>\$662,200</u>

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

For the year ended December 31, 2008, the Company recognized losses of NT\$29,400 thousand on the financial instruments reclassified during the third quarter of 2008.

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

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

(3)

	As of December 31,	
	2009	2008
Held-for-trading financial liabilities-current		
Forward exchange contracts	\$-	\$2,956

Forward exchange contracts:

The Company and subsidiaries entered into derivative contracts during the years ended December 31, 2009 and 2008 to manage exposures to foreign exchange rate changes. The derivative contracts entered into by the Company did not meet the criteria of hedge accounting prescribed by SFAS No. 34. Therefore, they were recorded as the financial assets or liabilities at fair value through profit or loss. Please refer to Note 10 to the financial statements for the disclosure of relative risk information.

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

(a). As of December 31, 2009:

Held-for-trading financial assets:

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

(b). As of December 31, 2008:

Held-for-trading financial assets:

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

Held-for-trading financial liabilities

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

For the years ended December 31, 2009 and 2008, gain (loss) arising from the forward exchange contracts were NT\$52,587 thousand and NT\$(493,627 thousand), respectively.

(4) Options

For the year ended December 31, 2008, the loss arising from the options was NT\$3,808 thousand. There is no option transaction in 2009.

(5) Cross currency swap contracts

For the year ended December 31, 2008, the loss arising from the cross currency swap contracts was NT\$943 thousand. There is no cross currency swap contract in 2009.

3. Available-for-sale Financial Assets-current

	As of December 31,	
	2009	2008
Funds	\$1,625,440	\$1,559,000
Bonds	557,895	1,648,472
Total	<u>\$2,183,335</u>	<u>\$3,207,472</u>

In March 2009, the Company and subsidiaries reclassified held-to-maturity financial assets to available-for-sale financial assets-current in the amount of NT\$372,994 thousand. Please refer to Note 4(4). In 2008, the Company and subsidiaries assessed that their available-for-sale financial assets-current have been impaired, and therefore recognized impairment loss in the amount of NT\$238,530 thousand.

4. Held-to-maturity Financial Assets-current

	As of December 31,	
	2009	2008
Financial Debentures	\$-	\$247,199
Corporate bonds	-	124,331
Total	<u>\$-</u>	<u>\$371,530</u>

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

5. Accounts Receivable-Net

	As of December 31,	
	2009	2008
Accounts receivable	\$7,515,045	\$5,594,149
Less: Allowance for doubtful accounts	(248,129)	(165,529)
Net	<u>\$7,266,916</u>	<u>\$5,428,620</u>

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

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

The Factor (Transferee)	Interest rate	As of December 31, 2009 (US\$'000)	Cash withdrawn	Unutilized (US\$'000)	Credit line (US\$'000)
DBS Bank Ltd.	-	USD784	\$-	USD784	USD20,000
Taishin International Bank	-	USD4,552	-	USD4,552	USD83,000
		<u>USD5,336</u>	<u>\$-</u>	<u>USD5,336</u>	<u>USD103,000</u>

6. Other Receivables

	As of December 31,	
	2009	2008
Interest receivable	\$175,826	\$209,106
VAT refundable	640,549	339,553
Others	84,820	190,648
Total	\$901,195	\$739,307

7. Inventories-Net

	As of December 31,	
	2009	2008
Raw materials	\$-	\$21,223
Work in process	5,747,755	3,424,494
Finished goods	4,722,743	3,832,117
Subtotal	10,470,498	7,277,834
Less: Allowance for inventory obsolescence	(2,297,775)	(1,730,535)
Net	\$8,172,723	\$5,547,299

a. For the years ended December 31, 2009 and 2008, the Company and subsidiaries recognized the decline in market value and obsolescence of inventories which were included in cost of goods sold in the amount of NT\$624,584 thousand and NT\$1,311,878 thousand, respectively.

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

8. Funds and Investments

a.

As of December 31, 2009

Investee Company	Types	Share/unit	Amount	Ownership
<u>Financial assets designated as at fair value through profit or loss-noncurrent</u>				
Dynamic Credit Protection Notes	Credit-linked deposit	-	\$44,227	-
Csi Best of 3 Cppi Portfolios USD 5yrs Principal Protected Note	Credit-linked deposit	-	243,777	-
Pimco USD Principal Protection Note	Bond	1,000	323,018	-
GS Globalization Basket Note	Bond	-	158,132	-
GS Inflation Shield Note	Bond	-	162,685	-
Open Design Microelectronics Corporation	Bond	-	-	-
Seti Co., Ltd.	Bond	16	109,906	-
Subtotal			1,041,745	
<u>Available-for-sale financial assets-noncurrent</u>				
Pixart Imaging Inc.	Common share	691,275	186,812	0.53%
Cathay No.1 Real Estate Investment Trust	Mutual fund	70,000,000	774,200	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	549,500	-
Chinatrust 2006-1 Collateralized Loan Obligation-E	Securities	24€	246,172	-
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	100,000	-
Taiwan Power 93-1 the Fourth Corporate Bond-E	Bond	20	100,864	-
Gevcr II 36-Month Debentures	Bond	850	144,152	-
Subtotal			2,101,700	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Browave Corporation	Common share	580,000	-	1.06%
Communication V.C. Corp.	Common share	6,400,000	(420' (Note,	14.41%
Legend Tech. V.C. Inc. Corp.	Common share	702,16€	(2,620' (Note,	6.33%
Alpha Imaging Technology Corp.	Common share	8,005,015	179,485	15.04%
Andes Technologies, Inc.	Common share	4,436,024	-	12.42%

(To be continued)

(Continued)

As of December 31, 2009

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

As of December 31, 2008

Investee Company	Type	Share/unit	Amount	Ownership
<u>Financial assets designated as at fair value through profit or loss-noncurrent</u>				
Dynamic Credit Protection Notes	Credit-linked deposit	-	\$47,387	-

(To be continued)

(Continued)

As of December 31, 2008

Investee Company	Type	Share/unit	Amount	Ownership
Csi Best of 3 Cppi Portfolios USD 5yrs Principal Protected Note	Credit-linked deposit	-	234,530	-
Foxconn Credit-linked Deposit	Credit-linked deposit	-	51,442	-
Pimco USD Principal Protection Note	Bond	1,000	320,478	-
GS Globalization Basket Note	Bond	-	152,064	-
GS Inflation Shield Note	Bond	-	131,689	-
Open Design Microelectronics Corporation	Bond	-	40,746	-
Imera System Inc. Note and Warrant	Bond	-	16,512	-
Subtotal			994,848	
<u>Available-for-sale financial assets-noncurrent</u>				
Pixart Imaging Inc.	Common share	1,284,513	146,435	1.03%
IIT Private Equity Real Estate Fund	Mutual fund	4,685,000	50,554	-
Cathay No.1 Real Estate Investment Trust	Mutual fund	70,000,000	662,200	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	442,000	-
Chinatrust 2006-1 Collateralized Loan Obligation-D	Securities	600	598,640	-
Chinatrust 2006-1 Collateralized Loan Obligation-E	Securities	240	245,238	-
Chinatrust 92-2 Financial Debenture	Financial debenture	2	202,989	-
Nanya 96-1 Corporate Bonds	Bond	250	246,445	-
ING BNP Paribas Mjds Perp	Bond	-	80,360	-
RBC 30yrs Nc 3m Zero Callable Note	Bond	-	289,134	-
15 Years 5.2% USD Callable Fixed Coupon Note	Bond	-	260,686	-
Subtotal			3,224,681	
<u>Held-to-maturity financial assets-noncurrent</u>				
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	100,000	-
Chinatrust 96-2 Second Financial Debenture with No Mortgage	Financial debenture	25	250,000	-

(To be continued)

(Continued)

As of December 31, 2008

Investee Company	Type	Share/unit	Amount	Ownership
Taiwan Power 93-1 the Fourth Corporate Bond-E	Bond	20	98,771	-
		400		-
Nanya 94-2 the Second Corporate Bond-C	Bond		397,295	
Taiwan Power 92-2 the Third Corporate Bond-K	Bond	25	124,330	-
Mega 41P1 Second Financial Debenture	Financial debenture	20	188,364	-
				-
Gvec CBO Series 2006-B Bonds	Bond	-	165,125	-
AIG FRN	Bond	-	158,015	-
Gevcr II 36-Month Debentures	Bond	850	280,712	-
Subtotal			1,762,612	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Browave Corporation	Common share	580,000	-	1.06%
Communication V.C. Corp.	Common share	7,200,000	(420)	14.41%
			(Note)	
Legend Tech. V.C. Inc. Corp.	Common share	952,168	(2,620)	6.33%
			(Note)	
Alpha Imaging Technology Corp.	Common share	7,850,969	179,485	15.63%
Via Optical Solution, Inc.	Common share	77	-	-
Andes Technologies, Inc.	Common share	8,000,000	-	12.70%
Integrated System Solution Corp.	Common share	1,882,746	-	2.90%
Young Fast Optoelectronics Co., Ltd.	Common share	627,920	66,000	0.59%
Prime sensor Technology Inc.	Common share	2,250,000	22,500	15.00%
Sino Photonics	Common share	134,400	-	9.88%
V Web Corp.	Preferred share	1,250,000	-	3.51%
Wi Harper Inc Fund Vi Ltd.	Preferred share and Common share	32,970	99,075	4.92%
Genesis Venture	Common share	4,000,000	132,100	18.03%
JAFCO V2-(D) FUND	Capital	-	126,807	-
JAFCO V3-(B) FUND	Capital	-	51,107	-

(To be continued)

(Continued)

As of December 31, 2008

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

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

- b. For the years ended December 31, 2009 and 2008, the Company recognized investment gain accounted for under the equity method in the amount of NT\$198,857 thousand and NT\$184,393 thousand, respectively, based on the audited financial statements of the investee companies.
- c. In 2009, the Company sold Foxconn Credit-linked Deposit which was classified as financial assets designated as at fair value through profit or loss at the price of NT\$50,208 thousand and recognized a valuation gain on financial assets of NT\$208 thousand.
- d. In 2009, the Company sold IIT Private Equity Real Estate Fund and other financial assets which were classified as available-for-sale financial assets at the aggregate price of NT\$2,380,270 thousand and recognized an investment disposal gain of NT\$77,766 thousand. The Company sold shares of Pixart Imaging Inc, Hon Hai Technology Inc. and other listed stocks at the aggregate price of NT\$522,562 thousand and recognized an investment disposal gain of NT\$494,425 thousand.
- e. In 2009, the Company sold shares of Young Fast Optoelectronics Co., Ltd. which was financial assets carried at cost-noncurrent at the price of NT\$122,127 thousand and recognized an investment disposal gain of NT\$53,028 thousand.
- f. In March 2009, the Company sold Chinatrust 96-2 Financial Debenture which was classified as held-to-maturity financial assets before maturity at the price of NT\$242,498 thousand and recognized an investment disposal loss of NT\$7,502 thousand. The Company reclassified the remaining held-to-maturity financial assets, such as Cathay Real Estate Investment Trust-Tun Nan C, to available-for-sale financial assets-noncurrent in the amount of NT\$1,340,217 thousand.
- g. In 2009, the Company invested in Seti Co., Ltd. which was classified as financial assets designated as at fair value through profit or loss-noncurrent in the amount of NT\$109,906 thousand.
- h. In 2008, the Company invested in Nanya 96-1 Corporate Bonds and Chinatrust 92-2 Financial Debenture which were classified as available-for-sale financial assets. The investment cost and face value amounted to NT\$445,347 thousand and NT\$450,000 thousand, respectively.
- i. In 2009, the Company invested in Mcube Inc. and other financial assets which were classified as financial assets carried at cost-noncurrent. The investment cost amounted to NT\$221,124 thousand.
- j. In 2008, the Company and subsidiaries invested in Taiwan Power 93-1 the Fourth Corporate Bond-E, Nanya 94-2 the Second Corporate Bond-C, Taiwan Power 92-2 the Third Corporate

Bond-K and Mega 41P1 Second Financial Debenture, GEVCR II 36-Month Debentures and AIG FRN which were classified as held-to-maturity financial assets. The investment cost and face value amounted to NT\$1,244,193 thousand and NT\$1,270,838 thousand, respectively.

- k. In 2009, the Company and subsidiaries determined that part of available-for-sale financial assets were impaired and, therefore, recognized an impairment loss in the amount of NT\$99,449 thousand. In 2008, the Company and subsidiaries determined that part of available-for-sale financial assets-noncurrent, financial assets carried at cost-noncurrent, and held-to-maturity financial assets-noncurrent were impaired and, therefore, recognized an impairment loss in the amount of NT\$534,609 thousand.
- l. In December 2005, our investment in series B preferred stocks ("Preferred B") of Chinatrust Financial Holding Company was increased by NT\$1,000,000 thousand. Terms and conditions of the stock are listed as follows:
- (a) Duration : 7 years
 - (b) Par value : \$10 per share
 - (c) Issuing price : \$40 per share
 - (d) Dividends:
Dividend is at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.
 - (e) Redemption at maturity:
Preferred B is a 7-year preferred stock. Redemption price at maturity is at 100% of the issuing price, i.e. NT\$40 per share.
- m. Funds and investments mentioned above were not pledged as of December 31, 2009 and 2008.

9. Property, Plant and Equipment

- a. No interest was capitalized for the years ended December 31, 2009 and 2008.
- b. Property, plant and equipment were not pledged as of December 31, 2009 and 2008.

10. Intangible Assets

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

For the year ended December 31, 2008

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

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

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

11. Lease Payable

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

Leaser	As of December 31, 2008
Magma Design Automation, Inc.	\$1,803
Less: Un-amortization lease payable discount	(411)
Net	1,392
Less : current portion	(1,392)
Leased payable-noncurrent	\$-

12. Accrued Pension Liabilities

a. Defined Benefit Plans

(a) The Company and subsidiaries' pension fund contributed to a fiduciary account in Bank of Taiwan amounted to NT\$45,452 thousand and NT\$44,069 thousand as of December 31, 2009 and 2008, respectively. The total pension expenses amounted to NT\$5,635 thousand and NT\$16,921 thousand for the years ended December 31, 2009 and 2008, respectively.

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

	For the year ended December 31,	
	2009	2008
Service cost	\$913	\$1,680
Interest cost	4,260	7,641
Expected return on plan assets	(1,102)	(1,268)
Amortization	1,564	8,083
Other	-	785
Net pension cost	\$5,635	\$16,921

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

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

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

(e) The underlying actuarial assumptions

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

b. Defined Contribution Pension Plan

The Company and subsidiaries adopted defined contribution pension plans and made periodical contributions to pension funds in accordance with related statutory regulations and laws. Pension expenses amounted to NT\$294,711 thousand and NT\$224,544 thousand for the years ended December 31, 2009 and 2008, respectively.

13. Common Stock

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

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

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

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

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 net assets, 50% of such reserve may be distributed to the Company's shareholders through the issuance of additional common share.

15. Capital Reserve

	As of December 31,	
	2009	2008
Additional paid-in capital	\$7,385,442	\$2,090,759
Treasury stock transaction	583,194	474,512
Donated assets	1,260	1,260
Long-term equity investment	169,422	150,136
Employee stock option	128,508	40,644
Total	\$8,267,826	\$2,757,311

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

The Company had paid cash dividends in the amount of NT\$108,682 thousand and NT\$146,037 thousand to the subsidiary who owned the Company's common shares for the years ended December 31, 2009 and 2008, respectively. Since the Company's shares held by the subsidiary are treated as treasury stocks, the cash dividends paid to the Company's subsidiary are accounted for as an adjustment to capital reserve; under the category of treasury stock transactions.

Based on the resolution of shareholders' general meeting on June 10, 2009, the Company resolved to issue 14,820,251 new shares at par value of NT\$10 for the capitalization of employees' bonus of NT\$5,442,886 thousand and recorded paid in capital in excess of par value in amount of NT\$5,294,683 thousand. Please refer to Note 4(13).

16. Employee Stock Options

- a. In December 2007 and July 2008, the Company was authorized by the Financial Supervisory Commission, Executive Yuan, to issue employee stock options with a total number of 5,000,000 units and 3,000,000 units, each option eligible to subscribe for one common share. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company's shareholding with voting rights, directly or indirectly, is more than fifty percent. The options are valid for ten years and exercisable at certain percentage subsequent to the second anniversary of the granted date. Under the terms of the plan, the options are granted at an exercise price equal to the closing price of the Company's common share listed on the TWSE on the grant date.

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

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

Note: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash or the appropriations of earnings) in accordance with the plan.

- b. The compensation cost was recognized under the fair value method and the Black-Scholes Option Pricing model was used to estimate the fair value of options granted. In 2009 and 2008, the compensation cost arising from employee stock options were NT\$87,864 thousand and NT\$40,644 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

Employee Stock Option

Expected dividend yield	3.13%~6.63%
Expected volatility	42.12%~50.06%
Risk free interest rate	1.04%~2.53%
Expected life	6.5 years

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

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

The information regarding the Company's outstanding stock options as of December 31, 2009 is disclosed as follows:

	Outstanding Stock Options				Exercisable Stock Options	
	Range of Exercise Price (NTD)	Options (Unit)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Stock option plan o 2007	\$365.2~382.0	2,455,257	4.99	\$372	-	\$-
Stock option plan o 2009	473.0	1,335,028	6.13	473	-	-
		<u>3,790,285</u>		<u>\$408</u>	<u>-</u>	

- c. Since May 2009, the Company lost control over Airoha Technology Inc. and AdvMatch Technology, Inc. was in liquidation since December 2008. Therefore, the above companies were not included in the Company's consolidated financial statements of 2009 and the information of employees' stock options in 2008 were listed as follows:

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

Airoha Technology, Inc. used the following assumptions to calculate the pro-forma fair value of options granted:

	<u>Employee Stock Option</u>
Expected dividend yield	-%
Risk free interest rate	2.11%~2.22%
Expected life	5 years

The respective information of units and weighted average exercise prices of stock option plans for Airoha Technology, Inc. was disclosed as follows:

	For the year ended December 31, 2008	
<u>Employee Stock Option</u>	<u>Units</u> <i>(in thousands)</i>	<u>Weighted- average Exercise Price</u> <i>(NTD)</i>
Outstanding at beginning of period	4,443	\$29
Granted	628	25.7
Exercised	(99)	29
Expired	(340)	29
Outstanding at end of period	<u>4,632</u>	<u>28.55</u>
Exercisable at end of year	<u>2,221</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$-</u>	

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

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

AdvMatch Technology, Inc. used the following assumptions to calculate the pro-forma fair value of options granted:

	<u>Employee Stock Option</u>
Expected dividend yield	-%
Risk free interest rate	2.73%
Expected life	2.5 years

The respective information of units and weighted average exercise prices for stock option plans of AdvMatch Technology, Inc. was disclosed as follows:

For the year ended December 31, 2008

Employee Stock Option	Units (in thousands)	Weighted-average Exercise Price (NTD)
Outstanding at beginning of year	215	\$10
Granted	-	-
Exercised	-	-
Forfeited (Expired)	(16)	10
Outstanding at end of period	199	10
Exercisable at end of year	-	
Weighted-average fair value of options granted during the year (in NTD)	\$-	

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

For the year ended December 31, 2008

	Net income	
Consolidated net income attributable to parent company's shareholders		\$19,189,997
	Pro-forma net income	
		19,186,448
Basic EPS (in NTD)	Earnings per share	17.98
	Pro-forma earnings per share	17.97
	Net loss	
Consolidated net loss attributable to minority interests		(15,757)
	Pro-forma net loss	
		(20,679)
Basic EPS (in NTD)	Earnings per share	(0.02)
	Pro-forma earnings per share	(0.02)

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 for item (a) through (d). Remuneration for directors and supervisors' services is limited to cash payments.
- (f) The remaining after all above appropriations and distributions, combining with undistributed earnings from prior years, shall be fully for shareholders' dividends and employees' bonuses and may be retained or distributed proportionally. The portion of employees' bonuses may not be less than 1% of total earnings resolved to distribute for shareholders' dividends and employees' bonuses. Employees' bonuses may be distributed in the form of shares or cash, or a combination of both. The criteria for qualifying for employees' bonuses are at the discretion of Board. Employees serving the subsidiaries of the Company are also entitled to the bonuses.

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

According to the regulations of Taiwan SFC, the Company is required to appropriate a special

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

During the years ended December 31, 2009 and 2008, the amounts of the employee' bonuses were estimated to be at NT\$12,226,536 thousand and NT\$6,403,395 thousand, respectively. During the years ended December 31, 2009 and 2008, the amount of remunerations to directors and supervisors were estimated to be at NT\$91,274 thousand and NT\$50,993 thousand, respectively. Employee bonuses were estimated based on 25% of net income for the years ended December 31, 2009 and 2008 (excluding the impact of expensing employees' bonuses and the related income tax effect) while remunerations to directors and supervisors were estimated based on the Company's Articles of Incorporation. Estimated amount of employee bonuses and remunerations paid to directors and supervisors were charged to current income as operating expenses for the years ended December 31, 2009 and 2008. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, the Company shall recognize the change as an adjustment to statement of 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:

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

	January 1, 2007		Additions		December 31, 2008		
	Shares	Amount	Shares	Amount	Shares	Amount	Market Value
MediaTek Capital Corp.	7,686,143	\$55,970	76,861 (Note)	\$-	7,763,004	\$55,970	\$1,711,742

Note : Stock dividends

19. Net Operating Revenue

	For the year ended December 31, 2002	
	2009	2008
Revenues from sales of multimedia and cell phone chipsets		
	\$123,475,739	\$93,985,626
Other operating revenue	666,523	574,644
Subtotal	124,142,262	94,560,270
Less: Sales returns and sales discounts	(8,630,637)	(4,158,229)
Net Operating Revenue	\$115,511,625	\$90,402,041

20. Personnel, Depreciation and Amortization Expenses

For the year ended December 31,

	2009			2008		
	Recorded under cost of goods sold	Recorded under operating expense	Total	Recorded under cost of goods sold	Recorded under operating expense	Total
Personnel Expense						
Salaries & wages	\$150,545	\$19,063,019	\$19,213,564	\$104,638	\$12,000,037	\$12,104,675
Insurance	5,132	281,441	286,573	4,694	377,032	381,726
Pension	5,665	294,681	300,346	4,500	236,965	241,465
Other expenses	1,563	815,915	817,478	1,312	512,816	514,128
Total	\$162,905	\$20,455,056	\$20,617,961	\$115,144	\$13,126,850	\$13,241,994
Depreciation	\$14,443	\$1,058,444	\$1,072,887	\$4,214	\$944,936	\$949,150
Amortization	\$1,011	\$2,171,111	\$2,172,122	\$676	\$2,344,884	\$2,345,560

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%. The amendment will take effect starting 2010.

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

For the year ended December 31,

	2009	2008
Income tax payable	\$304,525	\$428,128
10% surtax on undistributed earnings	195,193	687,854
Investment tax credits	(227,316)	(531,928)
Deferred income tax effects		
Investment tax credits	(704,911)	(5,170,638)
Valuation allowance	237,626	6,085,908
Others	787,432	(373,203)
Others	132,071	797,769
Income tax expense from continuing operations	\$724,620	\$1,923,890

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

	As of December 31,			
	2009		2008	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets				
Recognition of unrealized allowance for inventory obsolescence	\$2,257,721	\$451,544	\$1,373,720	\$343,430
Allowance for doubtful debt in excess of deductible limit	46,223	9,245	32,864	8,216
Unrealized technology license fee	821,736	164,347	-	-
Unrealized loss on asset impairment	201,208	40,241	314,288	77,966
Others		174,175		210,429
Loss carryforwards-domestic		-		58,887
-foreign		499,220		932,032

(To be continued)

(Continued)

	As of December 31,			
	2009		2008	
	Amount	Tax effect	Amount	Tax effect
Investment tax credits-domestic		9,309,451		8,466,657
-foreign		176,581		314,464
Total deferred income tax assets		10,824,804		10,412,081
Valuation allowance for deferred income tax assets		(10,162,018)		(9,924,392)
Net deferred income tax assets		662,786		487,689
Deferred income tax liabilities				
Unrealized foreign exchange gain	(21,136)	(4,227)	(10,305)	(2,576)
Unrealized gain on valuation of financial assets	(16,042)	(3,208)	(29,631)	(7,408)
Unrealized amortization of intangible assets	(2,726,884)	(545,377)		-
Others		(8,930)		(56,514)
Total deferred income tax liabilities		(561,742)		(66,498)
Net deferred income tax assets and liabilities		\$101,044		\$421,191

	As of December 31,	
	2009	2008
Deferred income tax assets-current	\$1,067,687	\$723,193
Valuation allowance for deferred income tax assets-current	(790,358)	(440,161)
Net deferred income tax assets-current	277,329	283,032
Deferred income tax liabilities-current	(16,365)	(25,778)
Net deferred income tax assets and liabilities-current	\$260,964	\$257,254

	As of December 31,	
	2009	2008
Deferred income tax assets-noncurrent		
	\$9,757,117	\$9,688,888
Valuation allowance for deferred income tax assets-noncurrent	(9,371,660)	(9,484,231)
Net deferred income tax assets-noncurrent	385,457	204,657
Deferred income tax liabilities-noncurrent	(545,377)	(40,720)
Net deferred income tax assets and liabilities-noncurrent	(\$159,920)	\$163,937

d. Pursuant to Article 9-2 of the "Statute for Upgrading Industries", the Company is qualified as a technical service industry and is therefore entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. The Company has elected the tax exemption periods from January 1, 2005 through December 31, 2009, January 1, 2007 through December 31, 2011, and January 1, 2009 through December 31, 2013.

e. The Company and subsidiaries are not allowed to file consolidated income tax returns.

f. The Company's income tax returns for the years from 2002 to 2005 have been assessed by the tax authorities and NT\$1,835,978 thousand of additional income tax payable was imposed. The discrepancy between the Company's tax return filing and the result of tax authority's assessment was mainly due to different interpretations on calculating exempted income. After assessing the potential outcome, the Company has fully accrued the additional tax liability. Although the Company has vigorously filed several administrative appeals to tax authority and Courts, the Company has paid the amount in full.

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

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

h. Integrated income tax information

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

Note: The ratio was computed based on the amount of actual available shareholders' tax credits plus estimated income tax payable as of December 31, 2009.

i. Information related to undistributed retained earnings

	As of December 31,	
	2009	2008
Prior to 1998	\$-	\$-
After 1997	74,894,668	55,427,112
Total	\$74,894,668	\$55,427,112

22. Earnings Per Share

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

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

Contents	For the year ended December 31,	
	2009	2008
Weighted-average shares outstanding for the period (Less the Company's shares owned by the subsidiary)	1,075,843,776	1,067,520,073
Effect of dilutive potential common shares:		
Bonus to employees	28,407,903	29,040,340
Stock option to employees	279,444	-
Weighted-average of dilutive shares outstanding	<u>1,104,531,123</u>	<u>1,096,560,413</u>

Contents	Amount(Numerator)		Shares (Denominator)	Earnings per share	
	Before tax	After tax		Before tax	After tax

For the year ended December 31, 2009

Consolidated net income attributable to the parent					
Basic EPS					
Net income	<u>\$37,430,260</u>	<u>\$36,705,640</u>	<u>1,075,843,776</u>	<u>\$34.79</u>	<u>\$34.12</u>
Diluted EPS					
Net income	<u>\$37,430,260</u>	<u>\$36,705,640</u>	<u>1,104,531,123</u>	<u>\$33.89</u>	<u>\$33.23</u>

Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	<u>\$(10,174)</u>	<u>\$(10,174)</u>	<u>1,075,843,776</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>
Diluted EPS					
Net loss	<u>\$(10,174)</u>	<u>\$(10,174)</u>	<u>1,104,531,123</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>

Contents	Amount(Numerator)		Shares (Denominator)	Earnings per share	
	Before tax	After tax		Before tax	After tax

For the year ended December 31, 2008

Consolidated net income attributable to the parent					
Basic EPS					
Net income	<u>\$21,113,887</u>	<u>\$19,189,997</u>	<u>1,067,520,073</u>	<u>\$19.78</u>	<u>\$17.98</u>
Diluted EPS					
Net income	<u>\$21,113,887</u>	<u>\$19,189,997</u>	<u>1,096,560,413</u>	<u>\$19.25</u>	<u>\$17.50</u>

Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	<u>\$(15,757)</u>	<u>\$(15,757)</u>	<u>1,067,520,073</u>	<u>\$(0.02)</u>	<u>\$(0.02)</u>
Diluted EPS					
Net loss	<u>\$(15,757)</u>	<u>\$(15,757)</u>	<u>1,096,560,413</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>

5. Related Party Transactions

(1) Related Parties and Relations

Related parties	Relations
King Yuan Electronics Co., Ltd. ("King Yuan")	The chairman of the Company and the chairman of King Yuan are close relatives
ALi Corporation ("ALi")	Equity investee
Airoha Technology, Inc. ("Airoha")	Equity investee (Note)
Alpha Imaging Technology Corp. ("Alpha")	A subsidiary of the Company served as Alpha's director
JMicron Technology Corporation ("JMicon")	The Company's chairman doubles as JMicon's chairman
All numbers of directors, supervisors and key managers	The Company's major managers

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

(2) Major Transactions with related parties

a. Sales

	For the year ended December 31,			
	2009		2008	
	Amount	% of net sales	Amount	% of net sales
ALi	\$64,626	0.06	\$-	-
Alpha	-	-	5,002	0.01
Total	\$64,626	0.06	\$5,002	0.01

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

b. IC testing, experimental services and manufacturing technology services

		For the year ended December 31,	
		2009	2008
King Yuan	IC testing and experimental services	\$5,730,483	\$3,619,140

c. Rental Income

	Rental Income		Other Receivables	
	For the year ended December 31,		As of December 31,	
	2009	2008	2009	2008
Airoha	\$3,763	\$-	\$3,054	\$-
JMicon	8,177	7,993	-	-
Others	4	-	-	-
Total	\$11,944	\$7,993	\$3,054	\$-

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

- (3) Receivables and payables resulted from the above transactions
Payables to related parties

	As of December 31,			
	2009		2008	
	Amount	%	Amount	%
King Yuan	\$1,785,494	15.14	\$633,674	12.91

- (4) Remunerations paid to major managers

	For the year ended December 31,	
	2009	2008
Salaries, reward, compensation, special allowance and bonus	\$200,966(Note)	\$483,644

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

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

6. Assets Pledged As Collateral

- (1) As of December 31, 2009:

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

- (2) As of December 31, 2008:

	Amount	Party to which assets was pledged	Contents (Purpose)
Restricted deposits-current	\$1,800	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,735	Danske Bank	Credit guarantee
Restricted deposits-noncurrent	3,202	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	26,288	Citibank	Lease guarantee
Total	\$35,025		

7. Commitments and Contingencies

- (1) Lawsuit:

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

(2) Operating Lease:

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

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

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

Lease Period	Amount
2010.01.01~2010.12.31	\$120,340
2011.01.01~2012.12.31	113,057
2012.01.01~2013.12.31	110,664
2013.01.01~2014.12.31	65,886
2014.01.01~2027.12.31	124,596
Total	\$534,543

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,			
	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
Assets				
Cash and cash equivalents	\$94,647,892	\$94,647,892	\$53,021,544	\$53,021,544
Held-for-trading financial assets-current (excluding derivatives)	\$-	\$-	\$147,675	\$147,675
Financial assets designated as at fair value through profit or loss	\$1,041,745	\$1,041,745	\$1,808,334	\$1,808,334
Receivables (including receivables from related parties)	\$7,266,916	\$7,266,916	\$5,428,620	\$5,428,620
Other receivables	\$901,195	\$901,195	\$739,307	\$739,307
Available-for-sale financial assets	\$4,285,035	\$4,285,035	\$6,432,153	\$6,432,153
Held-to-maturity financial assets	\$-	\$-	\$2,134,142	\$2,118,140
Financial assets carried at cost	\$931,566	\$-	\$769,806	\$-
Bond portfolios with no active market	\$1,000,000	\$1,089,108	\$1,000,000	\$1,084,628
Investments accounted for using the equity method				
-with market value	\$1,368,384	\$4,967,730	\$1,208,569	\$1,299,924
-without market value	\$218,199	\$-	\$-	\$-
Refundable deposits	\$328,579	\$328,579	\$103,897	\$103,897
Restricted deposits	\$33,255	\$33,255	\$35,025	\$35,025
Liabilities				
Payables (including related parties)	\$11,794,344	\$11,794,344	\$4,906,708	\$4,906,708
Income tax payable	\$985,199	\$985,199	\$839,461	\$839,461
Accrued expenses	\$16,317,295	\$16,317,295	\$10,630,907	\$10,630,907
Payables to contractors and equipment suppliers	\$9,648	\$9,648	\$89,403	\$89,403
Leased payable	\$-	\$-	\$1,392	\$1,392
Deposits received	\$983	\$983	\$1,022	\$1,022
<u>Derivatives</u>				
Assets				
Held-for-trading financial assets				
-Forward exchange contracts	\$16,042	\$16,042	\$32,587	\$32,587
Liabilities				
Held-for-trading financial liabilities				
-Forward exchange contracts	\$-	\$-	\$2,956	\$2,956

A. The following methods and assumptions were used by the Company and subsidiaries in estimating the fair value of financial instruments:

(a) The fair values of the Company's short-term financial instruments approximate their carrying values at the reporting date due to their short maturities. This method was applied to cash and cash equivalents, receivables, other receivables, payables, income tax payable, accrued expenses and payables to contractors and equipment suppliers.

(b) The fair values of the Company and subsidiaries' refundable deposits, deposits received and restricted deposits approximate their carrying value because the Company and subsidiaries predict the future cash inflows or outflows will be of similar amounts to the carrying values.

(c) The fair value of held-for-trading financial assets and available-for-sale financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.

(d) The fair values of held-to-maturity financial assets were based on their quoted market

prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques. Such techniques use rates of returns from similar financial instruments as discount rates.

- (e) Financial assets carried at cost represent holdings of equity securities of non-public companies and have no material influence, or derivatives linked to and settled in those stocks. As these equity securities are not traded in open market, the fair value is not available.
 - (f) 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.
 - (g) The fair value of investments accounted for under the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.
 - (h) Fair value of leased payable is evaluated by discounting expected future cash flows.
 - (i) The fair value of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
- B. Gain (loss) recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$88,140 thousand and NT\$(55,800 thousand) for the years ended December 31, 2009 and 2008, respectively.
- C. As of December 31, 2009 and 2008, financial assets exposed to fair value risk from fixed interest rate were NT\$78,419,239 thousand and NT\$52,239,104 thousand, respectively, and financial assets exposed to cash flow risk from variable interest rate were NT\$6,767 thousand and NT\$251,650 thousand, respectively.
- D. Interest income recognized from financial assets and financial liabilities that are not at fair value through profit or loss amounted to NT\$509,239 thousand and NT\$1,167,862 thousand and the interest expense amounted to NT\$625 thousand and NT\$10,045 thousand for the years ended December 31, 2009 and 2008, respectively. The Company recognized an unrealized gain of NT\$258,712 thousand and an unrealized loss of NT\$368,943 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2009 and 2008, respectively, and the amounts that were recycled from equity to losses were NT\$5,106 thousand and NT\$167,628 thousand for the years ended December 31, 2009 and 2008, respectively. The Company also recognized an unrealized gain of NT\$163,929 thousand and an unrealized loss of NT\$862,633 thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for under the equity method for the years ended December 31, 2009 and 2008, respectively.
- E. The impairment loss on financial assets amounted to NT\$99,449 thousand and NT\$773,139 thousand for the years ended December 31, 2009 and 2008, respectively.
- b.
- (a) Risk management policy and hedge strategy for financial instruments

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

The Company and subsidiaries entered into forward exchange contracts. Forward contracts were used to hedge assets and liabilities denominated in foreign currency. However, as these

derivatives did not meet the criteria for hedge accounting, they were recognized as current financial assets/liabilities at fair value through profit or loss.

(b) Information of financial risks

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

Market risk

Market risk mainly includes currency risk. It comes from the purchases or sales activities which are not denominated in the Company and subsidiaries' functional currency. The Company and subsidiaries review their assets and liabilities denominated in foreign currency and enter into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Had the USD moved against NTD by increasing 1 cent, the fair value of the forward exchange contracts would decrease by NT\$550 thousand and NT\$1,150 thousand as of December 31, 2009 and 2008, respectively. Credit-linked deposits and interest rate-linked deposits are affected by interest rates. When interest rate increases, the market value may decrease and may even be below the initial investment cost, and vice versa. The fair value of exchange rate-linked deposits is affected by interest rate fluctuation. The fair value of mutual fund, government bonds and corporate bonds will be exposed to fluctuations from other market factors as well as movement in interest rates.

Credit risk

The Company and subsidiaries' exposure to credit risk arises from potential default of the counter-party or other third-party. The level of exposure depends on several factors including concentrations of credit risk, components of credit risk, the price of contract and other receivables of financial instruments. The Company and subsidiaries' credit risk mainly comes from the collectibility of accounts receivable while receivable balances are monitored on an ongoing basis and an allowance for doubtful receivables is provided. Thus, the net book value of accounts receivable are properly evaluated and reflect the credit risk the Company 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.

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

Liquidity risk

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

Except for financial assets carried at cost, bond portfolios with no active market and investments accounted for using the equity method that may have significant liquidity risks resulted from lack of an active market, the equity securities, bonds and funds held by the Company and subsidiaries are traded in active markets and can be sold promptly at the prices close to their fair values. Since the Company and subsidiaries intends to and is able to hold financial bonds and real estate investment trust to maturity, the liquid risk is low. Since the exchange rates of forward exchange contracts are fixed at the time the contracts are entered into and the Company and subsidiaries do hold and anticipates to hold sufficient

financial assets denominated in USD, no significant additional cash requirement is anticipated.

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

Cash flow risk from variable interest rate

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

Other information

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

(2). Inter-company relationships and significant inter-company transactions for the year ended December 31, 2009 are as follows: (For the Company's shares owned by the subsidiary, please refer to the Note 4.(18) to the consolidated financial statements.)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Receivables from related parties	\$60,581	Based on contract	0.04%
			1	Sales revenues	\$643,547		0.56%
		MTK Wireless Limited (UK)	1	Other receivables	\$444		0.00%
		Airoha Technology, Inc.	1	Rent revenues	\$6,606	Based on contract	0.01%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$11,924		0.01%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$618,072	Based on contract	0.45%
			3	Research and development expenses	\$1,677,598		1.45%
		MediaTek Denmark ApS	3	Payables to related parties	\$182,384		0.13%
			3	Research and development expenses	\$295,257		0.26%
		MediaTek Wireless Limited (Ireland)	3	Payables to related parties	\$4,349		0.00%
			3	Research and development expenses	\$58,514		0.05%
		MTK Wireless Limited (UK)	3	Payables to related parties	\$241,503		0.17%
			3	Research and development expenses	\$504,322		0.44%
		MediaTek USA Inc.	3	Payables to related parties	\$681,902		0.49%
			3	Research and development expenses	\$684,345		0.59%
		MediaTek Japan Inc.	3	Payables to related parties	\$58,310		0.04%
			3	Research and development expenses	\$196,811		0.17%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$30,573		0.02%
			3	Research and development expenses	\$156,537		0.14%

(To be continued)

(Continued)

No. (Note1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			Percentage of consolidated operating revenue or total assets (Note 3)
				Account	Amount	Terms	
2	MediaTek Singapore Pte. Ltd	MediaTek Korea Inc.	3	Payables to related parties	\$35,713	Based on contract	0.03%
			3	Research and development expenses	\$128,278		0.11%
		MediaTek (ShenZhen) Inc.	3	Prepayments	\$4,074		0.00%
			3	Research and development expenses	\$742,013		0.64%
		MediaTek (Hefei) Inc.	3	Prepayments	\$150,636		0.11%
			3	Research and development expenses	\$329,020		0.28%
		MediaTek (Beijing) Inc.	3	Prepayments	\$92,365		0.07%
			3	Research and development expenses	\$790,859		0.68%
3	MediaTek (Beijing) Inc.	Vogins Technology (Shanghai) Co., Ltd.	3	Research and development expenses	\$2,422		0.00%

Inter-company relationships and significant inter-company transactions for the year ended December 31, 2008 are as follows:

No. (Note1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Receivables from related parties	\$20,325	Based on contract	0.02%
			1	Sales Revenue	\$412,553		0.46%
		MediaTek Wireless Limited (Ireland)	1	Other receivables	\$1,025	Based on contract	0.00%
		MTK Wireless Limited (UK)	1	Other receivables	\$2,152		0.00%
		MediaTek Denmark ApS	1	Other receivables	\$2,683		0.00%
		MediaTek Wireless, Inc. (USA)	1	Other receivables	\$836		0.00%
		Airoha Technology, Inc.	1	Other receivables	\$3,066		0.00%
			1	Rent revenue	\$12,318		0.01%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$12,294	Based on contract	0.01%
		K-Will Corporation (Japan)	3	Administrative expenses	\$101,529		0.11%
		MediaTek India Technology Pvt. Ltd.	3	Prepayments	\$283		0.00%
			3	Administrative expenses	\$54,074		0.06%
2	MediaTek Limited	MediaTek (ShenZhen) Inc.	3	Administrative expenses	\$8,829	0.01%	
3	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$523,064	Based on contract	0.53%
			3	Research and development expenses	\$1,576,556		1.74%
		MediaTek Denmark ApS	3	Payables to related parties	\$169,868		0.17%
			3	Research and development expenses	\$360,908		0.40%
		MediaTek Wireless Limited (Ireland)	3	Payables to related parties	\$68,786		0.07%
			3	Research and development expenses	\$105,647		0.12%

(To be continued)

(Continued)

No. (Note1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			Percentage of consolidated operating revenue or total assets (Note 3)
				Account	Amount	Terms	
3	MediaTek Singapore Pte. Ltd.	MTK Wireless Limited (UK)	3	Payables to related parties	\$192,862	Based on contract	0.19%
			3	Research and development expenses	\$594,467		0.66%
		MediaTek USA Inc.	3	Payables to related parties	\$330,877		0.33%
			3	Research and development expenses	\$1,280,787		1.42%
			3	Selling expenses	\$17,837		0.02%
		MediaTek Japan Inc.	3	Payables to related parties	\$62,349		0.06%
			3	Research and development expenses	\$97,618		0.11%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$19,649		0.02%
			3	Research and development expenses	\$121,772		0.13%
		MediaTek Korea Inc.	3	Payables to related parties	\$20,041		0.02%
			3	Research and development expenses	\$122,552		0.13%
		MediaTek (ShenZhen) Inc.	3	Prepayments	\$13,504		0.01%
			3	Research and development expenses	\$552,966		0.61%
		MediaTek (Hefei) Inc.	3	Prepayments	\$21,825		0.02%
			3	Research and development expenses	\$265,689		0.29%
		MediaTek (Beijing) Inc.	3	Prepayments	\$45,598		0.05%
			3	Research and development expenses	\$505,996		0.56%
	MediaTek USA Inc.	MediaTek Japan Inc.	3	Payables to related parties	\$1,449		0.00%
3			Research and development expenses	\$74,011	0.08%		

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

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

Note 2: Transactions are categorized as follows:

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

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

9.8. Financial Difficulties

The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2009 and as of the date of this Annual Report:

None.

(End)