MediaTek Inc.
2010 Annual Report

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MediaTek website: http://www.mediatek.com/tw/ir/Annual_Reports.php

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1. Letter to Shareholders

Dear Shareholders:

2010 was a year of rapid changes in the IC design industry, and challenges and fierce competition in the market were abounded. In addition to competition from both domestic and overseas companies, new products were also constantly introduced to the market. Affected by the intense competition and product life cycle, prices of ICs also had to be adjusted accordingly to keep pace with market conditions. In such a severe environment, the entire MediaTek staff was nevertheless able to produce good results for the company with their hard work and dedicated efforts. The consolidated net revenue for the year totaled NT$113.5 billion, with an earnings per share of NT$28.44, making MediaTek the top ranking company in Taiwan's IC design industry.

Regarding new products, in the past year, MediaTek adopted advanced manufacturing processes and successfully launched 3D TV chipsets, Smart TV chips, highly integrated Blu-ray DVD player chips, mobile handsets chipsets for 3G and Android smartphone solutions. MediaTek not only strengthened its leading position in optical storage, Blu-ray DVD players, and mid-to-high-end DTV chips, it also successfully helped its clients in the mobile handset industry to launch smartphones with highly competitive prices and to expand their presence in emerging markets. These new products and newly developed markets will help to fuel MediaTek's future growth.

On the organizational front, MediaTek continued to invest in advanced technologies and actively expanded its R&D workforce, while proceeding to cultivate additional management talents that possess both technical strength and innovative visions for the next phase of growth. MediaTek continued its commitment to corporate social responsibility by sponsoring technology, environmental protection, and promotion of education. The Company received the "Corporate Citizenship Award" for the fourth consecutive year from CommonWealth Magazine, and was also awarded the "2010 Taiwan's Most Admired Company" designation, which it has also earned eight years in a row. Furthermore, the Wall Street Journal selected MediaTek as one of the top 10 companies in its "200+ Most Respected Companies in Asia" list for 2010. In terms of research and development, MediaTek continued to capture the attention of domestic and overseas professional organizations, and was the only Taiwanese company to publish its papers in the International Solid State Circuits Conference (ISSCC) for eight consecutive years, in addition to being awarded No. 12 in BusinessWeek's The Tech 100 list. The Ministry of Economic Affairs also awarded the Company the Distinguished Industrial Contribution Award last year.

Since its founding, MediaTek has been building strong R&D and innovation capacities, making it the number one company in the world in shipments of chips in optical storage, home media players and communications. Although the growth of certain mature product lines have slowed due to competition and market saturation, MediaTek has a solid product portfolio, operational efficiency, intellectual properties, human capital and customer relationships. Going forward, the Company will continue to accelerate its pace in technological innovation and product upgrades, enhance added values, and advance toward industry leadership position.

Looking forward, the continued growth of the world economy has led to an expeditious increase in consumer purchasing power, which is driving tremendous demand for entertainment, communication, and information products/services. This trend, in turn, is forming a huge market and presenting us with new opportunities. However, rapid technological developments and innovation of new business models also bring new challenges and a competitive landscape. Faced with new challenges and customer demand, integrity, respect and customer-oriented practice remain MediaTek's basic tenets. We will continue to employ innovative and deep thinking before taking decisive actions. With continuous learning and close team work, we aim to achieve the best results and performance. We are confident that the prospect of our mid-to-long-term development remains robust and we will be able to generate outstanding results for our shareholders, customers and employees. Once again we thank our shareholders for the great support.

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, Singapore, Dubai, etc. MediaTek Inc. is a leading fabless semiconductor company for wireless communications and digital multimedia solutions. The company is a market leader and pioneer in cutting-edge SOC system solutions for wireless communications, high-definition TV, optical storage, and DVD and Blu-ray products.

MediaTek 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
2011	■ Published five research papers in the ISSCC – "An Injection-Locked Ring PLL with Self-Aligned Injection Window", "A 70Mb/s -100.5dBm Sensitivity 65nm IP MIMO Chipset for WiMAX Portable Router (Industrial Demo)", "A Saw-Less GSM/GPRS/EDGE Receiver Embedded in a 65nm CMOS SOC (Industrial Demo)", "A Receiver for WCDMA/EDGE Mobile Phones with Inductorless Front-End in 65nm CMOS", and "A GPS/Galileo SOC with Adaptive in-Band Blocker Cancellation in 65nm CMOS".
2010	■ Published research papers in the ISSCC – "23.6 A 1V 17.9dBm 60GHz Power Amplifier in Standard 65nm CMOS", and "11.3 A SiGe BiCMOS 16-Element Phased-Array Transmitter for 60GHz Communications". ■ MediaTek's "WiMAX 802.16e device chipset project" awarded "Outstanding Contribution Award" by Ministry of Economic Affairs. ■ Awarded "Top 50 Corporate Citizens" by CommonWealth Magazine for four continuous years. ■ Awarded "Top 10 Most Admired Companies in Taiwan" by CommonWealth Magazine for eight continuous years. ■ Ranked Top 10 of "2010 Asia's 200 most-admired companies" by The Wall Street Journal ■ Awarded no. 12 of "Global Top 100 High-Tech Companies" by Bloomberg Business Week ■ Awarded "2010 Corporate Social Responsibility Top 65" by Global Views Monthly ■ Awarded "Best Annual Report in Taiwan" and "Best One-on-One Meetings in Taiwan" by IR Magazine

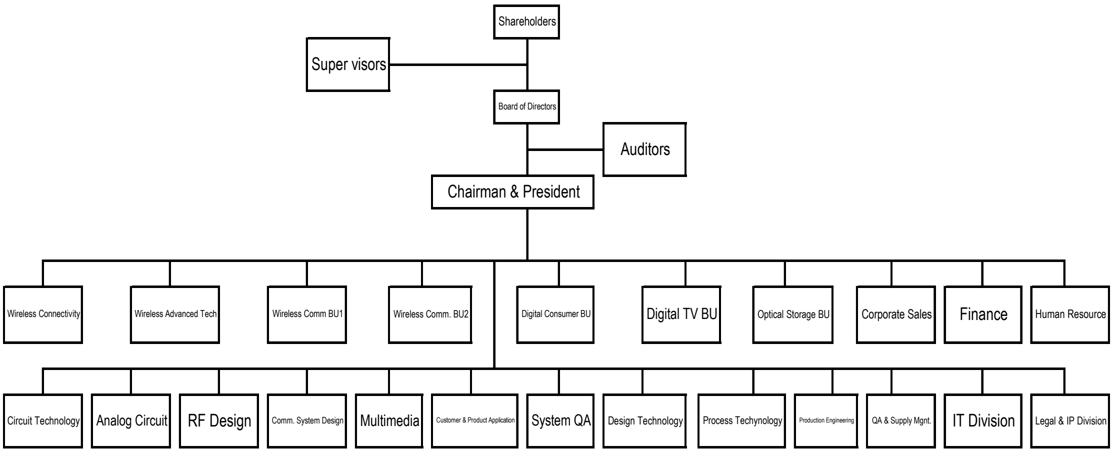
2009	■ Awarded "Innovative Product Award" for the company's High Sensitivity GPS SoC by Science-based Industrial Park Administration (SIPA) ■ Published four research papers in the ISSCC – "A Multi-Format Blu-ray Player SoC in 90nm CMOS", "A 1.2V 2MHz BW 0.084mm^2 CT ΔΣ ADC with -97.7dBc THD and 80dB 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". ■ 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	■ 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. ■ 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" ■ Awarded "Best Financially Managed Company" by Global Semiconductor Alliance (GSA). ■ Awarded "Corporate Social Responsibility Award" by Global View Magazine. ■ Awarded the second annual "Top 50 Corporate Citizens" by CommonWealth Magazine.
2007	■ 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 research paper in the ISSCC – "RTL-based Clock recovery architecture with all-digital duty-cycle correction". ■ Published research paper in the IEEE IRPS (International Reliability Physics Symposium) "A New Device Reliability Evaluation Method for Overdrive Voltage Circuit Application." ■ Awarded "Best Financially Managed Company" by Global Semiconductor Alliance (GSA). ■ Awarded "The Asian Top 50" by Forbes Asia. ■ Awarded "Corporate Social Responsibility Award" by Global View Magazine. ■ Awarded the 12th annual "Most Admired Company in Taiwan" by CommonWealth Magazine. ■ Awarded "Top 50 Corporate Citizens" by CommonWealth Magazine.
2006	■ 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. ■ Published research paper 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). ■ Awarded "The Asian Top 50" by Forbes Asia.
2005	■ 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. ■ Published research papers 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.
2004	■ Awarded "Innovative Product Award" for the company's DVD-Recorder Backend single-chip, by SIPA. ■ Launched GSM/GPRS baseband handset chips.

	■ Ranked no.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.
2003	■ 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."
2002	■ 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.
2001	■ 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	■ Awarded "Innovative Product Award" for the company's high-speed CD-R/RW chipset by SIPA. ■ Launched 12x DVD-ROM chipset.
1999	■ Awarded "Innovative Product Award" for the company's 12x DVD-ROM chipset by SIPA. ■ Launched 12-x DVD-ROM chipset.
1998	■ 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	■ Founded on May 28th.

3. Corporate Governance

3.1. Organization

3.1.1. Organization Chart



As of March 31, 2011.

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 1&2	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 development, customer relations, sales operations and management, etc.
Finance	Finance and accounting, tax, treasury and asset management, strategic investment, and investor relations
Human Resources	Human resource management and organization development, general affairs, plant administration, and labor safety
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
RF Design Division	Research and design of radio frequency technologies for wireless communication
Communication System Design Division	Research and development of communication system architecture and design
Multimedia Development Division	Research and development of multimedia technologies for video and imaging applications

Customer & Product Applications Division	Wireless and mobile communications product and customer applications services
System Quality Assurance Division	Digital consumer BU, Digital TV BU, and Optical Storage BU related products' system and software quality management
Design Technology Engineering Division	Design services and technical platform development
Manufacturing Technology Development Division	Advanced process research and development, high-end product pilot run production and device technology 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
Auditors	Internal audit and operation procedure management

3.2. Directors and Supervisors

3.2.1. Information Regarding Board Members & Supervisors

As of March 31, 2011. 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%	40,782,136	3.71%	48,647,145	4.43%	- Master, Electrical Engineering, University of Cincinnati, USA - President of the 2nd 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%	30,257,671	2.75%	10,784,414	0.98%	- Master, Electrical Engineering, National Chiao Tung University - Manager, Multimedia R&D Team, UMC	- None.
Director Ching-Jiang Hsieh	June 10, 2009	3	June 13, 2005	4,364,101	0.41%	4,255,620	0.39%	2,082,927	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%	2,873	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%	2,873	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%	7,794,085	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, Prosperity Dielectrics Co., Ltd. (PDC), Mitac Inc. and Taiwan Cement - Independent Director of Taiwan Prosperity Chemical Corp. - Supervisor of Les Enfants, and TECO Electric
Supervisor National Tsing Hua University Representative:Chung-Lang Liu	June 10, 2009	3	May 16, 2003	2,044	0.00%	2,052	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., 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	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓		3
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 2010 Net Income		Compensations Earned as Employee of MediaTek or of MediaTek Affiliates										(A+B+C+D+E+F+G) as % of 2010 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	MediaTek	Consolidated Entities	
															Cash	Stock	Cash	Stock					
Chairman Ming-Kai Tsai **Vice Chairman** Jyh-Jer Cho **Director** Ching-Jiang Hsieh **Director** National Taiwan University (Rep: Ming-Je Tang) **Director** National Chiao Tung University (Rep: Ching-Teng Lin)	-	-	-	-	30,028	30,028	150	150	0.01	0.01	8,947	8,947	216	216	138,204	-	138,204	-	-	-	0.57	0.57	None.

Note:

1. 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.
2. The Board of Directors resolved on March 16, 2011 meeting that NT$30,028,000 of 2010 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 15, 2011. The updated information shall be posted on the Company's website.
3. The Company's didn't have pension payment in 2010. The total pension expense provision in 2010 was NT$216,000.
4. The Board of Directors resolved on March 16, 2011 meeting that NT$3,863,296,000 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, 2011. 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.
5. The Company's Remunerations paid to directors, including their employee bonus, totaled NT$454,773 thousand, which was 1.24% of 2009 net profit.

	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		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, Ching-Jiang Hsieh	
Above NT$100 million	-	-	-	
Total	5		5	

3.2.4.2. Remunerations Paid to Supervisors

Unit: Share/NT$1,000

<table>
<tr><th rowspan="3">Title/Name</th><th colspan="8">Remunerations Paid to Supervisors</th><th colspan="2" rowspan="2">(A+B+C) as % of 2010 Net Income</th><th rowspan="3">Other compensations from non-subsidiary affiliates</th></tr>
<tr><th colspan="2">Salary (A)</th><th colspan="2">Pension</th><th colspan="2">Profit Sharing (B)</th><th colspan="2">Business Expense (C)</th></tr>
<tr><th>MediaTek</th><th>Consolidated Entities</th><th>MediaTek</th><th>Consolidated Entities</th><th>MediaTek</th><th>Consolidated Entities</th><th>MediaTek</th><th>Consolidated Entities</th><th>MediaTek</th><th>Consolidated Entities</th></tr>
<tr><td>Supervisor
MediaTek Capital Co.
Rep: Paul Wang</td><td rowspan="3">-</td><td rowspan="3">-</td><td rowspan="3">-</td><td rowspan="3">-</td><td rowspan="3">18,017</td><td rowspan="3">18,017</td><td rowspan="3">165</td><td rowspan="3">165</td><td rowspan="3">0.06</td><td rowspan="3">0.06</td><td rowspan="3">None.</td></tr>
<tr><td>Supervisor
National Tsing Hua University
Rep: Chung-Lang Liu</td></tr>
<tr><td>Director
National Cheng Kung University
Rep: Yan-Kuin Su</td></tr>
</table>

Note:

1. 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.
2. The Board of Directors resolved on March 16, 2011 meeting that NT$18,017,000 of 2010 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, 2011. The updated information shall be posted on the Company's website.

<table>
<tr><th rowspan="2"></th><th colspan="2">Compensation Paid to Supervisors (A+B+C)</th></tr>
<tr><th>MediaTek</th><th>Consolidated Entities of MediaTek</th></tr>
<tr><td>Less than NT$2 million</td><td>-</td><td>-</td></tr>
<tr><td>NT$2 million ~ $5 million</td><td>-</td><td></td></tr>
<tr><td>NT$5 million ~ $10 million</td><td colspan="2">MediaTek Capital Co., National Tsing Hua University, National Cheng Kung University</td></tr>
<tr><td>NT$10 million ~ $15 million</td><td>-</td><td>-</td></tr>
<tr><td>NT$15 million ~ $30 million</td><td>-</td><td>-</td></tr>
<tr><td>NT$30 million ~ $50 million</td><td>-</td><td>-</td></tr>
<tr><td>NT$50 million ~ $100 million</td><td>-</td><td>-</td></tr>
<tr><td>Above NT$100 million</td><td>-</td><td>-</td></tr>
<tr><td>Total</td><td colspan="2">3</td></tr>
</table>

3.3. Management Team

3.3.1. Profiles of Key Managers

As of March 31, 2011. Unit: Shares

Title/Name	Date on Board	Current Shareholding		Spouse & Minor Shareholding		Shareholding under the title of a 3rd party		Selected Education & Past Positions	Current Positions at Other Companies
		Shares	%	Shares	%	Shares	%		
Chairman & CEO Ming-Kai Tsai	May 21, 1997	40,782,136	3.71%	48,674,145	4.43%	-	-	- Master, Electronic Engineering, University of Cincinnati, USA - President of the 2nd Business Group, UMC	- 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	Sep. 15, 2005	30,257,671	2.75%	10,784,414	0.08%	-	-	- Master, Electronic Engineering, National Chiao Tung University - Manager, Multimedia R&D Team, UMC	(None)
President & Spokesman Ching-Jiang Hsieh	Sep. 15, 2005	4,255,620	0.39%	2,082,927	0.19%	-	-	- Master, Electrical Engineering, National Taiwan University - Engineer, Multimedia R&D Team, UMC	- Chairman/Director of MediaTek's affiliates
Vice President Ping-Hsing Lu	Jan. 1, 2006	380,523	0.03%	250,177	0.02%	-	-	- Ph.D., Electronics, National Chiao Tung University - President, ALi Corp. - Chairman, Alpha Imaging Technology	- Director of MediaTek's affiliates
Vice President Chwei-Huang Chang	July 1, 2006	733,459	0.07%	674,318	0.06%	-	-	- Master, Electronic Engineering, Polytechnic University, USA - Engineer, Multimedia R&D Team, UMC	(None)
Vice President Kou-Hung Loh	July 1, 2006	-	-	-	-	-	-	- Ph.D., Electronical Engineering, Texas A&M University - CEO and founder of Silicon Bridge	- Director of MediaTek's affiliates
Vice President Christian Kermarrec	Jan. 11, 2008	-	-	-	-	-	-	- 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	1,138,406	0.10%	719,077	0.07%	-	-	- Master, Electronic Engineering, National Chiao Tung University - Engineer, UMC	(None)
Vice President & General Counsel WF Hsu (Note 1)	May 12, 2010	20,045	0.00%	5,817	0.00%	-	-	- Ph.D., Law School, University of Washington - Lawyer, Johns Day	- Director of Asia Pacific Intellectual Property Association
Vice President & Chief Strategy Officer Oliver Chow (Note 2)	July 19, 2010	2,500	0.00%	-	-	-	-	- MBA, MIT, USA - Corporate Development Director of Telus Corp.	(None)
CFO David Ku (Note 3)	Jan. 1, 2011	6,791	0.00%	-	-	-	-	- MBA, University of Illinois at Urbana Champaign - Vice President of JPMorgan Investment bank	- Director of MediaTek's affiliates

Note:

1. Dr. WF Hsu was appointed to the Company's Vice President and General Counsel on May 12, 2010.
2. Mr. Oliver Chow was appointed to the Company's Vice President and Chief Strategy Officer on July 19, 2010.
3. Mr. David Ku was appointed to the Company's Chief Finance and Accounting Manager on January 2011 and CFO on March 16, 2011.
4. 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

<table>
<tr><th rowspan="3">Name / Title</th><th colspan="2">Salary (A)</th><th colspan="2">Pension (B)</th><th colspan="2">Bonus (C)</th><th colspan="4">Employee Profit Sharing (D)</th><th colspan="2">(A+B+C+D) as % of Net Income</th><th colspan="2">Employee Stock Options</th></tr>
<tr><th rowspan="2">MediaTek</th><th rowspan="2">Consolidated Entities</th><th rowspan="2">MediaTek</th><th rowspan="2">Consolidated Entities</th><th rowspan="2">MediaTek</th><th rowspan="2">Consolidated Entities</th><th colspan="2">MediaTek (Note)</th><th colspan="2">Consolidated Entities</th><th rowspan="2">MediaTek</th><th rowspan="2">Consolidated Entities</th><th rowspan="2">MediaTek</th><th rowspan="2">Consolidated Entities</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>Chairman & CEO
Ming-Kai Tsai</td><td rowspan="13">33,547</td><td rowspan="13">46,597</td><td rowspan="13">988</td><td rowspan="13">1,604</td><td rowspan="13">14,969</td><td rowspan="13">68,693</td><td rowspan="13">267,712</td><td rowspan="13">-</td><td rowspan="13">267,712</td><td rowspan="13">-</td><td rowspan="13">1.02</td><td rowspan="13">1.24</td><td rowspan="13">-</td><td rowspan="13">-</td></tr>
<tr><td>Vice Chairman
Jyh-Jer Cho</td></tr>
<tr><td>President & Spokesman
Ching-Jiang Hsieh</td></tr>
<tr><td>Executive Vice President
Ji-Chang Hsu (Note 2)</td></tr>
<tr><td>Vice President
Ping-Hsing Lu</td></tr>
<tr><td>Vice President
Chwei-Huang Chang</td></tr>
<tr><td>Vice President
Kou-Hung Loh</td></tr>
<tr><td>Vice President
Christian Kermarrec</td></tr>
<tr><td>Vice President
Cheng-Te Chuang</td></tr>
<tr><td>CFO & Spokesman
Mingto Yu (Note 3)</td></tr>
<tr><td>Vice President & General Counsel
WF Hsu (Note 4)</td></tr>
<tr><td>Vice President & Chief Strategy Officer
Oliver Chow (Note 5)</td></tr>
<tr><td>CFO
David Ku (Note 6)</td></tr>
</table>

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. Mr. Ji-Chang Hsu was transferred to the Company's consultant on Nov. 1, 2010, so the remunerations and employee bonus paid to him in 2010 was from Jan. 1 to Oct. 31, 2010.
3. Mr. Mingto Yu resigned from the position of the Company's CFO and Spokesman on Dec. 31, 2010.
4. Dr. WF Hsu was appointed to the Company's Vice President & General Counsel on May 12, 2010. To increase the relevance of the information, 2010 full year remunerations and employee bonus paid to him were disclosed in the above figure.
5. Mr. Oliver Chow was appointed to the Company's Vice President & General Counsel on July 19, 2010. To increase the relevance of the information, 2010 full year remunerations and employee bonus paid to him were disclosed in the above figure.
6. Mr. David Ku was appointed to the Company's Chief Finance and Accounting Manager on January 2011 and CFO on March 16, 2011. To increase the relevance of the information, 2010 full year remunerations and employee bonus paid to him were disclosed in the above figure.
7. The company did not have pension payment in 2010. The provision for pension expense in 2010 at MediaTek and the consolidated entities were NT$988,000 and NT$1,604,000, respectively.
8. The Board of Directors resolved on March 16, 2011 meeting that NT$3,863,296,000 of 2010 earnings to be allocated as bonus to employees. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting on June 15, 2011. 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.
9. The company's remunerations and bonus paid to key managers in 2009 was NT$1,139,891,000, which was 3.11% of 2009 net income.
10. None of these abovementioned key managers receive other compensation from non-subsidiary 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	Oliver Chow	
NT$15 million ~ $30 million	Jyh-Jer Cho, Ping-Hsing Lu, Chwei-Huang Chang, Christian Kermarrec, WF Hsu, David Ku	
NT$30 million ~ $50 million	Kuo-Hung Loh, Cheng-Te Chuang	
NT$50 million ~ $100 million	Ming-Kai Tsai, Ching-Jiang Hsieh	
Above NT$100 million	-	-
Total	11	

Note: Key managers as of March 31, 2011.

Unit: Share / NT$1,000 dollars

Title/Name	Cash Bonus	Stock Bonus	Total Bonus	% of 2010 Net Income
Chairman & CEO Ming-Kai Tsai	267,712	-	267,712	0.86
Vice Chairman Jyh-Jer Cho				
President & Spokesman 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				
Vice President & General Counsel WF Hsu				
Vice President & CSO Oliver Chow				
CFO David Ku				

3.4. Corporate Governance Report

3.4.1. Board of Directors' Meeting Status

The Board of the Company has held 7 sessions in 2010 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	7	0	100%
Vice Chairman Jyh-Jer Cho	6	0	86%
Director Ching-Jiang Hsieh	7	0	100%
Director National Taiwan University Representative: Ming-Je Tang	6	0	86%
Director National Chiao-Tung University Representative: Ching-Teng Lin	6	0	86%

Other important notes: None.

3.4.2. Supervisors' Meeting Status

The Board of the Company has held 7 sessions in 2010. 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	57%
Supervisor National Tsing-Hua University Representative: Chung-Lang Liu	5	71%
Supervisor National Cheng-Kung University Representative: Yan-Kuin Su	7	100%

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 seven 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)	1. MediaTek discloses information through its website: www.mediatek.com 2. MediaTek has designated appropriate persons to handle information collection and disclosure. Contact person: Sophia Liang, TEL: +886-(0)3-567-0766 ext.26568 3. MediaTek has established the spokesperson system. Spokesperson: Ching-Jiang Hsieh; Deputy Spokesperson: Sophia Liang. 4. MediaTek webcasts live investor conferences through its website 5. 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 plans to establish Compensation Committee by end of September 2011.		
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: None.		

3.4.4. Operation of the Company's Compensation Committee

None.

3.4.5. Status of Fulfilling Corporate Social Responsibility

Item	Implementation Status	Reason for Non-implementation
1. Implementation of Corporate Governance (1) Corporate social responsibility policy and performance evaluation (2) Dedicated organization for the promotion and execution of corporate social responsibility (3) Regular training and promotion of corporate ethics among employees and the Board of Directors, and integration with the employee performance appraisal system	None. None. The company has a periodical performance review and evaluation system which is integrated with the employee performance appraisal system	Will implement in the future, depending on the company's operation and scale
2. Sustainable Environment Development (1) Commitment to improving resources utilization and the use of renewable materials (2) Environmental management system designed to industry characteristics. (3) Dedicated environmental management unit or personnel (4) Company strategy for climate change, energy conservation and greenhouse gas reduction	Please see "Section 6, Social Responsibility" section in this report	None.
3. Promotion of social welfare (1) Compliance with labor regulations, protection of employee rights, and appropriate management measures and procedures (2) Safety and health in working environment (3) Disclosure of consumer rights policy, and official channel for consumer complaints (4) Collaboration with suppliers (5) Participation in community development and charities through commercial activities, donations or volunteers	Please see "Section 6, Social Responsibility" section in this report	None.
4. Enhancement of Information Disclosure (1) Disclosure of corporate social responsibility related information with significance and reliability. (2) Published corporate social responsibility report and disclosure of implementation of corporate social responsibility	None. None.	Will implement in the future, depending on the company's operation and scale
5. If the company has established its corporate social responsibility code of practice according to "Listed Companies Corporate Social Responsibility Code of Practice", please describe the operational status and differences Please see "Section 6, Social Responsibility" section in this report		
6. Other important information to facilitate better understanding of the Company's implementation of corporate social responsibility (e.g., environmental protection, community participation, social contribution, social services, social welfare, consumers' rights, human rights and safety and health): Please refer to the company's web page at http://mediatek.com/tw/foundation/social_welfare.php		
7. I Other information regarding products or "Corporate Social Responsibility Report" which are verified by certification bodies: None.		

3.4.6. Status of Fulfilling Operational Integrity

None.

3.4.7. Corporate Governance Guidelines and Regulations

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

3.4.8. Other Important Corporate Governance Information

None.

3.4.9. Status of the Internal Control System Implementation

3.4.9.1. Declaration of Internal Control

MediaTek Inc.
Statement of Declaration of Internal Control

Date: March 16th, 2011

MediaTek Inc. has conducted internal audits in accordance with its Internal Control Regulations covering the period from January 1st to December 31st, 2010, 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 16th, 2011 with all Directors in session under unanimous consent.

MediaTek Inc.

Ming-Kai Tsai
Chairman

Ching-Jiang Hsieh
President

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

None.

3.4.10. 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.

3.4.11. Major Resolutions of Shareholders' Meeting and Board Meetings

3.4.11.1. Major Resolutions of Shareholders' Meeting and Implementation Status

MediaTek's 2010 regular shareholder meeting was held in Hsinchu Taiwan on June 15th, 2010. At the meeting, shareholders present in person or by proxy approved the following resolutions:

(1). The Company's 2009 Business Report and Financial Statements;
(2). The distribution of 2009 profits;
(3). The capitalization of 2009 dividends and employee profit sharing.
(4). Amended the company's "Article of Incorporation";
(5). Amended the company's "Rules and Procedures of Shareholders' Meeting"

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

3.4.11.2. Major Resolutions of Board Meetings

During the 2010 calendar year, and through the period of January 1st to the printing date of this annual report, 9 Board Meetings were convened. Major resolutions approved at these meetings are summarized below:

Approved the disposal of part of Ali Corp. shares; approved 2010 operating budget plan; convened 2010 annual general shareholders' meeting; approved 2009 operation report, financial statements, proposal of profit distribution, capitalization of 2009 dividend; approved the amendment of the company's "Article of Incorporation" and "Rules and Procedures of Shareholders' Meeting"; approved the issuance of employee stock option in 2010; approved the proposal for the conversion of all of the Company's physical stock into scripless form; approved the proposal to amend the company's "Operating Procedures of Outward Loans to Others", "Operating Procedures of Endorsement/Guarantee" and "Guidelines of Foreign Exchange Transactions"; approved the company's ex-dividend date for 2009 profits; approved the company's 1H10 financial statements; approved the move of the company's Taipei branch offices; approved the company's 2011 operating budget plan, convened 2011 annual general shareholders' meeting; approved 2010 operation report, financial statements, proposal of profit distribution, capitalization of 2010 dividend; approved the proposal to amend the company's "Rules for Election of Directors and Supervisors", approved the proposal to acquire Ralink Technology, approved the proposal of Proposal for issuance of new shares for acquisition, etc.

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

None.

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

Mr. Mingto Yu, who joined the company on August 31, 2001 and served as the Company's CFO and Spokesman, resigned on December 31, 2010 due to personal career planning factor.

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:

Ernst & Young, Mr. Shao-Pin Kuo and Mr. Hsin-Min Hsu for the period of 2010

Audit fee paid: NT$5,460,000

Total non-audit fee paid: NT$3,756,000

(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

None.

3.5.3. The Chairman, President, CFO or CAO Who Has Worked with the Auditing Firm or Affiliates from January 1st, 2010 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	2010		Jan. 1 to Mar. 31, 2011	
	Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & CEO Ming-Kai Tsai	77,624	-	-	-
Vice Chairman Jyh-Jer Cho	60,389	-	-	-
Director & President Ching-Jiang Hsieh	(81,288)	-	-	-
Director National Taiwan University	5	-	-	-
Director National Chiao Tung University	5	-	-	-
Supervisor MediaTek Capital Co.	15,555	-	-	-
Supervisor National Tsing Hua University	4	-	-	-
Supervisor National Cheng Kung University	-	-	-	-
Executive Vice President Ji-Chang Hsu (Note 1)	(22,105)	-	Not applicable	Not applicable
Vice President Ping-Hsing Lu	(110,164)	-	(10,000)	-
Vice President Chwei-Huang Chang	(34,514)	-	-	-
Vice President Kou-Hung Loh	(235,838)	-	-	-
Vice President Christian Kermarrec	(32)	-	-	-
Vice President Cheng-Te Chuang	(67,488)	-	-	-
CFO & Spokesman Mingto Yu (Note 2)	7,622	-	Not applicable	Not applicable
Vice President & General Counsel WF Hsu (Note 3)	20,045	-	-	-
Vice President & CSO Oliver Chow (Note 4)	2,500	-	-	-
CFO David Ku (Note 5)	No applicable	Not applicable	-	-

Note:

1. Mr. Ji-Chang Hsu was transferred to the company's consultant on Nov. 1, 2010; the information for 2010 were from Jan. 1 to Oct. 31, 2010.
2. Mr. Mingto Yu resigned from the position of the company's CFO and Spokesman on Dec. 31, 2010. The information for 2010 were from Jan. 1 to Dec. 31, 2010.
3. Mr. WF Hsu is a newly appointed Vice President and General Counsel on May 12, 2010. The information for 2010 were from May 12 to Dec. 31, 2010.
4. Mr. Oliver Chow is a newly appointed Vice President and CSO on July 19, 2010. The information from 2010 were from July 19 to Dec. 31, 2010.
5. Mr. David Ku is newly appointed to the position of Chief Finance and Accounting Manager on Jan. 1, 2011 and CFO on March 16, 2011. The above table disclosed the net change from Jan. 1, 2011 to March 31, 2011.

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 August 3rd, 2010. Unit: Share/%

Top 10 Shareholders	Shareholding		Shareholding under Spouse and Minor		Shareholding under 3rd Party		Top 10 Shareholders Who are Related Parties to Each Other	
	Shares	Proportion	Shares	Proportion	Shares	Proportion	Name	Relation ship
Chui-Hsing Lee	48,719,145	4.43%	41,025,914	3.73%	-	-	Ming-Kai Tsai	Spouse
Ivy Funds, Inc. Asset Strategy Fund	43,797,605	3.98%	-	-	-	-	-	-
Capital World Growth and Income Fund Inc.	42,079,999	3.83%	-	-	-	-	-	-
Ming-Kai Tsai	41,025,914	3.73%	48,719,145	4.43%	-	-	Chui-Hsing Lee	Spouse
Jyh-Jer Cho	30,357,671	2.76%	10,784,414	0.98%	-	-	-	-
EuroPacific Growth Fund	29,825,513	2.71%	-	-	-	-	-	-
Capital Income Builder, Inc.	26,218,774	2.38%	-	-	-	-	-	-
Oppenheimer Developing Markets Funds	24,645,567	2.24%	-	-	-	-	-	-
Growth Fund of America, Inc.	20,039,996	1.82%	-	-	-	-	-	-
Saudi Arabian Monetary Agency	20,007,731	1.82%	-	-	-	-	-	-

3.8. Long-Term Investment Ownership

As of December 31, 2010. 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.	2,454,820,056	100%	-	0%	2,454,820,056	100%
Hsu-Chuang Investment Corp.	322,433,336	100%	-	0%	322,433,336	100%
Hsu-Xin Investment Corp.	322,433,343	100%	-	0%	322,433,343	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, 2011. 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,,000000	1,090,119	10,901,189	Retained Earnings: $169,666	-	June 24, 2009 Chen-Fa-Tze No.0980031350
July 2010	10	1,200,000	12,,000000	1,099,785	10,997,846	Retained Earnings: $96,657	-	June 29, 2010 Chen-Fa-Tze No.0990033415
Sep. 2010	10	1,200,000	12,,000000	1,099,871	10,998,708	Employee option exercised: $862	-	Sep. 16, 2010 Yuan-Shang-Tze No.0099027401
Nov. 2010	10	1,200,000	12,,000000	1,099,932	10,999,317	Employee option exercised: $609	-	Nov. 23, 2010 Yuan-Shang-Tze No.0990035005
March 2011	10	1,200,000	12,,000000	1,099,968	10,999,682	Employee option exercised: $365	-	Nov. 23, 2010 Yuan-Shang-Tze No.1000008840
March 2011	10	1,200,000	12,,000000	1,099,977	10,999,772	Employee option exercised: $90	-	Registration process ongoing.

As of March 31, 2011. Unit: 1,000 shares/NT$1,000

Type of Stock	Authorized Capital			Remark
	Outstanding	Un-Issued	Total	
Common Stock	1,099,977,246	100,022,754	1,200,000,000	Listed on TSE

Shelf Registration: None.

4.1.2. Composition of Shareholders

As of Aug. 3rd, 2010

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Persons	Individuals	Total
Number of Shareholders	1	58	490	1,290	58,129	59,968
Shareholding (shares)	6,533,938	37,993,622	78,423,170	627,300,158	349,620,714	1,099,871,602
Holding Percentage (%)	0.59%	3.45%	7.13%	57.04%	31.79%	100.00%

4.1.3. Distribution of Shareholding

As of Aug. 3rd, 2010

Common Share Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership (Share)	Ownership (%)
1 ~ 999	25,215	2,246,335	0.20%
1,000 ~ 5,000	28,126	46,612,318	4,24%
5,001 ~ 10,000	2,989	19,077,162	1.73%
10,001 ~ 15,000	1,098	12,400,678	1.13%
15,001 ~ 20,000	432	7,232,736	0.66%
20,001 ~ 30,000	518	12,178,314	1.11%
30,001 ~ 40,000	256	8,714,857	0.79%
40,001 ~ 50,000	171	7,521,532	0.68%
50,001 ~ 100,000	395	27,966,136	2.54%
100,001 ~ 200,000	294	41,106,631	3.74%
200,001 ~ 400,000	176	48,289,599	4.39%
400,001 ~ 600,000	90	43,662,193	3.97%
600,001 ~ 800,000	46	31,841,036	2.89%
800,001 ~ 1,000,000	24	21,092,631	1.92%
Over 1,000,001	138	769,929,444	70.01%
Total	**59,968**	**1,099,871,602**	**100.00%**

Preferred Share: None.

4.1.4. Major Shareholders

As of Aug. 3rd, 2010

Top 10 Shareholders	Total Shares Owned	Ownership (%)
Chui-Hsing Lee	48,719,145	4.43%
Ivy Funds, Inc. Asset Strategy Fund	43,797,605	3.98%
Capital World Growth and Income Fund Inc.	42,079,999	3.83%
Ming-Kai Tsai	41,025,914	3.73%
Jyh-Jer Cho	30,357,671	2.76%
EuroPacific Growth Fund	29,825,513	2.71%
Capital Income Builder, Inc.	26,218,774	2.38%
Oppenheimer Developing Markets Funds	24,645,567	2.24%
Growth Fund of America, Inc.	20,039,996	1.82%
Saudi Arabian Monetary Agency	20,007,731	1.82%

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

Unit: NT$ / Share

Item			2009 (Distributed in 2010)	2010 (Distributed in 2011)	Jan. 1 ~ Mar. 31, 2011
Market Price Per Share (Note 1)	Highest		530.9	590.0	424.0
	Lowest		201.6	372.0	312.5
	Average		386.1	477.8	362.0
Net Worth Per Share	Before Distribution		100.59	102.29	**
	After Distribution		77.09	*	*
Earnings Per Share	Weighted Average Shares		1,077,995,291	1,088,689,895	1,092,143,222
	EPS	Not-Adjusted	34.12	28.44	**
		Adjusted	34.05	*	**
Dividends Per Share	Cash Dividends		26.00	*	**
	Stock Dividend	From Retained Earnings	0.02	*	**
		From Capital Surplus	-	*	**
	Accumulated Undistributed Dividend		-	-	**
Return on Investment	Price/Earnings Ratio (Note 2)		11.34	16.80	**
	Price/Dividend Ratio (Note 3)		14.85	*	**
	Cash Dividend Yield (Note 4)		6.7%	*	**

* : Pending shareholders' approval in 2011 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 2010 Profits

The Board adopted a proposal for 2010 profit distribution as below:

A. Stock dividend to common shareholders: Zero.

B. Cash Dividends to Common Shareholders: NT$21,999,457 thousand.

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 2010 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 2010 Employee Profit Sharing Plan and Remuneration to Directors and Supervisors

The Board adopted a proposal on March 16, 2011 for 2010 employee cash bonus of NT$3,863,296,000 and remuneration to Directors and Supervisors of NT$48,045,000. In accordance with new accounting regulations requiring expensing of employee profit sharing, MediaTek's net profit was the net of employee profit-sharing and remuneration to Directors and Supervisors.

Remuneration to Directors and Supervisors was NT$48,045,000 (0.20% of 2010 earnings available for distribution). There is a difference of NT$23,583,000 with the estimated Directors' compensation (NT$71,628,000). The estimate was calculated based on 0.298% of the distributable earnings while the actual compensation was calculated based on 0.20% of the distributable earnings. The difference shall be accounted as "changes in accounting estimations" 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	3,667,961	3,667,961	-	7,485,481	490.01	-
Employee Cash Bonus	8,558,575	8,558,575	-	-	-	-
Remuneration to Directors & Supervisors	65,907	91,274	25,367	-	-	(Note)

Note: The difference was mainly because the actual payment was less than the estimated amount, and the difference shall be accounted as "changes in accounting estimations" 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, 2010 to March 31st, 2011.

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, 2011

Employee Stock Options Granted	First Grant	Second Grant	Third Grant	Fourth Grant	Fifth Grant
Approval Date by the Securities & Futures Bureau	Dec. 19, 2007	Dec. 19, 2007	Jul. 27, 2009	May 10, 2010	May 10, 2010
Issue (Grant) Date	Mar. 31, 2008	Aug. 28, 2008	Aug. 18, 2009	August 27, 2010	Nov. 4, 2010
Number of Options Granted	1,134,119	1,640,285	1,382,630	1,605,757	65,839
Percentage of Shares Exercisable to Outstanding Common Shares	0.11%	0.15%	0.13%	0.15%	0.01%
Option Duration	10 years	10 years	10 years	10 years	10 years
Source of Option Shares	New Common Share	New Common Share	New Common Share	New Common Share	New Common Share
Vesting Schedule	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%	2nd Year: Up to 30% 3rd Year: Up to 60% 4th Year: Up to 100%
Shares Exercised	122,547	70,127	0	0	0
Value of Shares Exercised (NT$)	46,692,183	25,385,974	0	0	0
Shares Unexercised	604,280	984,775	941,488	1,259,966	21,522
Adjusted Exercise Price Per Share (NT$)	378.6	362	468.8	436.5	402
Percentage of Shares Unexercised to Outstanding Common Shares	0.05%	0.09%	0.09%	0.11%	0.00%
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

On March 16, 2011, the company's board of directors has approved the proposal to issue new shares in exchange for 100% of Ralink Technology's outstanding shares, at the exchange rate of 1 MediaTek common shares for 3.15 Ralink common shares. The proposed effective merger date is October 1, 2011.

Background information of Ralink Technology:
Company Name: Ralink Technology, Corp.
Company Address: 5F, No.5, Tai-Yuen 1st St., Jhubei City, Hsinchu County, Taiwan, R.O.C.
Chairman: Chris Kao
Paid-in Capital: NT$1,745,624 thousand (as of end of 2010)
Major Business: IC Design
Major Product: WLAN chipsets
2010 Financial Information:

Total Assets: NT$13,665,396,000

Total Liabilities: NT$2,465,171,000

Total Shareholders' Equity: NT$11,200,225,000

Revenue: NT$7,360,705,000

Gross Profit: NT$3,131,433,000

Operational Profit: NT$1,329,829,000

Net Profit: NT$913,178,000

EPS: NT$6.52

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 (2010)

Product Category	Multimedia Chipsets	Others*
Revenue Mix	99.55%	0.45%

*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. Connectivity combo chips that integrated Bluetooth, FM, WLAN, GPS, etc.
G. Optical storage chipsets;
H. DVD player system-on-a-chip (SoC);
I. Blu-ray DVD player chipsets;
J. Highly integrated digital TV controller chips;
K. 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. Next generation highly integrated low-power WLAN and WPAN chipsets;
D. Next generation highly-integrated smart TV chips;
E. Highly integrated Blu-ray DVD player single-chip;

F. Next generation high-speed Blu-ray single-chip;
G. Touch screen controller chipsets;
H. High-speed game console decoder 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:

Blu-ray DVD players has been gaining momentum, thanks to these factors: (1). The price of Blu-ray DVD players has been as low as high-end DVD players; (2) The popularized high-resolution flat panel TVs; (3). The increased video/audio streaming services; (4) Newly introduced 3D contents. The volume of traditional DVD players is stable and will be gradually replaced by Blu-ray DVD players. Blu-ray player market has excellent growth potential.

C. Wireless Communications Products:

The global 3G network deployment continuous in the past year; most significantly, Southeastern Asia and India have started their 3G commercial rollout. 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. 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.

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 135 million units worldwide at the end of 2010. 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. In addition, as 3D movies are gaining popularity, 3D TV will become one of the standard features in TV. MediaTek is a leading company of launching 3D TV single chip, and has been developing highly integrated smart TV single chips to enrich family's entertainments.

5.1.3. Technology and R&D

5.1.3.1. R&D Spending

MediaTek's R&D spending in 2010 was NT$23,310,531 thousands, and from January 1st 2011 to the printing date of this annual report, the R&D spending was NT$4,915,222 thousands.

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. High sensitivity and low power GPS chips;
H. Highly integrated 24x DVD-Rewritable SOC;
I. 16x Blu-ray multifunction rewritable chipset;
J. Highly integrated 3D Blu-ray DVD player SOC;
K. Highly integrated 3D TV and Connected TV chipsets;
L. Analog mobile TV chips;

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/3.75G/TD-SCDMA and open operating system (Open OS) technologies to expand our customer base and meet end customers' requirements.

Regarding the company's peripheral chips such as Bluetooth, WLAN, GPS, touch panel controller, etc., MediaTek will continue the improvement on performance, power consumption and cost; besides, the company will support new industry standards and enhance the products' competitiveness. The shorter target is to strive for leading position in the handset platforms and handheld navigation device markets; the long-term goal is to branch out to e-book readers, game consoles, TV, set-top-box, digital camera and other related markets.

5.1.4.4. Digital TV

MediaTek will continue to develop digital TV chips that have higher integration, 3D and wireless, interactive enabled features, and lower cost. Besides, MediaTek will also accelerate the development of smart 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 2010	
	Sales (NT$1,000)	Percentage
Export sales	102,173,942	90.00%
Domestic sales	11,348,016	10.00%
Total	**113,521,958**	**100.00%**

5.2.1.2. Market Share

According to an iSuppli Report published on Dec. 2010, worldwide semiconductor device industry revenue was US$229.5 billion in 2010; MediaTek's market share was 1.2% and ranked no. 19 worldwide, slightly lower than the previous year's no. 16.

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 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, 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 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, other than traditional disc rental and sales, sources of high definition contents include online video/audio streaming services that are gaining popularity. Driven by consumers' increased demand for high definition video/audio and even 3D images, and helped by lowered price of Blu-ray DVD players, consumers' desire for Blu-ray DVD players is increasing and the future market growth is promising. MediaTek will 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 3.75G 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 smart 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 a very high percentage 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 Mobile 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, the Company expects to increase its market share in 3G by leveraging the strength and customer base build in the 2G segment. More and more handset users are accessing the Internet through WLAN after the launch of Apple's iPhone. MediaTek's smartphone integrated solution includes a WLAN chip, which provide customers with a reliable platform and can accelerate their product's time to market. Many handset OEM/ODMs are investing in GPS-enabled handsets' promotion, responding to consumers' increasing demand for location based services. This trend is positive for the company's GPS solution. Another noteworthy trend is that as the handsets are getting more and more compact, SOC designs that integrate baseband and RF, and combo chips that integrated multiple wireless connectivity features is the inevitable trend. According to ABI Research, multifunction combo chips will account for one-third of total wireless connectivity chip shipments in 2012. MediaTek will continue to launch combo chips that integrate 802.11n WiFi, Bluetooth, GPS and FM Radio. OEM/ODM customers can use these ultra small and low power combo chips to design elegant products.

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, driven by lowered Blu-ray players' selling prices and more high resolution video/audio contents. We expect Blu-ray DVD player market continues to grow.

D. Smart TV Will Become the Center of Home Entertainments

Smart TVs are integrating more and more functions, including web browsing, video-on-demand, video conferencing, application software or game installment, etc. These functions can enrich people's life and accelerate TV replacement cycle in developing countries.

E. 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/HSUPA/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. BD ODD chipsets are used in high-end PC storage devices and embedded Blu-ray ODD in high-end TVs.

C. Digital Consumer Electronics

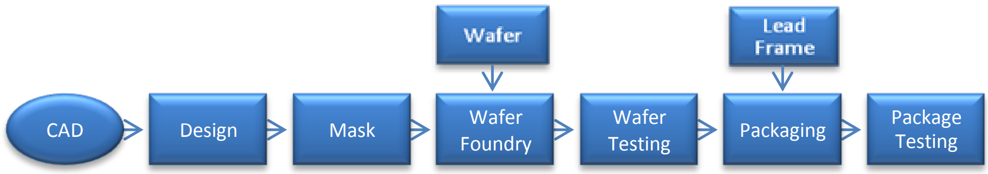
DVD player SOCs are mainly used in digital home appliances for DVD players. BD-Player SOCs are mainly used in higher resolution and richer functionality next-generation Blu-ray DVD Players.

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 flat panel TVs. Mobile TV chips are used in mobile devices (such as handsets) to receive TV signals.

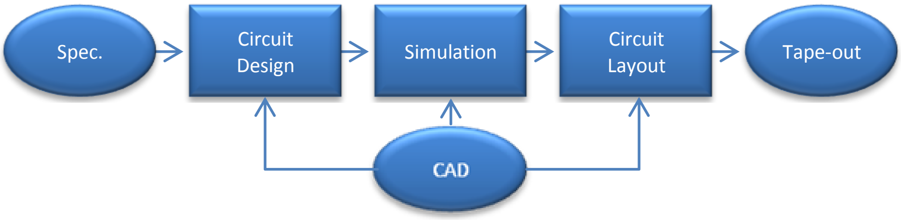
5.2.2.2. Key Product Manufacturing Process

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

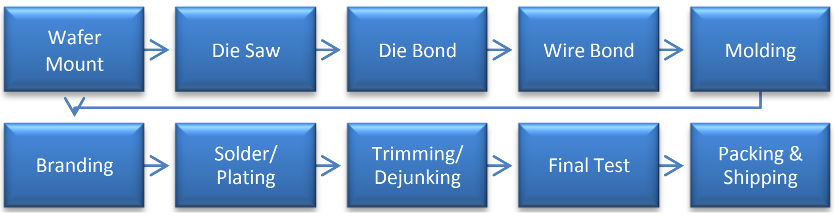
Wafer fabrication is outsourced to foundries. The wafer manufacturing process begins by entering a module, going through etching, photo, thin film and diffusion with masks. The finished wafers must be tested before shipping to the next stage.

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), GLOBALFOUNDRIES Singapore Pte. Ltd., etc. 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	2009		2010		2011.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	12,646,629	44.31%	14,118,701	46.30%	3,159,305	49.49%
Supplier B	11,699,801	41.00%	13,207,914	43,32%	2,610,988	40.91%
Others	4,193,037	14.69%	3,165,013	10.38%	612,869	9.60%
Total	28,539,467	100.00%	30,491,628	100.00%	6,383,162	100.00%

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:

2009			2010			2011.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	37,452,249	32.42%	**Customer A**	32,116,381	28.29	**Customer A**	5,123,971	25.79
Customer B	14,802,548	12.82%	**Customer B**	15,345,455	13.52	**Customer D**	2,155,795	10.85
Customer C	13,461,890	11.65%	**Customer C**	8,934,767	7.87	**Customer C**	1,526,066	7.68
Customer D	7,171,650	6.21%	**Customer D**	6,151,029	5.42	**Customer B**	1,190,479	5.99
Others	42,623,288	36.90%	**Others**	50,974,326	44.90	**Others**	9,870,775	49.69
Total	115,511,625	100.0%	**Total**	113,521,958	100.00	**Total**	19,867,087	100.00

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

	2009			2010		
	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	1,940,736	50,319,659	N/A	1,947,643	53,828,818

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

	2009				2010			
	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	132,890	12,982,791	1,773,696	101,865,311	99,877	11,315,917	1,840,350	101,696,014
Others	N/A	227,118	N/A	436,405	N/A	32,099	N/A	477,928
Total	132,890	13,209,909	1,773,696	102,301,716	99,877	11,348,016	1,840,350	102,173,942

5.3. Employees

		2009	2010	2011 (As of March 31)
Number of Employees	Management	239	334	330
	R&D	3,640	4,736	4,725
	Sales & Marketing	127	209	189
	Manufacturing	76	102	103
	Total	4,082	5,381	5,347
Average Age		35.9	31.7	31.7
Average Years of Service		3.0	3.0	3.0
Education	Doctoral	4.99%	4.91%	5.03%
	Master	63.17%	62.62%	62.13%
	University & College	31.02%	31.78%	32.17%
	High School	0.82%	0.69%	0.67%
	Total	100.00%	100.00%	100.00%

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.	From 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)	From Jan. 15, 2010	Cooperation in TD-SCDMA market	None.
Strategic Alliance	Microsoft Corp.	From Feb. 2010 to Jan. 2011	Collaboration on smartphone platforms with rich multimedia features	None.
Settlement	British Telecommunication, BT	June 2010	MediaTek has settled the litigation and signed a settlement agreement with BT. BT shall file for dismissal of the lawsuit and shall forever release MediaTek and its subsidiaries from any claims of infringement of the patent asserted in the litigation and its related foreign counterparts, continuations, etc. worldwide.	None.
Licensing	NTT DOCOMO Inc.	From July 2010	MediaTek licensed NTT DOCOMO's LTE technology	None.
Acquisition	Ralink Technology Corp.	March 16, 2011	Acquisition agreement	Under Article 15 of the contract, the deal shall be approved by the board and shareholders meeting of both companies and be approved by the authority. Each side shall obey the commitment, obligation, agreement in the contract, and the statements and assurance shall all be genuine.

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. 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. Since MediaTek began promoting various employee clubs, the total number of clubs has reached 29. 43% 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 six 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. 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.

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$40,665 thousand in 2010 and NT$5,032 thousand 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. The sponsorship program also includes inviting 30~50 outstanding students from 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, 32 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 12 consecutive 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 142 research papers in the past 5 years. Of these papers, 26 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 5 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, radio frequencies, and low power, 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 5 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 low power embedded Linux kernel, its software development platform, and the core technologies for smart handheld device applications.

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 8 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 18 times.

Research publications from MediaTek can also been 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. 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. Community Involvement

6.2.2.1. 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.

6.2.2.2. "Save a Life by Donating Blood"

"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.

6.2.2.3. 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 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.

6.2.2.4. Sponsor Sports Games

Starting from 2010, MediaTek became a sponsor of games hosted by Chinese Taipei Football Association (CTFA).

6.2.2.5. Volunteer Team

MediaTek employees have been involving in many different employee volunteer programs, as part of MediaTek's efforts in corporate social responsibility.

6.2.2.6. Environmental Activities

MediaTek cares about environmental issues and has been actively involved in environmental activities.

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$1.56 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$1.55 million.

C. Energy Reduction for Parking Structures: Controlled parking on the weekends leads to an annual saving of NT$2.63 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, promote energy reduction on computer use, etc.

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

7.1. Financial Status

7.1.1. Parent Company

Unit: NT$1,000

Item	2009	2010	Change	% of Change
Current Assets	$69,190,377	$59,573,161	($9,617,216)	(13.90)
Funds & Investment	48,207,732	59,535,407	11,327,675	23.50
Fixed Assets	5,896,167	6,744,246	848,079	14.38
Intangible Assets	9,380,709	8,623,090	(757,619)	(8.08)
Other Assets	241,321	164,577	(76,744)	(31.80)
Total Assets	**132,916,306**	**134,640,481**	**1,724,175**	**1.30**
Current Liability	23,767,572	22,159,301	(1,608,271)	(6.77)
Long-Term Liability	-	-	-	-
Other Liability	279,249	768,070	488,821	175.05
Total Liabilities	**24,046,821**	**22,927,371**	**(1,119,450)**	**(4.66)**
Capital Stock	10,901,189	10,999,682	98,493	0.90
Capital Reserve	8,267,826	12,259,404	3,991,578	48.28
Retained Earnings (include statutory reserve and special reserve)	90,111,571	92,708,116	2,596,545	2.88
Accumulated Conversion Adjustments	(527,304)	(4,380,730)	(3,853,426)	730.78
Unrealized Gain of Financial Assets	172,173	182,608	10,435	6.06
Treasury Stock	(55,970)	(55,970)	-	-
Total Shareholders' Equity	**108,869,485**	**111,713,110**	**2,843,625**	**2.61**

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

(1) Increase in funds and investments: Recognition of the investee company's increased net income.

(2) Decrease in other assets: Decrease in deposit to secure manufacturing capacity.

(3) Increase in other liability: Mainly due to increase in deferred income tax liabilities – non-current.

(4) Increase in capital reserve: Due to issuance of new shares for employee profit sharing.

(5) Decrease in accumulated conversion adjustments: Due to volatility in foreign exchange.

7.1.2. Consolidated Report

Unit: NT$1,000

Item	2009	2010	Change	% of Change
Current Assets	$114,038,269	$112,595,354	($1,442,915)	(1.27)
Funds & Investment	6,661,594	7,734,457	1,072,863	16.11
Fixed Assets	6,888,829	7,807,817	918,988	13.34
Intangible Assets	10,622,893	9,572,335	(1,050,558)	(9.89)
Other Assets	381,701	324,729	(56,972)	(14.93)
Total Assets	**138,593,286**	**138,034,692**	**(558,594)**	**(0.40)**
Current Liability	29,454,365	25,786,256	(3,668,109)	(12.45)
Long-Term Liability	-	-	-	-
Other Liability	248,318	535,101	286,783	115.49
Total Liabilities	**29,702,683**	**26,321,357**	**(3,381,326)**	**(11.38)**
Capital Stock	10,901,189	10,999,682	98,493	0.90
Capital Reserve	8,267,826	12,259,404	3,991,578	48.28
Retained Earnings (include statutory reserve and special reserve)	90,111,571	92,708,116	2,596,545	2.88
Accumulated Conversion Adjustments	(527,304)	(4,380,730)	(3,853,426)	730.78
Unrealized Gain of Financial Assets	172,173	182,608	10,435	6.06
Treasury Stock	(55,970)	(55,970)	-	-
Minority Stock	21,118	225	(20,893)	(98.93)
Total Shareholders' Equity	**108,890,603**	**111,713,335**	**2,822,732**	**2.59**

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

(1) Increase in other liabilities: Mainly due to increase in deferred income tax liabilities – non-current.

(2) Increase in capital reserve: Due to issuance of new shares for employee profit sharing.

(3) Decrease in accumulated conversion adjustments: Due to volatility in foreign exchange.

(4) Decrease in minority stock: Mainly due to MediaTek did not hold controlling shares of Zena Technologies Inc. and Zena Technologies International Inc. after 4Q10, so these companies were not included in the 2010 consolidated financial reports.

7.2. Operating Results

7.2.1. Parent Company

Unit: NT$1,000

Item	2009	2010	Change	% of Change
Revenue	83,948,316	$79,274,483	($4,673,833)	(5.57)
Less: Sales Returns & Discounts	(6,637,564)	(7,286,053)	(648,489)	9.77
Net Sales	77,310,752	71,988,430	(5,322,322)	(6.88)
Cost of Goods Sold	(31,191,078)	(32,726,157)	(1,535,079)	4.92
Gross Profit	46,119,674	39,262,273	(6,857,401)	(14.87)
Operating Expenses	(24,673,078)	(21,995,227)	2,677,851	(10.85)
Income from Operation	**21,446,596**	**17,267,046**	**(4,179,550)**	**(19.49)**
Non-Operating Incomes	15,845,255	14,971,580	(873,675)	(5.51)
Non-Operating Expenses	(13,908)	(44,947)	(31,039)	223.17
Earnings Before Tax	37,277,943	32,193,679	(5,084,264)	(13.64)
Corporate Income Tax	(572,303)	(1,232,242)	(659,939)	115.31
Net Income	**36,705,640**	**30,961,437**	**(5,744,203)**	**(15.65)**

Changes that exceed 20% and reach NT$10 million in the past two periods and explanation for those changes:
(1) Increase in non-operating expenses and loss: Due to foreign exchange related loss.
(2) Increase in income tax expenses: Due to estimated increases in income tax.

7.2.2. Consolidated

Unit: NT$1,000

Item	2009	2010	Change	% of Change
Revenue	$124,142,262	$122,374,147	($1,768,115)	(1.42)
Less: Sales Returns & Discounts	(8,630,637)	(8,852,189)	(221,552)	2.57
Net Sales	115,511,625	113,521,958	(1,989,667)	(1.72)
Cost of Goods Sold	(47,694,235)	(52,613,892)	(4,919,657)	10.31
Gross Profit	67,817,390	60,908,066	(6,909,324)	(10.19)
Operating Expenses	(31,430,226)	(29,829,446)	1,600,780	(5.09)
Income from Operation	**36,387,164**	**31,078,620**	**(5,308,544)**	**(14.59)**
Non-Operating Incomes	1,224,948	1,253,410	28,462	2.32
Non-Operating Expenses	(192,026)	(44,113)	147,913	(77.03)
Earnings Before Tax	37,420,086	32,287,917	(5,132,169)	(13.72)
Corporate Income Tax	(724,620)	(1,351,314)	(626,694)	86.49
Consolidated Net Income	36,695,466	30,936,603	(5,758,863)	(15.69)
Net Income Attributed to Shareholders of the Parent	**36,705,640**	**30,961,437**	**(5,744,203)**	**(15.65)**

Changes that exceed 20% and reach NT$10 million in the past two quarters and explanation for those changes:
(1) Decrease in non-operating expenses and loss: There's recognition of financial assets impairment loss in 2009.
(2) Increase in income tax expenses: Due to estimated increases in income tax.

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 2010: None.

7.5. Cash Flow Analysis

7.5.1. Parent Company

Unit: NT$1,000

Cash Balance Dec. 31, 2009	Net Cash Provided by Operating Activities in 2010	Net Cash Outflows from Investing and Financing Activities in 2010	Cash Balance Dec. 31, 2010	Remedy for Cash Shortfall (Investment & Financing Plan)
$57,885,158	$15,643,178	$(30,358,936)	$43,169,400	-

7.5.1.1. Analysis of the Change in Cash Flow in 2010

Operation: Net cash inflow of NT$15,643,178 thousand, mainly from operating profits.

Investment: Net cash outflow of NT$2,084,559 thousand, mainly due to the purchase of fixed assets and intangible assets.

Financing: Net cash outflow of NT$28,274,377 thousand, 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, 2009	Net Cash Provided by Operating Activities in 2010	Net Cash Outflows from Investing and Financing Activities in 2010	Impact of Foreign Exchange Ratio	Cash Balance Dec. 31, 2010	Remedy for Cash Shortfall (Investment & Financing Plan)
$94,647,892	$29,407,680	$(34,347,325)	$(3,780,890)	$85,927,357	-

7.5.2.1. Analysis of the Change in Cash Flow in 2010

Operation: Net cash inflow of NT$29,407,680 thousand, mainly from operating profits.

Investment: Net cash outflow of NT$6,274,349 thousand, mainly due to purchase of fixed assets and financial assets.

Financing: Net cash outflow of NT$28,072,976 thousand, 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

Unit: NT$1,000

Plan	Actual or Planned Source of Capital	Estimated Capital Requirement (as of Dec 31, 2010)	Status of Actual or Projected Use of Capital			
			2007	2008	2009	2010
Land	Cash flow generated from operation	$888,722	-	-	-	$888,722
Office Building	Cash flow generated from operation	$1,650,663	$313,259	$121,528	$1,044,427	$171,449
R&D Equipments & Software	Cash flow generated from operation	$1,971,023	$626,279	$540,739	$296,360	$507,645
Intangible Assets	Cash flow generated from operation	$6,054,019	$699,257	$3,858,537	$847,761	$648,464

7.6.2. Expected Future Benefits

(1) Lands and 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: computer software, 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 2010 was NT$180,041 thousand. 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

Regarding risks associated with foreign exchange: In the past year, US dollars depreciated due to USA government's quantitative easing policy; Asian countries' currencies appreciated significantly. The company has a well defined hedging strategy and engages in foreign exchange forward contracts to minimize possible gain/loss stemming from foreign exchange volatility.
Regarding risks associated with interest rate fluctuation: Due to the pressure of inflation, Central Banks of every companies has been increasing interest rates. The company will continue to manage its cash position carefully and endeavor to increase the returns with minimal risks. 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 2010, The Company has provided lease guarantees for its subsidiaries MediaTek Wireless, Inc.(USA) and MTK Wireless Limited (UK) in the amount of NT$91,301 thousand and NT$25,082 thousand. 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 2011
High Sensitivity and Low Power Consumption GPS Receiver Chips	
Next generation high integration and low power WLAN & WPAN chipsets	
Digital Mobile TV Chips	
Blu-ray DVD Player Single Chip	
Highly integrated Smart TV Chips	
Large and Small Size Touch Panel Controller Chipsets	

The above plans account for 50%+ of total corporate R&D budget in 2011.

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

MediaTek's board of directors has approved the proposal to acquire Ralink Technology Corp. and MediaTek is the surviving company after the merger. This deal aimed to enhance the Company's human resources, technology, product, and customer portfolio, expand global business and further enhance the Company's industry position. The Company plans to issue new shares in exchange for Ralink's outstanding shares and get access to Ralink's crucial patent and intellectual property in networking and broadband communications. This deal is beneficial for the Company's development in networking and broadband communications products, and is expected to have great synergy. MediaTek expects to branch out to wire line and wireless home and corporate networking device product markets and this acquisition shall be beneficial to shareholders. The Finance Division and business units are responsible for managing the risks associated with mergers and acquisitions.

7.8.8. Risks Associated with Plant Expansion

MediaTek purchased the plant in Taipei City and has moved in on October 2010. The plant purchase provides additional space for office work and meetings for employees in Taipei and also provides room for future growth. Besides, the Company has also expanding the second office building in Hsinchu Headquarters, which is located on No. 8, Dusing 1st Rd, Hsinchu City. The expected benefit of plant expansion is to provide employees with enough work space and meeting rooms. 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 2010, 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 2010, and as of the date of this Annual Report, there were no such risks for MediaTek.

7.8.12. Risks Associated with Litigations

(1). 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 against MWS's products for infringement of United States patent No. 5,153,591("the '591 patent"). BT is alleging patent infringement of its '591 patent by certain products that were transferred from Analog Devices Inc. ("ADI") to MWS through the purchase of certain ADI's assets and business. The Company contended that MWS does not believe that any of its products infringe the '591 patent. In addition, the '591 patent has expired. In June 2010, the Company has settled the litigation and signed a settlement agreement with BT. BT shall file for dismissal of the lawsuit and shall forever release MediaTek and its subsidiaries from any claims of infringement of the patent asserted in the litigation and its related foreign counterparts, continuations, etc. worldwide.

(2). (a) Rambus Inc.("Rambus") brought a complaint against 26 companies on December 1,2010 in U.S. International Trade Commission, alleging patent infringement under Section 337 of the Tariff Act of 1930, against the Company's products for infringement of United States patents No. 6,470,405, 6,591,353, 7,287,109, 7,602,857, 7,602,858 and 7,715,494. Rambus is alleging two patents infringement of abovementioned patents (patens No. 6,591,353 and 7,287,109) by MediaTek DVD chip and DTV chip.

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

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

7.9. Other Material Events

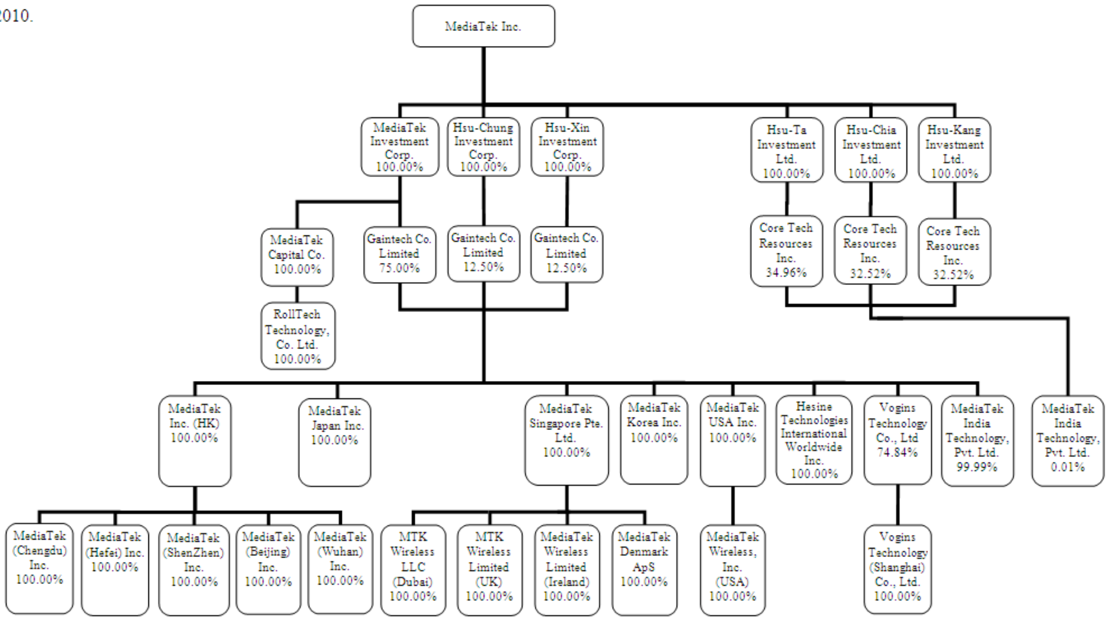
None.

8. Other Special Notes

8.1. MediaTek Affiliates

8.1.1. MediaTek Affiliated Companies Chart

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



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

As of Dec. 31, 2010. 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 24,548,201	Investment
MediaTek Capital Co.	Sep. 2000	Taiwan	NTD 3,635,127	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 3,224,333	Investment
Hsu-Xin Investment Corp.	May 2008	Taiwan	NTD 3,224,333	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 (Hong Kong)	Sep. 2007	Hong Kong	HKD 2,213,960	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 100,000	Customer support & service
MediaTek (Chengdu) Inc.	Sep. 2010	China	USD 4,800	Customer support & service
MediaTek (Wuhan) Inc.	Dec. 2010	China	USD 4,800	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	R&D
Vogins Technology Co. Ltd.	Dec. 2005	B.V.I.	USD 1,110	Investment
Vogins (Shanghai)	Mar. 2007	China	USD 5,770	Software development
Hesine Technologies International Worldwide Inc.	Oct. 2010	China	USD 213	Investment
MediaTek Wireless L.L. C. (Dubai)	Sep. 2010	Dubai	AED 300	Customer support & service
RollTech Technology Co. Ltd.	Mar. 2007	Taiwan	USD 35,100	Software development

8.1.3. Common Shareholders of MediaTek and Its Subsidiaries or Its Affiliates with Actual of 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	2,454,820,056	100%
	Director	MediaTek Inc. Rep.: David Ku		
	Director	MediaTek Inc. Rep.: Jane Chen		
	Supervisor	MediaTek Inc. Rep.: Kirin Liu		
MediaTek Capital Co.	Chairman	MediaTek Investment Co. Rep.: Ching-Jiang Hsieh	363,512,677	100%
	Director	MediaTek Investment Co. Rep.: David Ku		
	Director	MediaTek Investment Co. Rep.: Jane Chen		
	Supervisor	MediaTek Investment Co. Rep.: Kirin Liu		
Hsu-Ta Investment Ltd.	Director	MediaTek Inc. Rep.: David Ku	Not applicable	100%
Hsu-Kang Investment Ltd.	Director	MediaTek Inc. Rep.: David Ku	Not applicable	100%
Hsu-Chia Investment Ltd.	Director	MediaTek Inc. Rep.: David Ku	Not applicable	100%
Hsu-Chuang Investment Corp.	Chairman	MediaTek Investment Co. Rep.: Ching-Jiang Hsieh	322,433,336	100%
	Director	MediaTek Investment Co. Rep.: David Ku		
	Director	MediaTek Investment Co. Rep.: Jane Chen		
	Supervisor	MediaTek Investment Co. Rep.: Kirin Liu		
Hsu-Xin Investment Corp.	Chairman	MediaTek Investment Co. Rep.: Ching-Jiang Hsieh	322,433,343	100%
	Director	MediaTek Investment Co. Rep.: David Ku		
	Director	MediaTek Investment Co. Rep.: Jane Chen		
	Supervisor	MediaTek Investment Co. Rep.: Kirin Liu		
Gaintech Co. Limited	Director	MediaTek Investment Co. Hsu-Chuang Investment Corp. Hsu-Xin Investment Corp. Rep.: David Ku	319,975,440	100%
CoreTech Resources Inc.	Director	Hsu-Ta Investment Ltd. Hsu-Chia Investment Ltd. Hsu-Kang Investment Ltd. Rep.: David Ku	57,200,000	100%
MediaTek Singapore Pte. Ltd.	Director	Gaintech Co. Limited Rep.: CC Ku	111,993,960	100%
	Director	Gaintech Co. Limited Rep.: David Ku		
MediaTek India Technology Pvt. Ltd.	Director	Gaintech Co. Limited Rep.: Grant Kuo	5,500,000	100%
	Director	Gaintech Co. Limited Rep.: David Ku		
	Director	Gaintech Co. Limited Rep.: Jane Chen		
MediaTek Inc. China	Director	Gaintech Co. Limited Rep.: David Ku	2,213,959,820	100%
MediaTek (Heifei) Inc.	Chairman/ Director	MediaTek Inc. China Rep.: Wen-Hsin Wang	Not applicable	100%
	Director	MediaTek Inc. China Rep.: David Ku		
	Director	MediaTek Inc. China Rep.: Wang Hai		
	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.: C C Yeh		
	Director	MediaTek Inc. China Rep.: David Ku		
	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.: Cheng-Te Chung		
	Director	MediaTek Inc. China Rep.: David Ku		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
MediaTek (Chengdu) Inc.	Chairman/ Director	MediaTek Inc. China Rep.: Wen-Hsin Wang	Not Applicable	100%
	Director	MediaTek Inc. China Rep.: C C Yeh		
	Director	MediaTek Inc. China Rep.: David Ku		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
MediaTek (Wuhan) Inc.	Chairman/ Director	MediaTek Inc. China Rep.: Wen-Hsin Wang	Not Applicable	100%
	Director	MediaTek Inc. China Rep.: Cheng-Te Chung		
	Director	MediaTek Inc. China Rep.: David Ku		
	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		
	Director	MediaTek Singapore Pte. Ltd. Rep.: Denis Murphy		
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.: Yoshitaka Sakurai		
	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.: John Lee		
	Director	Gaintech Co. Limited Rep.: David Ku		
	Supervisor	Gaintech Co. Limited Rep.: Kirin Liu		
Vogins Technology Co. Ltd.	Chairman/ Director	Hu Zhu-Tao	330,000	4.56%
	Director	Vogins Investment Co., Ltd Rep.: Zhang Rong-Xia	630,401	8.71%
	Director	Gaintech Co. Limited Rep.: Steven Yuen	7,063,693	79.51%
	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%
Hesine Technologies International Worldwide Inc.	Director	Gaintech Co. Limited Rep.: David Ku	850,000	100%
	Director	Gaintech Co. Limited Rep.: Richard Wang		
	Director	Gaintech Co. Limited Rep.: James Liao		
MediaTek Wireless L.L.C. (Dubai)	Director	MediaTek Singapore Pte. Ltd. Rep.: Grant Kuo	300	100%
	Director	MediaTek Singapore Pte. Ltd. Rep.: David Ku		
	Director	MediaTek Singapore Pte. Ltd. Rep.: James Liao		
RollTech Technology Co. Ltd.	Chairman/ Director	MediaTek Capital Co. Rep. Liu Hui-Ling	3,510,000	100%
	Director	MediaTek Capital Co. Rep. Cheng-Te Chung		
	Director	MediaTek Capital Co. Rep. MT Hsieh		
	Supervisor	MediaTek Capital Co. Rep. Shouyen Liu		

8.1.6. Operation Highlights of MediaTek Affiliated Companies

Dec. 31, 2010, Unit, NT$1,000

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income	EPS (after tax)
MediaTek Investment Co.	24,548,201	37,471,227	143	37,471,084	10,825,617	10,822,463	10,820,440	4.41
MediaTek Capital Co.	3,635,127	7,545,746	11,792	7,533,954	365,475	352,743	351,282	0.97
Hsu-Ta Investment Ltd.	3,913,808	3,680,958	26	3,680,932	38,708	38,591	37,024	Not applicable
Hsu-Kang Investment Ltd.	3,634,700	3,422,196	54	3,422,142	37,427	37,310	35,617	Not applicable
Hsu-Chia Investment Ltd.	3,634,418	3,413,909	55	3,413,854	43,652	43,534	27,874	Not applicable
Hsu-Chuang Investment Corp.	3,224,333	4,986,352	-	4,986,352	1,768,135	1,767,437	1,767,459	5.48
Hsu-Xin Investment Corp.	3,224,333	4,986,352	-	4,986,352	1,768,135	1,767,437	1,767,459	5.48
Gaintech Co. Limited	9,304,886	38,129,665	625	38,129,040	14,087,431	14,073,324	14,073,324	43.98
CoreTech Resources Inc.	1,663,376	2,388,503	45	2,388,458	82,694	82,441	82,441	1.44
MediaTek Singapore Pte. Ltd.	2,539,403	19,981,137	4,651,805	15,329,332	42,050,583	13,501,992	13,740,548	122.69
MediaTek India Technology Pvt. Ltd.	35,781	200,581	49,137	151,444	189,442	26,556	6,866	1.25
MediaTek Inc. China (Hong Kong)	8,283,309	8,861,754	-	8,861,754	158,731	158,164	158,164	0.07
MediaTek (Heifei) Inc.	157,032	299,189	35,261	263,928	458,866	38,734	40,662	Not applicable
MediaTek (ShenZhen) Inc.	232,640	557,349	122,413	434,936	1,032,198	59,868	33,941	Not applicable
MediaTek (Beijing) Inc.	2,908,000	3,190,943	14,738	3,176,205	1,340,943	100,035	42,522	Not applicable
MediaTek (Wuhan) Inc.	139,584	139,639	-	139,639	-	-	-	Not applicable
MediaTek (Chengdu) Inc.	139,584	139,099	886	138,213	-	(2,534)	(3,977)	Not applicable
MediaTek Wireless L.L.C.	2,375	23,881	43	23,838	1,436	94	90	299.53
MTK Wireless Limited (UK)	199,830	343,090	51,577	291,513	415,396	26,992	18,478	4.19

MediaTek Wireless Limited (Ireland)	76,450	27,461	-	27,461	-	1,429	1,429	0.73
MediaTek Denmark ApS	104,188	247,008	83,463	163,545	282,920	18,872	17,574	0.88
MediaTek USA Inc.	3	3,201,903	125,437	3,076,466	746,645	220,214	259,410	2,594.10
MediaTek Japan Inc.	127,150	159,561	21,284	138,277	188,271	12,317	2,334	328.73
MediaTek Korea Inc.	51,900	92,980	33,257	59,723	156,948	10,268	6,313	31.56
MediaTek Wireless, Inc. (USA)	491,452	1,310,274	253,034	1,057,240	1,567,383	116,362	164,134	1,641.34
Vogins Technology Co. Ltd.	32,293	45,807	44,710	1,097	-	(2,116)	(100,523)	Not applicable
Vogins Shanghai	167,792	37,595	8,250	29,345	5,607	(112,438)	(112,388)	Not applicable
Hesine Technologies International Worldwide Inc.	6,180	98,872	-	98,872	-	-	-	Not applicable
RollTech Technology Co. Ltd.	35,100	40,984	18,782	22,202	57,361	1,867	1,157	0.33

Note: The amount of capital, asset, liabilities and net worth in this table were calculated using the exchange rate at end of 2010. The net sales, income from operation, net income and EPS numbers were calculated using the average exchange rate in 2010.

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) (Note)	Balance of Pledged Shares	Balance of Guarantee Provided by MediaTek	Balance of Financing Provided by MediaTek
MediaTek Capital Co.	3,635,127	None	100%	July 27, 2010	15,555 share, NT$0 (note)	-	-	7,794,085 shares, NT$55,970,000	-	-	-

Note: Stock dividend.

8.4. Other Significant Events

Any Events in 2010 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	2006	2007	2008	2009	2010
Current assets	47,496,552	62,612,568	45,752,665	69,190,377	59,573,161
Funds and investments	21,151,006	27,579,761	35,131,777	48,207,732	59,535,407
Fixed assets	4,814,984	5,221,845	5,243,216	5,896,167	6,744,246
Intangible assets	2,081,243	1,478,649	10,259,038	9,380,709	8,623,090
Other assets	1,122,400	397,515	200,730	241,321	164,577
Total assets	76,666,185	97,290,338	96,587,426	132,916,306	134,640,481
Current liabilities – Before distribution	9,079,678	11,285,891	14,893,337	23,767,572	22,159,301
Current liabilities – After distribution	24,642,566	34,337,696	29,917,469	52,110,662	(Note)
Long-term liabilities	-	-	-	-	-
Other liabilities	60,977	67,390	83,188	279,249	768,070
Total liabilities – Before distribution	9,140,655	11,353,281	14,976,525	24,046,821	22,927,371
Total liabilities – After distribution	24,703,543	34,405,086	30,000,657	52,389,911	(Note)
Capital stock	9,683,127	10,408,538	10,731,523	10,901,189	10,999,682
Capital reserve	404,409	2,539,843	2,757,311	8,267,826	12,259,404
Retained earnings – Before distribution	55,297,498	72,636,319	68,451,526	90,111,571	92,708,116
Retained earnings – After distribution	39,043,617	49,261,529	53,405,931	61,746,679	(Note)
Accumulated conversion adjustment	(483,510)	(400,047)	(17,915)	(527,304)	(4,380,730)
Unrealized gains from financial instruments	2,679,976	808,374	(255,574)	172,173	182,608
Treasury stock	(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
Total shareholders' equity – before distribution	67,525,530	85,937,057	81,610,901	108,869,485	111,713,110
Total shareholders' equity – after distribution	51,962,642	62,885,252	66,586,769	80,526,395	(Note)

Note: Pending on approval of shareholders at 2011 Annual General Shareholders' Meeting on June 15, 2011

9.1.2. Condensed Balance Sheet – MediaTek & Subsidiaries

Unit: NT$1,000

Item	2006	2007	2008	2009	2010
Current assets	61,096,428	80,162,022	71,225,877	114,038,269	112,595,354
Funds and investments	7,347,772	7,646,960	8,969,627	6,661,594	7,734,457
Fixed assets	5,055,525	5,921,529	6,504,012	6,888,829	7,807,817
Intangible assets	2,107,139	4,351,857	12,029,070	10,622,893	9,572,335
Other assets	1,137,468	784,166	345,818	381,701	324,729
Total assets	76,744,332	98,866,534	99,074,404	138,593,286	138,034,692
Current liabilities – Before distribution	9,157,825	12,720,880	17,232,353	29,454,365	25,786,256
Current liabilities – After distribution	24,720,713	35,722,685	32,256,485	57,797,455	(Note)
Long-term liabilities	-	9,016	-	-	-
Other liabilities	60,977	67,390	83,188	248,318	535,101
Total liabilities – Before distribution	9,218,802	12,797,286	17,315,541	29,702,683	26,321,357
Total liabilities – After distribution	24,781,690	35,849,091	32,339,673	58,045,773	(Note)
Capital stock	9,683,127	10,408,538	10,731,523	10,901,189	10,999,682
Capital reserve	404,409	2,539,843	2,757,311	8,267,826	12,259,404
Retained earnings – Before distribution	55,297,498	72,636,319	68,451,526	90,111,571	92,708,116
Retained earnings – After distribution	39,043,617	49,261,529	53,405,931	61,746,679	(Note)
Accumulated conversion adjustment	(483,510)	(400,047)	(17,915)	(527,304)	(4,380,730)
Unrealized gains from financial instruments	2,679,976	808,374	(255,574)	172,173	182,608
Treasury stock	(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
Minority Interest	-	132,191	147,962	21,118	225
Total shareholders' equity – before distribution	67,525,530	86,069,248	81,758,863	108,890,603	111,713,335
Total shareholders' equity – after distribution	51,962,642	63,017,443	66,734,731	80,547,513	(Note)

Note: Pending on approval of shareholders at 2011 Annual General Shareholders' Meeting on June 15, 2011

9.2. Condensed Income Statement

9.2.1. Condensed Income Statement – Parent Company

Unit: NT$1,000

Item	2006	2007	2008	2009	2010
Revenue	52,941,605	74,778,579	68,015,543	77,310,752	71,988,340
Gross profit	30,654,218	42,226,397	36,884,812	46,119,674	39,262,273
Income from operations	23,815,569	31,426,760	17,090,396	21,446,596	17,267,046
Non-operating income and gains	906,246	3,573,546	4,605,861	15,845,255	14,971,580
Non-operating expenses and losses	(355,629)	(167,376)	(726,440)	(13,908)	(44,947)
Income from operations of continued segments – before tax	24,366,186	34,832,930	20,969,817	37,277,943	32,193,679
Income from operations of continued segments – after tax	22,571,944	33,592,702	19,189,997	36,705,640	30,961,437
Accumulated adjustment due to change in accounting principle	7,638	-	-	-	-
Net income	22,579,582	33,592,702	19,189,997	36,705,640	30,961,437
Earnings per share	23.50	32.59	18.01	34.12	28.44
Earnings per share – adjusted	21.22	31.54	17.98	34.05	(Note)

Note: Pending on approval of shareholders at 2011 Annual General Shareholders' Meeting on June 15, 2011

9.2.2. Condensed Income Statement – MediaTek & Subsidiaries

Unit: NT$1,000

Item	2006	2007	2008	2009	2010
Revenue	56,397,285	80,671,769	90,402,041	115,511,625	113,521,958
Gross profit	31,878,481	45,330,881	47,336,319	67,817,390	60,908,066
Income from operations	23,265,179	31,889,180	21,061,222	36,387,164	31,078,620
Non-operating income and gains	2,107,815	3,753,812	2,320,950	1,224,948	1,253,410
Non-operating expenses and losses	(388,322)	(790,707)	(2,284,042)	(192,026)	(44,113)
Income from operations of continued segments – before tax	24,984,672	34,852,285	21,098,130	37,420,086	32,287,917
Income from operations of continued segments – after tax	23,145,896	33,390,134	19,174,240	36,695,466	30,936,603
Accumulated adjustment due to change in accounting principle	9,314	-	-	-	-
Net income – consolidated	23,155,210	33,390,134	19,174,240	36,695,466	30,936,603
Net income – parent company	22,579,582	33,592,702	19,189,997	36,705,640	30,961,437
Earnings per share	23.50	32.59	18.01	34.12	28.44
Earnings per share – adjusted	21.22	31.54	17.98	34.05	(Note)

Note: Pending on approval of shareholders at 2011 Annual General Shareholders' Meeting on June 15, 2011

9.3. Independent Auditors' Opinions

Year	CPA Firm	Name of Auditors (CPA)	Audio Opinion
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
2010	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		2006	2007	2008	2009	2010
Capital structure analysis	Debt ratio (%)	11.92	11.67	15.51	18.09	17.03
	Long-term fund to fixed assets ratio (%)	1,402.40	1,645.72	1,556.50	1,846.45	1,656.42
Liquidity analysis (%)	Current ratio (%)	523.11	554.79	307.20	291.11	268.84
	Quick ratio (%)	483.82	468.90	282.85	269.13	230.82
	Times interest earned (Times)	N/A	N/A	N/A	N/A	N/A
Operating performance analysis	Average collection turnover (Times)	12.72	15.21	16.20	27.74	20.03
	Average accounts receivable days (Days)	29	24	23	13	18
	Average inventory turnover (Times)	6.11	4.71	4.39	5.17	3.85
	Average payment turnover (Times)	4.83	5.96	6.15	5.50	4.73
	Average inventory turnover (Days)	60	77	83	71	95
	Fixed assets turnover (Times)	12.23	14.90	13.00	13.88	11.39
	Total assets turnover (Times)	0.76	0.86	0.70	0.67	0.54
Profitability analysis	Return on total assets (%)	32.4	38.62	19.80	31.99	23.14
	Return on equity (%)	37.55	43.78	22.91	38.54	28.07
	Operating income to paid-in capital (%)	245.95	301.93	168.64	196.74	156.98
	Pre-tax income to paid-in capital (%)	251.71	334.66	195.40	341.96	292.68
	Net profit margin (%)	42.65	44.92	28.21	47.48	43.01
	Basic earnings per share (NT$)	23.50	32.59	18.01	34.12	28.44
	Earnings per share – adjusted (NT$)	21.22	31.54	17.98	34.05	N/A
Cash flow	Cash flow ratio (%)	257.00	243.65	224.17	158.31	70.59
	Cash flow adequacy ratio (%)	215.68	170.33	151.35	174.03	127.62
	Cash flow reinvestment ratio (%)	19.75	14.06	14.27	22.16	-11.91
Leverage	Operating leverage	1.16	1.71	2.77	2.71	2.94
	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 decreased by 28% and average accounts receivable days increased by 38%: Mainly due to increase in account receivables.

(2) Average inventory turnover decreased by 26% and average inventory turnover days increased 34%: Mainly due to increase of average inventory in this period.

(3) Return on total assets decreased by 28%, return on equity decreased by 27%, operating income to paid-in capital decreased by 20%: Mainly due to lower operation profit and net profit in this period.

(4) Cash flow ratio decreased by 55%, cash flow adequacy ratio decreased by 24% and cash flow reinvestment ratio decreased by 154%: Mainly due to decrease of operating cash inflow and increase of cash dividend.

9.4.2. Financial Statements – MediaTek & Subsidiaries

Item		2006	2007	2008	2009	2010
Capital structure analysis	Debt ratio (%)	12.01	12.94	17.48	21.43	19.07
	Long-term fund to fixed assets ratio (%)	1,333.68	1,453.65	1,257.05	1,580.68	1,430.79
Liquidity analysis (%)	Current ratio (%)	667.15	630.16	413.33	387.17	436.65
	Quick ratio (%)	628.14	545.23	379.12	358.50	391.83
	Times interest earned (Times)	3,662.59	533.70	2,101.36	59,873.14	N/A
Operating performance analysis	Average collection turnover (Times)	12.65	14.10	13.91	17.62	15.17
	Average accounts receivable days (Days)	29	26	26	21	24
	Average inventory turnover (Times)	6.14	4.74	4.71	5.37	4.35
	Average payment turnover (Times)	4.93	5.98	6.92	5.71	5.21
	Average inventory turnover (Days)	59	77	77	68	84
	Fixed assets turnover (Times)	11.77	14.70	14.55	17.25	15.45
	Total assets turnover (Times)	0.78	0.92	0.91	0.97	0.82
Profitability analysis	Return on total assets (%)	32.00	38.08	19.38	30.88	22.37
	Return on equity (%)	37.66	43.48	22.85	38.50	28.05
	Operating income to paid-in capital (%)	240.27	306.38	207.87	333.79	282.54
	Pre-tax income to paid-in capital (%)	258.02	334.84	196.60	343.27	293.54
	Net profit margin (%)	41.06	41.39	21.21	31.77	27.25
	Basic earnings per share (NT$)	23.50	32.59	18.01	34.12	28.44
	Earnings per share – adjusted (NT$)	21.22	31.54	17.98	N/A	N/A
Cash flow	Cash flow ratio (%)	257.80	206.28	206.58	187.55	114.04
	Cash flow adequacy ratio (%)	217.81	165.42	149.55	179.19	149.03
	Cash flow reinvestment ratio (%)	20.17	12.93	17.57	39.61	1.00
Leverage	Operating leverage	1.79	1.87	2.94	2.42	2.68
	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 inventory turnover days increased by 24%: Due to increase of inventory in accordance to market demand.

(2) Return on assets decreased by 28% and return on equity decreased by 27%: Mainly due to decrease of net profit.

(3) Cash flow ratio decreased by 39% and cash flow reinvestment ratio decreased by 97%: Mainly due to lower cash inflow from operation and increase 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 2010 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. 2011 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 21, 2011

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, 2010 AND 2009
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, 2010 and 2009, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

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

Notice to Readers

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

BALANCE SHEETS

As of December 31, 2010 and 2009

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	2010	2009
Current assets			
Cash and cash equivalents	2, 4(1)	$ 43,169,400	$ 57,885,158
Held-for-trading financial assets-current	2, 4(2)	46,271	16,042
Financial assets designated as at fair value through profit or loss-current	2, 4(3)	122,100	-
Available-for-sale financial assets-current	2, 4(4)	2,236,473	1,931,724
Accounts receivable, net	2, 4(6)	3,970,346	2,829,829
Receivables from related parties, net	5	45,165	60,581
Other receivables	4(7)	985,513	788,724
Inventories, net	2, 3,4(8)	6,442,692	5,069,753
Prepayments		1,981,284	153,778
Other current assets		492,113	301,961
Deferred income tax assets-current	2, 4(21)	71,887	145,910
Restricted assets-current	6	9,917	6,917
Total current assets		59,573,161	69,190,377
Funds and investments	2, 4(9)		
Financial assets designated as at fair value through profit or loss-noncurrent		879,477	-
Available-for-sale financial assets-noncurrent		1,489,399	1,770,736
Bond portfolios with no active market-noncurrent		1,000,000	1,000,000
Investments accounted for using the equity method		56,166,531	45,436,996
Total funds and investments		59,535,407	48,207,732
Property, plant and equipment	2, 4(10)		
Land		888,722	-
Buildings and facilities		5,609,034	4,922,453
Machinery and equipment		99,449	116,374
Computer and telecommunication equipment		643,376	393,034
Testing equipment		1,905,310	1,790,871
Miscellaneous equipment		157,549	232,867
Total cost		9,303,440	7,455,599
Less : Accumulated depreciation		(2,758,795)	(2,253,149)
Add : Construction in progress		116,079	631,211
Prepayments for equipment		83,522	62,506
Property, plant and equipment, net		6,744,246	5,896,167
Intangible assets	2, 4(11)		
Patents		265,526	306,184
Software		221,684	267,794
Goodwill		6,817,211	6,817,211
IPs and others		1,318,669	1,989,520
Total intangible assets		8,623,090	9,380,709
Other assets			
Refundable deposits		164,577	241,321
Total other assets		164,577	241,321
Total assets		$ 134,640,481	$ 132,916,306

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2010	2009
Current liabilities			
Accounts payable		$ 5,944,114	$ 7,101,013
Payables to related parties	5	378,408	427,576
Income tax payable	2, 4(21)	940,351	847,228
Accrued expenses	2, 4(17)	14,503,360	15,089,802
Payables to contractors and equipment suppliers		9,293	9,293
Other current liabilities		383,775	292,660
Total current liabilities		22,159,301	23,767,572
Other liabilities			
Accrued pension liabilities	2, 4(12)	107,227	87,415
Deposits received		876	876
Deferred income tax liabilities-noncurrent	2, 4(21)	659,967	190,958
Total other liabilities		768,070	279,249
Total liabilities		22,927,371	24,046,821
Shareholders' equity			
Capital	4(13)		
Common stock		10,999,317	10,901,189
Capital collected in advance		365	-
Capital reserve			
Additional paid-in capital	4(15)	11,051,733	7,385,442
Treasury stock transaction	4(15)	785,420	583,194
Donated assets	4(15)	1,260	1,260
Long-term investment transaction	4(9), 4(15)	207,315	169,422
Employee stock option	2,4(9), 4(16)	213,676	128,508
Total capital reserve		12,259,404	8,267,826
Retained earnings			
Legal reserve	4(14)	18,613,978	14,943,414
Special reserve	4(17)	355,131	273,489
Undistributed earnings	4(17)	73,739,007	74,894,668
Other adjustments			
Cumulative translation adjustments	2, 4(9)	(4,380,730)	(527,304)
Unrealized gain (loss) on financial instruments	2, 4(9)	182,608	172,173
Treasury stock	2, 4(18)	(55,970)	(55,970)
Total shareholders' equity		111,713,110	108,869,485
Total liabilities and shareholders' equity		$ 134,640,481	$ 132,916,306

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

Chairman : Ming-Kai Tsai　　President : Ching-Jiang Hsieh　　Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

STATEMENTS OF INCOME

For the years ended December 31, 2010 and 2009

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

Description	Notes	2010		2009	
Gross sales		$ 79,274,483		$ 83,948,316	
Less : Sales returns		(670)		(9,117)	
Sales discounts		(7,285,383)		(6,628,447)	
Net sales	2, 4(19), 5	71,988,430		77,310,752	
Cost of goods sold	4(20), 5	(32,726,157)		(31,191,078)	
Gross profits		39,262,273		46,119,674	
Operating expenses	2, 4(20)				
Selling expenses		(2,645,089)		(2,680,358)	
General and administrative expenses		(2,362,311)		(3,116,862)	
Research and development expenses		(16,987,827)		(18,875,858)	
Total operating expenses		(21,995,227)		(24,673,078)	
Operating income		17,267,046		21,446,596	
Non-operating income and gains					
Interest income		347,417		420,185	
Gain on equity investments, net	2, 4(9)	14,445,432		15,121,930	
Foreign exchange gain, net	2	92,380		40,954	
Valuation gain on financial assets	2, 4(2)	-		54,974	
Others		86,351		207,212	
Total non-operating income and gains		14,971,580		15,845,255	
Non-operating expenses and losses					
Loss on disposal of property, plant and equipment	2	(27,465)		(1,234)	
Loss on disposal of investments	2	-		(12,608)	
Valuation loss on financial assets	2, 4(2)	(17,482)		-	
Others		-		(66)	
Total non-operating expenses and losses		(44,947)		(13,908)	
Income from continuing operations before income tax		32,193,679		37,277,943	
Income tax expense	2, 4(21)	(1,232,242)		(572,303)	
Net income		$ 30,961,437		$ 36,705,640	
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(22)	Before tax	After tax	Before tax	After tax
Net income		$ 29.57	$ 28.44	$ 34.58	$ 34.05
Pro-forma data: (Assuming that the Company's shares owned by its subsidiary were not treated as treasury stock)					
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(22)				
Net income		$ 29.55	$ 28.42	$ 34.43	$ 33.91
Diluted Earnings Per Share (in New Taiwan Dollars)	2, 4(22)				
Net income		$ 29.01	$ 27.90	$ 33.68	$ 33.17

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

Chairman : Ming-Kai Tsai President : Ching-Jiang Hsieh Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2010 and 2009

(Amounts in thousands of New Taiwan Dollars)

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

Note1: Directors' and supervisors' remuneration of NT$42,494 thousand and employees' bonuses of NT$6,403,395 thousand had been charged against earnings from 2008.

Note2: Directors' and supervisors' remuneration of NT$65,907 thousand and employees' bonuses of NT$12,226,536 thousand had been charged against earnings from 2009.

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

Chairman : Ming-Kai Tsai President : Ching-Jiang Hsieh Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

(Amounts in thousands of New Taiwan Dollars)

Description	2010	2009
Cash flows from operating activities :		
Net income	$ 30,961,437	$ 36,705,640
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	691,378	685,141
Amortization	1,406,083	1,726,090
Bad debt provision	129,666	16,938
Amortization of financial assets discount or premium	296	(32,841)
Cash dividends from equity investees	123,710	28,815
Inventory loss provision	969,798	930,262
Net loss on disposal of property, plant and equipment	27,465	1,234
Net gain on equity investments	(14,445,432)	(15,121,930)
Adjustment of valuation on financial assets and liabilities	(53,306)	14,192
Loss on disposal of investments	-	12,608
Deferred income tax	543,032	440,665
Employees' bonuses	3,863,296	12,226,536
Changes in operating assets and liabilities:		
Held-for-trading financial assets	-	150,000
Financial assets designated as at fair value through profit or loss	(978,500)	862,000
Accounts receivable	(1,874,645)	(317,586)
Receivables from related parties	15,416	(40,256)
Other receivables	407,673	(267,986)
Inventories	(2,342,737)	(2,617,174)
Prepayments	(1,827,506)	90,420
Other current assets	(190,152)	(44,272)
Accounts payable	(1,156,899)	3,657,130
Payables to related parties	(49,168)	63,644
Income tax payable	93,123	129,553
Accrued expenses	(781,777)	(1,461,861)
Other current liabilities	91,115	(214,815)
Accrued pension liabilities	19,812	5,249
Net cash provided by operating activities	15,643,178	37,627,396
Cash flows from investing activities :		
Increase in restricted deposits	(3,000)	(5,117)
Increase in available-for-sale financial assets	(563,917)	-
Purchase of property, plant and equipment	(1,573,425)	(1,432,161)
Proceeds from disposal of property, plant and equipment	894	921
Proceeds from disposal of available-for-sale financial assets	621,000	1,787,997
Proceeds from disposal of held-to-maturity financial assets	-	242,498
Increase in intangible assets	(642,855)	(835,958)
Decrease (increase) in refundable deposits	76,744	(226,588)
Net cash used in investing activities	(2,084,559)	(468,408)
Cash flows from financing activities :		
Decrease in deposits received	-	(146)
Cash dividends	(28,343,090)	(15,024,132)
Proceeds from exercise of employee stock options	68,713	-
Net cash used in financing activities	(28,274,377)	(15,024,278)
Net (decrease) increase in cash and cash equivalents	(14,715,758)	22,134,710
Cash and cash equivalents at the beginning of the year	57,885,158	35,750,448
Cash and cash equivalents at the end of the year	$ 43,169,400	$ 57,885,158
Supplemental disclosures of cash flow information :		
Income tax paid during the year	$ 596,087	$ 497,937
Activities partially effected cash flows :		
Purchase of property, plant and equipment	$ 1,573,425	$ 1,352,051
Add: decrease in payables to contractors and equipment suppliers	-	80,110
Cash paid for the purchase of property, plant and equipment	$ 1,573,425	$ 1,432,161
Non-cash activities :		
Stock dividends and employees' bonuses capitalized (including additional paid-in capital)	$ 3,689,763	$ 5,464,349
Change in unrealized gain (loss) on financial instruments	$ 10,435	$ 427,747
Cumulative translation adjustments	$ (3,853,426)	$ (509,389)
Adjustment arising from changes in percentage of ownership in investees	$ 37,893	$ 19,286
Adjustment of cash dividends distributed to subsidiaries holding the Company's stock	$ 202,226	$ 108,682

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

Chairman : Ming-Kai Tsai　　President : Ching-Jiang Hsieh　　Chief Financial Officer : David Ku

1. Organization and Operation

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

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

2. Summary of Significant Accounting Policies

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

Cash Equivalents

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

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

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

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

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

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

Financial Assets and Financial Liabilities

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

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

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

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

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

Effective from January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Inventories that were not sold or moved for further production were assessed allowance and set aside to reflect the potential loss from stock obsolescence.

Investment Accounted for Using the Equity Method

A. Long-term investments in which the Company holds an interest of 20% or more or has the ability to exercise significant influence are accounted for under the equity method of accounting. The difference between the cost of the investment and the net equity value of the investee ('investment premium") at the date of acquisition is amortized over 5 years. Effective from January 1, 2006, pursuant to the newly revised R.O.C. SFAS No. 25 "Business Combinations - Accounting Treatment under Purchased Method", investment premiums, representing goodwill, are no longer amortized but are assessed for impairment at least on an annual basis. In some cases, the fair value of the net identifiable assets of the investee will exceed the investment cost, that excess represents investment discount. Investment discounts generated before January 1, 2006, continue to be amortized over the remaining period. Investment discounts generated after December 31, 2005 shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired noncurrent assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain in profit or loss. Adjustment to capital reserve and long-term investment is required when the holding percentage changes due to unproportional subscription to investee's new shares issued. If the capital reserve is insufficient, retained earnings are adjusted. An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an investee and shall account for the investment in accordance with the R.O.C. SFAS No. 34 "Accounting for Financial Instruments" from that date. The carrying amount of the investment at the date that the Company ceases to have significant influence over the investee shall be regarded as its cost on initial measurement as a financial asset.

B. Unrealized gains and losses arising from intercompany transactions are deferred and recognized when realized.

C. For equity investees in which the Company does not possess control, the Company recognizes its investee's losses only to the extent of the Company's long-term investment on that investee. However, if the Company intends to provide further financial support for the investee company, or the investee company's losses are temporary and there exists sufficient evidence showing imminent return to profitable operations, then the Company shall continue to recognize investment losses in proportion to the stock ownership percentage. Such credit balance for the long-term investment shall first be offset by the advance (if any) the Company made to the investee company, the remaining shall be recorded under other liabilities. For equity investees in which the Company possesses control, the Company recognizes its investee's total losses unless other investors are obligated to and have the ability to assume a portion of the loss. Once the investee company begins to generate profit, such profit is allocated to the Company until all the losses previously absorbed by the Company have been recovered.

D. The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of the Company, and the accounts of investees in which the Company's ownership percentage is less than 50% but the Company has a controlling interest.

Property, Plant and Equipment

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

Buildings and facilities	3 to 50	years
Machinery and equipment	3	years
Computer and telecommunication equipment	3 to 5	years
Testing equipment	3 to 5	years
Miscellaneous equipment	2 to 5	years

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

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. 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

Effective from January 1, 2009, the Company adopted the newly released R.O.C. SFAS No.10 “Accounting for Inventories”. The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value on an item-by-item basis except when the grouping of similar or related items is appropriate; (2) unallocated overheads resulted from low production or idle capacity are recognized as cost of goods sold in the year in which they are incurred; and (3) abnormal cost, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the year. Such changes in accounting principal did not have a significant impact on the Company’s financial statements as of and for the year ended December 31, 2009.

4. Contents of Significant Accounts

(1) Cash and Cash Equivalents

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

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

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

a.

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

The Company entered into derivative contracts during the years ended December 31, 2010 and 2009 to manage exposures to foreign exchange rate changes. The derivative contracts entered into by the Company did not meet the criteria of hedge accounting prescribed by SFAS No. 34. Therefore, they were recorded as the held-for-trading financial assets and liabilities. Please refer to Note 10 to the financial statements for the disclosure of relative risk information.

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

(1) As of December 31, 2010:

Held-for-trading financial assets:

Financial Instruments	Type	Maturity	Contract amount (US$'000)
Forward exchange contracts	Sell USD	January 2011	USD45,000

(2) As of December 31, 2009:

Held-for-trading financial assets:

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

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

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

	As of December 31,	
	2010	2009
Convertible bonds	$122,100	$-

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

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

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

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

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

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

(6) Accounts Receivable-Net

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

The Company entered into several factoring agreements without recourse with financial institutions in Taiwan. According to those agreements, the Company does not take the risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related accounts receivable after deducting the estimated value of commercial disputes. The Company has not withdrawn cash entitled by the factoring agreements from banks as of December 31, 2010. Receivables from banks due to factoring agreement is NT$604,462 thousand.

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

The details of factor as of December 31, 2010 are summarized as follows:

The Factor (Transferee)	Interest rate	As of December 31, 2010 (US$'000)	Cash withdrawn (US$'000)	Unutilized (US$'000)	Credit line (US$'000)
Taishin International Bank	-	USD20,477	$-	USD20,477	USD95,310
DBS Bank	-	USD309	-	USD309	USD20,000
		USD20,786	$-	USD20,786	USD115,310

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

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

follows:

(7) Other Receivables

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

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

(8) Inventories-Net

	As of December 31, 2010	As of December 31, 2009
Work in process	$5,501,034	$3,620,535
Finished goods	4,169,177	3,706,939
Subtotal	9,670,211	7,327,474
Less: Allowance for loss on decline in market value and obsolescence	(3,227,519)	(2,257,721)
Net	$6,442,692	$5,069,753

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

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

(9) Funds and Investments

a.

Investee Company	As of December 31, 2010 Type	Share/unit	Amount	Ownership
Financial assets designated as at fair value through profit or loss-noncurrent				
BNP TWD Quarterly Callable 90d CP Range Accrual Structured Investment	Interest rate-linked deposit	-	$294,991	-
BNP TWD Quarterly Callable ly CMS Range Accrual Structured Investment	Interest rate-linked deposit	-	295,121	-
Taishin 1.5 Years TWD CP90 Structured Investment	Interest rate-linked deposit	-	289,365	-
Subtotal			879,477	
Available-for-sale financial assets-noncurrent				
Cathay No. 1 Real Estate Investment Trust	Mutual fund	70,000,000	827,400	-
Cathay No. 2 Real Estate Investment Trust	Mutual fund	50,000,000	562,000	-
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	99,999	-
Subtotal			1,489,399	

(To be continued)

(Continued)

Investee Company	As of December 31, 2010 Type	Share/unit	Amount	Ownership
Financial assets carried at cost-noncurrent				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Bond portfolios with no active market-noncurrent				
Chinatrust Financial Holding Co. Ltd.	Series B Preferred stock	25,000,000	1,000,000	-
Investments accounted for using the equity method				
MediaTek Investment Corp.	Common share	2,454,820,056	34,217,063	100.00%
Hsu-Ta Investment Limited	Capital	-	3,680,932	100.00%
Hsu-Chia Investment Limited	Capital	-	3,426,734	100.00%
Hsu-Kang Investment Limited	Capital	-	3,422,142	100.00%
Hsu-Chung Investment Corp.	Common share	322,433,336	4,986,352	100.00%

Hsu-Xin Investment Corp.	Common share	322,433,343	4,986,352	100.00%
ALi Corporation	Common share	64,098,383	1,449,996	21.09%
Subtotal			56,169,571	
Add：Unrealized (gain) loss on disposal of long-term equity investments			(3,040)	
Subtotal			56,166,531	
Total			$59,535,407	

	As of December 31, 2009			
Investee Company	Type	Share/unit	Amount	Ownership
Available-for-sale financial assets-noncurrent				
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	
Financial assets carried at cost-noncurrent				
Yuantonix, Inc.	Common share	300,000	-	3.75%

(To be continued)

(Continued)

	As of December 31, 2009			
Investee Company	Type	Share/unit	Amount	Ownership
Bond portfolios with no active market-noncurrent				
Chinatrust Financial Holding Co. Ltd.	Series B Preferred stock	25,000,000	1,000,000	-
Investments accounted for using the equity method				
MediaTek Investment Corp.	Common share	1,426,754,351	26,094,991	100.00%
Hsu-Ta Investment Limited	Capital	-	3,732,538	100.00%
Hsu-Chia Investment Limited	Capital	-	3,467,717	100.00%
Hsu-Kang Investment Limited	Capital	-	3,468,057	100.00%

Hsu-Chung Investment Corp.	Common share	156,356,953	3,654,202	100.00%
Hsu-Xin Investment Corp.	Common share	156,356,962	3,654,202	100.00%
ALi Corporation	Common share	64,098,383	1,368,329	21.09%
Subtotal			45,440,036	
Add：Unrealized (gain) loss on disposal of long-term equity investments			(3,040)	
Subtotal			45,436,996	
Total			$48,207,732	

b. For the years ended December 31, 2010 and 2009, the Company recognized investment gain accounted for under the equity method in the amount of NT$14,445,432 thousand and NT$15,121,930 thousand, respectively, based on the audited financial statements of the investee companies.

c. For the years ended December 31, 2010 and 2009, the Company recognized an unrealized (loss) gain of NT$(70,356) thousand and NT$163,929 thousand 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 2010 and 2009, and recorded an increase in capital reserve in an aggregate amount of NT$91,476 thousand and NT$87,864 thousand, respectively. Please refer to note 4(16).

e. In 2010 and 2009, under the equity method, the Company recognized changes in investees' capital reserve by NT$37,893 thousand and NT$19,286 thousand, respectively.

f. In September 2010, the Company invested in Taishin 1.5 Years TWD CP90 Structured Investment and other financial assets which were classified as financial assets designated as at fair value through profit or loss in the amount of NT$870,000 thousand.

g. In 2009, the Company sold Foxconn Credit-linked Deposit which was classified as financial assets designated as at fair value through profit or loss at the price of NT$50,208 thousand and recognized a valuation gain on financial assets of NT$208 thousand.

h. In 2010, the Company redeemed Chinatrust 2006-1 Collateralized Loan Obligation-E which was classified as available-for-sale financial assets at the aggregate price of NT$296,000 thousand. In 2009, the Company sold IIT Private Equity Real Estate Fund and other financial assets which were classified as available-for-sale financial assets at the aggregate price of NT$1,481,150 thousand and recognized an investment disposal loss of NT$5,106 thousand.

i. In March 2009, the Company sold Chinatrust 96-2 Financial Debenture which was classified as held-to-maturity financial assets before maturity at the price of NT$242,498 thousand and recognized an investment disposal loss of NT$7,502 thousand. The Company reclassified the remaining held-to-maturity financial assets, such as Cathay Real Estate Investment Trust-Tun Nan C, to available-for-sale financial assets-noncurrent in the amount of NT$910,714 thousand.

j. In December 2005, 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.

k. Funds and investments mentioned above were not pledged as of December 31, 2010 and 2009.

(10) Property, Plant and Equipment

a. No interest was capitalized for the years ended December 31, 2010 and 2009.

b. Property, plant and equipment were not pledged as of December 31, 2010 and 2009.

(11) Intangible Assets

	For the year ended December 31, 2010		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	$1,897,512	$7,201,886	$9,099,398
Increase - separately acquired	527,926	114,929	642,855
Decrease - elimination and others	10,612	(9,673)	939
Balance at end of period	2,436,050	7,307,142	9,743,192
Accumulated amortization			
Balance at beginning of period	(1,629,718)	(4,906,182)	(6,535,900)
Increase - amortization	(589,318)	(816,765)	(1,406,083)
Decrease - elimination and others	4,670	-	4,670
Balance at end of period	(2,214,366)	(5,722,947)	(7,937,313)
Net	$221,684	$1,584,195	$1,805,879

	For the year ended December 31, 2009		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	$1,893,431	$6,863,970	$8,757,401
Increase - separately acquired	509,845	337,916	847,761
Decrease - elimination and others	(505,764)	-	(505,764)
Balance at end of period	1,897,512	7,201,886	9,099,398
Accumulated amortization			
Balance at beginning of period	(1,265,872)	(4,049,702)	(5,315,574)

Increase - amortization	(869,610)	(856,480)	(1,726,090)
Decrease - elimination and others	505,764	-	505,764
Balance at end of period	(1,629,718)	(4,906,182)	(6,535,900)
Net	$267,794	$2,295,704	$2,563,498

(12) Accrued Pension Liabilities

The Company's pension fund contributed to a fiduciary account in Bank of Taiwan amounted to NT$47,038 thousand and NT$45,452 thousand as of December 31, 2010 and 2009, respectively. The total pension expenses, including net pension cost under the Standard Labor Law and the pension expenses under the Labor Pension Act, amounted to NT$197,852 thousand and NT$130,855 thousand for the years ended December 31, 2010 and 2009, respectively. The pension expenses under the Labor Pension Act amounted to NT$177,446 thousand and NT$125,220 thousand for the years ended December 31, 2010 and 2009, respectively.

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

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

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

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

Accrued pension liabilities	$(107,227)	$(87,415)

c. The vested benefit was nil as of December 31, 2010 and 2009.

d. The underlying actuarial assumptions

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

(13) Common Stock

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

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

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

As of December 31, 2010, the Company issued 183,612 new shares at par value of NT$10 for the employee stock options exercised, including 36,501 shares at the price of NT$365 thousand which was accounted for as capital collected in advance due to the government approval has not been successfully obtained.

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

(14) Legal Reserve

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

(15) Capital Reserve

	As of December 31,	
	2010	2009
Additional paid-in capital	$11,051,733	$7,385,442
Treasury stock transaction	785,420	583,194
Donated assets	1,260	1,260
Long-term investment transaction	207,315	169,422
Employee stock option	213,676	128,508
Total	$12,259,404	$8,267,826

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

The Company had paid cash dividends in the amount of NT$202,226 thousand and NT$108,682 thousand to the subsidiary who owned the Company's common shares for the years ended December 31, 2010 and 2009, respectively. Since the Company's shares held by the subsidiary are treated as treasury stocks, the cash dividends paid to the Company's subsidiary are accounted for as an adjustment to capital reserve; under the category of treasury stock transactions.

Based on the resolution of shareholders' general meeting, the Company resolved to issue 7,485,481 and 14,820,251 new shares at par value of NT$10 for the year ended of 2010 and 2009 for the capitalization of employees' bonus of NT$3,667,961 thousand and NT$5,442,886 thousand and recorded paid in capital in excess of par value in the amount of NT$3,593,106 thousand and NT$5,294,683 thousand. Please refer to Note 4(13).

(16) Employee Stock Options

In December 2007, July 2009 and May 2010, the Company was authorized by the Financial Supervisory Commission, Executive Yuan, to issue employee stock options with a total number of 5,000,000 units, 3,000,000 units and 3,500,000 units, each option eligible to subscribe for one common share. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company's shareholding with voting rights, directly or indirectly, is more than fifty percent. The options are valid for ten years and exercisable at certain percentage subsequent to the second anniversary of the granted date. Under the terms of the plan, the options are granted at an exercise price equal to the closing price of the Company's common share listed on the TWSE on the grant date.

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

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2008.03.31	1,134,119	705,786	705,786	$378.6
2008.08.28	1,640,285	1,116,944	1,116,944	362.0
2009.08.18	1,382,630	1,060,965	1,060,965	468.8
2010.08.27	1,605,757	1,417,153	1,417,153	436.5
2010.11.04	26,839	26,839	26,839	402.0

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

The compensation cost was recognized under the fair value method and the

Black-Scholes Option Pricing model was used to estimate the fair value of options granted. In 2010 and 2009, the investment loss on equity investment arising from employee stock option compensation cost were NT$91,476 thousand and NT$87,864 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

	Employee Stock Option
Expected dividend yield	3.13%~6.63%
Expected volatility	34.41%~50.06%
Risk free interest rate	0.93%~2.53%
Expected life	6.5 years

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

	For the year ended December 31,			
	2010		2009	
Employee Stock Option	Options (Unit)	Weighted-average Exercise Price per share (NTD)	Options (Unit)	Weighted-average Exercise Price per share (NTD)
Outstanding at beginning of period	3,790,285	$408	2,676,535	$378
Granted	1,632,596	435.9	1,382,630	473
Exercised	(183,612)	373	-	-
Forfeited (Expired)	(911,582)	413	(268,880)	388
Outstanding at end of period	4,327,687	416	3,790,285	408
Exercisable at end of period	410,052		-	
Weighted-average fair value of options granted during the period (in NTD)	$96.3		$122	

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

		Outstanding Stock Options			Exercisable Stock Options	
	Range of Exercise Price (NTD)	Options (Unit)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Stock option plan of 2007	$362~378.6	1,822,730	4.00	$369	410,052	$369
Stock option plan of 2009	468.8	1,060,965	5.13	469	-	-
Stock option plan of 2010	$402~436.5	1,443,992	6.17	435.9	-	-
		4,327,687		$416	410,052	

(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, 2010 and 2009, the amounts of the employee' bonuses were estimated to be at NT$3,863,296 thousand and NT$12,226,536 thousand, respectively. During the years ended December 31, 2010 and 2009, the amount of remunerations to directors and supervisors were estimated to be at NT$71,628 thousand and NT$91,274 thousand, respectively. Employee bonuses were estimated based on 10% and 25% of net income for the years ended December 31, 2010 and 2009, respectively (excluding the impact of employees' bonuses) while remunerations to directors and supervisors were estimated based on the Company's Articles of Incorporation. Estimated amount of employee bonuses and remunerations paid to directors and supervisors were charged to current income as operating expenses for the years ended December 31, 2010 and 2009. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, the Company shall recognize the change as an adjustment to income of next year.

(18) Treasury Stock

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

Owner	January 1, 2010		Additions		December 31, 2010		
	Shares	Amount	Shares	Amount	Shares	Amount	Market Value
MediaTek Capital Corp.	7,778,530	$55,970	15,555 (Note)	$-	7,794,085	$55,970	$3,254,030

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

Note：Stock dividends

(19) Net Operating Revenue

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

(20) Personnel, Deprecation and Amortization Expenses

	For the year ended December 31,					
	2010			2009		
	Recorded under cost of goods sold	Recorded under operating expense	Total	Recorded under cost of goods sold	Recorded under operating expense	Total
Personnel Expense						
Salaries & wages	$170,479	$12,775,491	$12,945,970	$131,551	$16,428,475	$16,560,026
Insurance	6,895	225,098	231,993	5,000	151,085	156,085
Pension	5,977	191,875	197,852	4,254	126,601	130,855
Other expenses	4,473	163,343	167,816	1,340	45,381	46,721
Total	$187,824	$13,355,807	$13,543,631	$142,145	$16,751,542	$16,893,687
Depreciation	$2,327	$689,051	$691,378	$14,402	$670,739	$685,141
Amortization	$935	$1,405,148	$1,406,083	$870	$1,725,220	$1,726,090

(21) Income Tax

a. In May 2009, the Income Tax Law of the Republic of China was amended and the income tax rate of profit-seeking enterprise was reduced from 25% to 20%. In June 2010, the Income Tax Law of the Republic of China was amended and the income tax rate of profit-seeking enterprise was reduced from 20% to 17%. The income tax rate of 17% is applied on January 1, 2010.

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

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

b.

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

	As of December 31,			
	2010		2009	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets				
Recognition of unrealized allowance for inventory obsolescence	$3,227,519	$548,678	$2,257,721	$451,544
Allowance for doubtful debt in excess of deductible limit	161,814	27,509	46,223	9,245
Unrealized foreign exchange loss	33,502	5,695	-	-
Unrealized technology license fee	1,307,624	222,296	821,736	164,347
Unrealized loss on asset impairment	12,126	2,061	12,126	2,425
Others	-	-	712,827	142,565
Investment tax credits		8,905,333		9,309,451
Deferred income tax assets		9,711,572		10,079,577
Valuation allowance for deferred income tax assets		(9,596,430)		(9,571,813)
Net deferred income tax assets		115,142		507,764

(To be continued)

(Continued)

	As of December 31,			
	2010		2009	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax liabilities				
Unrealized foreign exchange gain	-	-	(21,136)	(4,227)
Unrealized gain on valuation of financial assets	(46,271)	(7,866)	(16,042)	(3,208)
Unrealized amortization of intangible assets	(4,090,327)	(695,356)	(2,726,884)	(545,377)
Deferred income tax liabilities		(703,222)		(552,812)

Net deferred income tax assets and liabilities	$(588,080)	$(45,048)

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

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

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

d. The Company’s income tax returns for the years from 2002 to 2007 have been assessed by the tax authorities. In addition, the assessed income tax return for the year 2002, 2003, 2005 and 2006 was imposed additional income tax payable in an aggregate amount of NT$1,808,711 thousand.

The discrepancy between the Company's tax return filing and the result of tax authority's assessment was mainly due to different interpretations on calculating exempted income. After assessing the potential outcome, the Company has fully accrued the additional tax liability. Although the Company has vigorously filed several administrative appeals to tax authority and Courts, the Company has paid the amount in full.

e. The Company's available investment tax credits as of December 31, 2010 were as follows:

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

f.

Integrated income tax information	As of December 31,	
	2010	2009
Balance of the imputation credit account (ICA)	$1,450,933	$1,880,385

	2010	2009
Expected (Actual) creditable ratio	2.78%(Note)	3.26%

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

g. Information related to undistributed retained earnings

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

(22) Earnings Per Share

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

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

	Amount (Numerator)			Earnings per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
For the year ended December 31, 2010					
Basic EPS					
Net income	$32,193,679	$30,961,437	1,088,689,895	$29.57	$28.44
Effect of dilutive potential common shares:					
Bonus to employees	-	-	20,532,897		
Stock option to employees	-	-	445,854		
Diluted EPS	$32,193,679	$30,961,437	1,109,668,646	$29.01	$27.90
For the year ended December 31, 2009					
Basic EPS					
Net income	$37,277,943	$36,705,640	1,077,995,291	$34.58	$34.05
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	1,106,682,638	$33.68	$33.17

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

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

5. **Related Party Transactions**

(1) Related parties and relations with the Company

Related parties	Relations
King Yuan Electronics Co., Ltd. ("King Yuan")	The chairman of the Company and the chairman of King Yuan are close relatives
ALi Corporation ("ALi")	Equity investee
JMicron Technology Corporation ("JMicron")	The Company's chairman doubles as JMicron's chairman
Airoha Technology, Inc.("Airoha")	Equity investee
MediaTek Investment Corp.("MIC")	Affiliated company
MediaTek Capital Corp.("MCC")	Affiliated company
Hsu-Ta Investment Limited("Hsu-Ta")	Affiliated company
Hsu-Chia Investment Limited("Hsu-Chia")	Affiliated company
Hsu-Kang Investment Limited("Hsu-Kang")	Affiliated company
MediaTek Sigapore Pte. Ltd.("MSL")	Affiliated company
MTK Wireless Limited-UK("MUK")	Affiliated company
MediaTek Wireless, Inc.-USA("MWS")	Affiliated company
Directors, supervisors and key managers	The Company's major managers

(2) Major transactions with related parties

a. Sales

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

For the years ended December 31, 2010 and 2009, the trade credit terms for related parties and third-party customers were both 45 to 60 days. Third-party customers may prepay their accounts in advance. The Company's sales to MSL and ALi were royalty revenues, which were charged based on an agreed percentage of the Company's net sales.

b. IC testing, experimental services and manufacturing technology services

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

c. Rental Income

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

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

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

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

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

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

(3) Receivables and payables resulted from the above transactions

a. Receivables from related parties

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

b. Payables to related parties

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

c. Remunerations paid to major managers

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

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

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

6. Assets Pledged As Collateral

(1) As of December 31, 2010

	Amount	Party to which assets was pledged	Purpose of pledge
Restricted deposits-current	$6917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,000	Customs Office	Tariff execution deposits
Total	$9,917		

(2) As of December 31, 2009

	Amount	Party to which assets was pledged	Purpose of pledge
Restricted deposits-current	$6,917	Administrative Bureau of HSIP	Land lease guarantee

7. Commitments and Contingencies

(1) Lawsuit:

a. British Telecommunication ("BT") brought a complaint against MediaTek Wireless, Inc. ("MWS"), a wholly-owned subsidiary of MediaTek Inc., in November 2009 in the United States District Court, District of Massachusetts, alleging patent infringement under 35 U.S.C. §271, et seq., against MWS's products for infringement of United States patent No. 5,153,591("the '591 patent"). BT is alleging patent infringement of its '591 patent by certain products that were transferred from Analog Devices Inc. ("ADI") to MWS through the purchase of certain ADI's assets and business. The Company contended that MWS does not believe that any of its products infringe the '591 patent. In addition, the '591 patent has expired. In June 2010, the Company has settled the litigation and signed a settlement agreement with BT. BT shall file for dismissal of the lawsuit and shall forever release MediaTek and its subsidiaries from any claims of infringement of the patent asserted in the litigation and its related foreign counterparts, continuations, etc. worldwide.

b. (a) Rambus Inc.("Rambus") brought a complaint against 26 companies on December 1,2010 in U.S. International Trade Commission, alleging patent infringement under Section 337 of the Tariff Act of 1930, against the Company's products for infringement of United States patents No. 6,470,405, 6,591,353, 7,287,109, 7,602,857, 7,602,858 and 7,715,494. Rambus is alleging two patents infringement of abovementioned patents (patens No. 6,591,353 and 7,287,109) by MediaTek DVD chip and DTV chip.

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

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

(2) Operating Lease:

The Company has entered into lease agreements for land with the

Administrative Bureau of HSIP for its need of operations. Related rent to be incurred in the future is as follows:

Lease Period	Amount
2011.01.01~2011.12.31	$30,371
2012.01.01~2012.12.31	30,371
2013.01.01~2013.12.31	30,371
2014.01.01~2014.12.31	30,371
2015.01.01~2015.12.31	30,371
2016.01.01~2027.12.31	244,418
Total	$396,273

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

10. Others

(1) Financial Instruments

a. Fair value of financial instruments

	As of December 31,			
	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Non-derivative				
Assets				
Cash and cash equivalents	$43,169,400	$43,169,400	$57,885,158	$57,885,158
Financial assets designated as at fair value through profit or loss	$1,001,577	$1,001,577	$-	$-
Receivables (including related parties)	$4,015,511	$4,015,511	$2,890,410	$2,890,410
Other receivables	$985,513	$985,513	$788,724	$788,724
Available-for-sale financial assets	$3,725,872	$3,725,872	$3,702,460	$3,702,460
Bond portfolios with no active market	$1,000,000	$1,078,925	$1,000,000	$1,089,108
Investments accounted for using the equity method				
-with market value	$1,449,996	$2,829,944	$1,368,329	$4,967,625
-without market value	$54,716,535	$-	$44,068,667	$-
Refundable deposits	$164,577	$164,577	$241,321	$241,321
Restricted assets	$9,917	$9,917	$6,917	$6,917
Liabilities				
Payables(including related parties)	$6,322,522	$6,322,522	$7,528,589	$7,528,589
Accrued expenses	$14,503,360	$14,503,360	$15,089,802	$15,089,802
Payables to contractors and equipment suppliers	$9,293	$9,293	$9,293	$9,293
Deposits received	$876	$876	$876	$876
Derivative				
Assets				
Held-for-trading financial assets	$46,271	$46,271	$16,042	$16,042

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

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

ii. The fair values of the Company's refundable deposits, deposits received and restricted assets approximate their carrying value because the Company predicts the future cash inflows or outflows will be of similar amounts to the carrying values.

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

iv. The bond portfolios with no active market have no quoted price from active market but have fixed or determinable payments. Fair values are estimated using the discounted cash flow method.

v. The fair values of the Company's investments accounted for under the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.

vi. The fair values of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.

(b) Gains recognized for the changes in fair values of financial assets estimated using valuation techniques were NT$67,847 thousand and NT$13,114 thousand for the years ended December 31, 2010 and 2009, respectively.

(c) As of December 31, 2010 and 2009, financial assets exposed to fair value risk from fixed interest rate were NT$38,692,278 thousand and NT$56,579,590 thousand, respectively, and financial assets exposed to cash flow risk from variable interest rate were NT$899,044 thousand and NT$6,767 thousand, respectively.

(d) Interest income recognized from financial assets and financial liabilities that are not at fair value through profit or loss amounted to NT$347,417 thousand and NT$420,185 thousand for the years ended December 31, 2010 and 2009, respectively. The Company recognized unrealized gains of NT$80,791 thousand and NT$258,712 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2010 and 2009, respectively, and the amounts that were recycled from equity to loss were nil and NT$5,106 thousand for the years ended December 31, 2010 and 2009, respectively. The Company also recognized an unrealized loss of NT$70,356 thousand and an unrealized gain of NT$163,929 thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for under the equity method for the years ended December 31, 2010 and 2009, respectively. Please refer to Note 4.(9) to the financial statements for details.

(e) As of December 31, 2010 and 2009, the Company did not have impairment loss on financial assets.

b.

a. <u>Risk management policy and hedge strategy for financial instruments</u>

The Company held certain non-derivative financial instruments, including cash and cash equivalents, available-for-sale financial assets, held-for-trading financial assets-mutual fund, government bonds, corporate bonds and financial debentures. The Company held the financial instruments to meet operating cash needs. The

Company also held other financial instruments such as receivables, other receivables, payables, financial assets designated as at fair value through profit or loss, financial assets measured at cost, bond portfolios with no active market and investments accounted for using the equity method.

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

b.<u>Information of financial risks</u>

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:

<u>Market risk</u>

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$450 thousand and NT$550 thousand as of December 31, 2010 and 2009, respectively. Credit-linked deposits and interest rate-linked deposits are affected by interest rates. When interest rate increases, the market value may decrease and may even be below the initial investment cost, and vice versa. The fair value of exchange rate-linked deposits is affected by interest rate fluctuation. The fair value of mutual fund, government bonds and corporate bonds will be exposed to fluctuations from other market factors as well as movement in interest rates.

Credit risk

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

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

Liquidity risk

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

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

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

Cash flow risk from variable interest rate

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

(2) Other Information

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

	2010.12.31			2009.12.31		
	Foreign Currency (thousand)	Exchange rate	NTD (thousand)	Foreign Currency (thousand)	Exchange rate	NTD (thousand)
Financial assets						
Monetary item						
USD	$246,266	$29.08	$7,161,413	$172,967	$32.16	$5,562,831
Non-monetary item						
USD	$9,000	$29.08	$261,720	$-	$-	$-
Financial liabilities						
Monetary item						
USD	$227,399	$29.08	$6,612,764	$125,889	$32.22	$4,056,773
JPY	$500,000	$0.37	$186,700	$-	$-	$-

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

11. Segment Information

(1) Major Customers

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

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

(2) Export Sales

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

(3) Geographic data

The Company has no significant foreign operation.

(4) Industry data

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

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, 2010 AND 2009 AND FOR THE YEARS THEN ENDED

REPRESENTATION LETTER

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

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

March 10, 2011

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, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

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

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.
The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the R.O.C. and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the R.O.C.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2010 and 2009
(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	2010	2009
Current assets			
Cash and cash equivalents	2, 4(1)	$ 85,927,357	$ 94,647,892
Held-for-trading financial assets-current	2, 4(2)	46,271	16,042
Financial assets designated as at fair value through profit or loss-current	2, 4(3)	510,422	-
Available-for-sale financial assets-current	2, 4(4)	5,588,972	2,183,335
Accounts receivable, net	2, 4(6)	7,164,346	7,266,916
Other receivables	4(7)	1,174,831	901,195
Inventories, net	2, 3, 4(8)	9,387,649	8,172,723
Prepayments		2,169,960	272,609
Other current assets		493,288	302,704
Deferred income tax assets-current	2, 4(21)	119,215	260,964
Restricted assets-current	6	13,043	13,889
Total current assets		112,595,354	114,038,269
Funds and investments	2, 4(9)		
Financial assets designated as at fair value through profit or loss-noncurrent		2,233,070	1,041,745
Available-for-sale financial assets-noncurrent		1,720,495	2,101,700
Financial assets carried at cost-noncurrent		1,083,608	931,566
Bond portfolios with no active market-noncurrent		1,000,000	1,000,000
Investments accounted for using the equity method		1,658,511	1,586,583
Prepayments for long-term investments		38,773	-
Total funds and investments		7,734,457	6,661,594
Property, plant and equipment	2, 4(10)		
Land		888,722	-
Buildings and facilities		5,738,474	5,059,545
Machinery and equipment		204,516	227,738
Computer and telecommunication equipment		1,436,518	944,953
Testing equipment		2,439,991	2,156,548
Miscellaneous equipment		689,195	818,049
Total cost		11,397,416	9,206,833
Less : Accumulated depreciation		(3,833,975)	(3,016,901)
Add : Construction in progress		125,951	635,650
Prepayments for equipment		118,425	63,247
Property, plant and equipment, net		7,807,817	6,888,829
Intangible assets	2, 4(11)		
Patents		267,490	309,971
Software		333,053	303,469
Goodwill		6,863,129	6,837,672
IPs and others		2,108,663	3,171,781
Total intangible assets		9,572,335	10,622,893
Other assets			
Refundable deposits		261,488	328,579
Deferred assets		45,897	33,756
Restricted assets-noncurrent	6	17,344	19,366
Total other assets		324,729	381,701
Total assets		$ 138,034,692	$ 138,593,286

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2010	2009
Current liabilities			
Accounts payable		$ 7,389,844	$ 10,008,850
Payables to related parties	5	1,029,160	1,785,494
Income tax payable	2, 4(21)	1,068,950	985,199
Accrued expenses	2, 4(17)	15,668,939	16,317,295
Payables to contractors and equipment suppliers		16,488	9,648
Other current liabilities		612,875	347,879
Total current liabilities		25,786,256	29,454,365
Other liabilities			
Accrued pension liabilities	2, 4(12)	107,227	87,415
Deposits received		973	983
Deferred income tax liabilities-noncurrent	2, 4(21)	426,901	159,920
Total other liabilities		535,101	248,318
Total liabilities		26,321,357	29,702,683
Shareholders' equity			
Equity attributable to shareholders of the parent			
Capital			
Common stock	4(13)	10,999,317	10,901,189
Capital collected in advance		365	-
Capital reserve			
Additional paid-in capital	4(15)	11,051,733	7,385,442
Treasury stock transaction	4(15)	785,420	583,194
Donated assets	4(15)	1,260	1,260
Long-term investment transaction	4(15)	207,315	169,422
Employee stock option	4(15), 4(16)	213,676	128,508
Total capital reserve		12,259,404	8,267,826
Retained earnings			
Legal reserve	4(14)	18,613,978	14,943,414
Special reserve	4(17)	355,131	273,489
Undistributed earnings	4(17)	73,739,007	74,894,668
Other adjustments			
Cumulative translation adjustments	2	(4,380,730)	(527,304)
Unrealized gain (loss) on financial instruments	2	182,608	172,173
Treasury stock	4(18)	(55,970)	(55,970)
Total shareholders' equity attributable to parent company		111,713,110	108,869,485
Minority interests		225	21,118
Total shareholders' equity		111,713,335	108,890,603
Total liabilities and shareholders' equity		$ 138,034,692	$ 138,593,286

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

Chairman : Ming-Kai Tsai　　President : Ching-Jiang Hsieh　　Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2010 and 2009

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

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

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

Chairman : Ming-Kai Tsai   President : Ching-Jiang Hsieh   Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2010 and 2009

(Amounts in thousands of New Taiwan Dollars)

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

Note1: Directors' and supervisors' remuneration of NT$42,494 thousand and employees' bonuses of NT$6,403,395 thousand had been charged against earnings from 2008.

Note2: Directors' and supervisors' remuneration of NT$65,907 thousand and employees' bonuses of NT$12,226,536 thousand had been charged against earnings from 2009.

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

Chairman :Ming-Kai Tsai   President : Ching-Jiang Hsieh   Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

(Amounts in thousands of New Taiwan Dollars)

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

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

Chairman : Ming-Kai Tsai　　President : Ching-Jiang Hsieh　　Chief Financial Officer : David Ku

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1.Organization and Operation

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

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

2. Summary of Significant Accounting Policies

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

General Descriptions of the Consolidated Entities

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

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

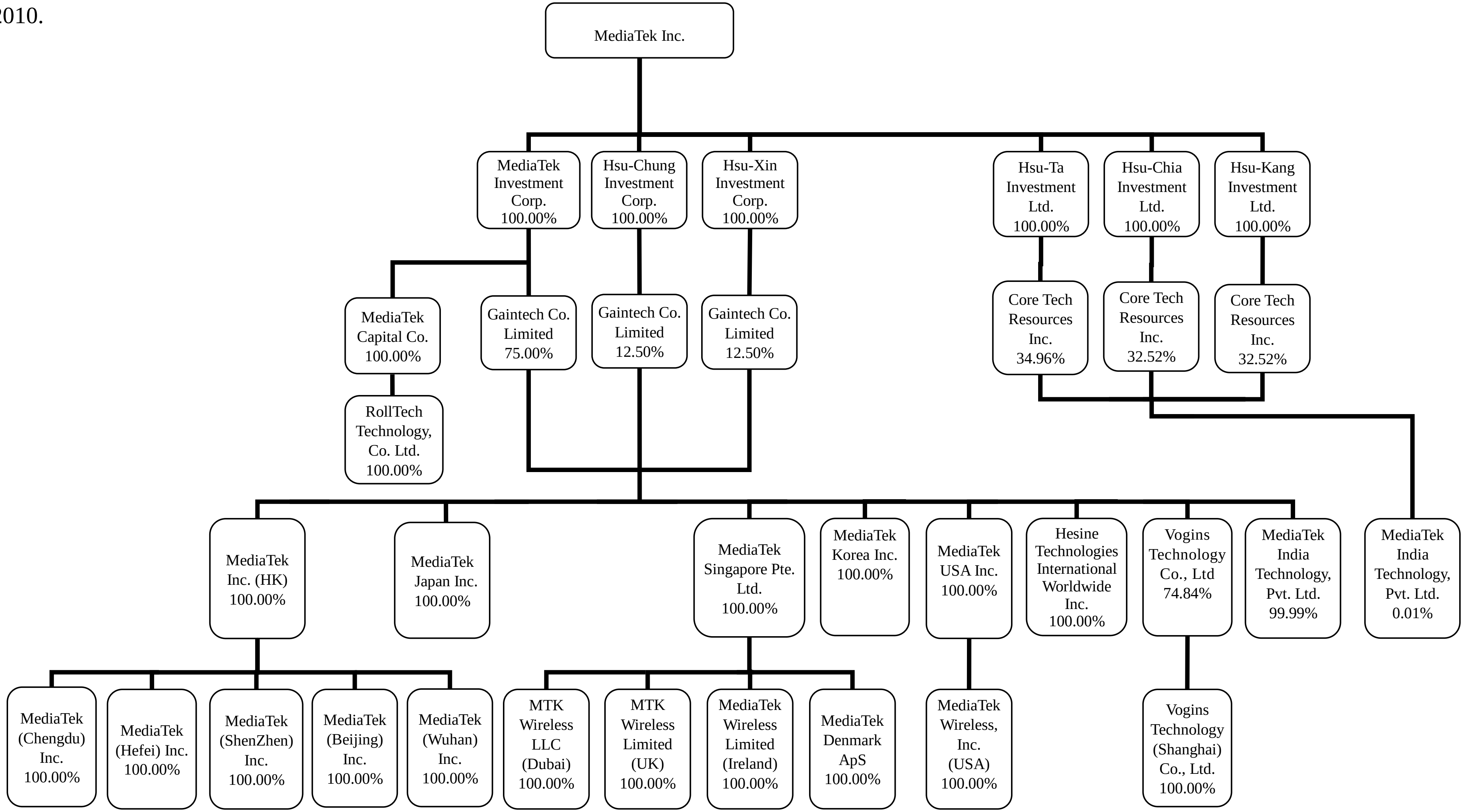
(To be continued)

(Continued)

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

1. MediaTek Capital Corp. invested RollTech Technology, Co. Ltd. in July 2010.
2. 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.
3. MediaTek (HK) Inc. established MediaTek (Chengdu) Inc. in July 2010.
4. MediaTek (HK) Inc. established MediaTek (Wuhan) Inc. in December 2010.
5. MediaTek Singapore Pte. Ltd. established MTK Wireless L.L.C.(Dubai) in September 2010.
6. Gaintech Co. Limited lost control over Zena Technologies International Inc. (BVI) and its subsidiary - Zena Technologies, Inc. (USA) due to direct and indirect shareholding was under 50% and therefore excluded these two companies from its consolidated financial statements since the 4th quarter of 2010. However, revenues and expenses of Zena Technologies International Inc. (BVI) and its subsidiary occurred before October 2010 have been included in the Company's consolidated financial statements.
7. Gaintech Co. Limited established Hesine Technologies International Worldwide Inc. in December 2010.

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



Principles of Consolidation

A. The consolidated financial statements were prepared in accordance with SFAS No. 7. The transactions between the consolidated entities were appropriately eliminated in the consolidated financial statements.

B. Investees in which the Company and subsidiaries hold more than 50% of voting rights, including those that are exercisable or convertible, are accounted for under the equity method and shall be consolidated, since the Company and subsidiaries are considered to possess control. An entity shall also be consolidated if any of the following circumstances exists:

   a. The total amount of voting rights held by the investee exceeds 50% due to agreement with other investors;
   b. As permitted by law, or by contract agreements, the Company controls an entity's finances, operations and personnel affairs;
   c. The Company has authority to appoint or discharge more than half members of board of directors (or equivalents), by whom the investee is controlled;
   d. The Company leads and controls more than half of the members of the board of directors(or equivalents), by whom the investee is controlled;
   e. Other indications of control possession.

C. A non-current asset (i.e. the subsidiary classified as a disposal group) to be sold shall be classified as held for sale in the period in which all of the following criteria are met and measured at the lower of its carrying amount or fair value less cost to sell:
   a. Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group).
   b. The asset (disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal groups).
   c. An active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated.
   d. The sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale, within one year, except that when certain criterion would be met.
   e. The asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
   f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

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

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

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

Effective from January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Inventories that were not sold or moved for further production were assessed allowance and set aside to reflect the potential loss from stock obsolescence.

Investment Accounted for Using the Equity Method

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

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

B. Unrealized gains and losses arising from intercompany transactions are deferred and recognized when realized.

C. For equity investees in which the Company does not possess control, the Company recognizes its investee's losses only to the extent of the Company's long-term investment on that investee. However, if the Company intends to provide further financial support for the investee company, or the investee company's losses are temporary and there exists sufficient evidence showing imminent return to profitable operations, then the Company shall continue to recognize investment losses in proportion to the stock ownership percentage. Such credit balance for the long-term investment shall first be offset by the advance (if any) the Company made to the investee company, the remaining shall be recorded under other liabilities. For equity investees in which the Company possesses control, the Company recognizes its investee's total losses unless other investors are obligated to and have the ability to assume a portion of the loss. Once the investee company begins to generate profit, such profit is allocated to the Company until all the losses previously absorbed by the Company have been recovered.

D. The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of the Company, and the accounts of investees in which the Company's ownership percentage is less than 50% but the Company has a controlling interest.

Property, Plant and Equipment

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

Buildings and facilities	3 to 50	Years
Machinery and equipment	3 to 5	Years
Computer and telecommunication equipment	3 to 5	Years
Testing equipment	2 to 5	Years
Miscellaneous equipment	2 to 10	Years

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

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

Intangible Assets

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

Software (design software)	3 to 10 Years
Patents, IPs and Others	3 to 10 Years

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

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

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

Deferred Assets

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

Asset Impairment

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

E. 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.

F. 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.

G. 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.

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

Derivative Financial Instruments-Held for Trading

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

3. Reasons and Effects for Change in Accounting Principles

Effective from January 1, 2009, the Company adopted the newly released R.O.C. SFAS No.10 “Accounting for Inventories”. The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value on an item-by-item basis except when the grouping of similar or related items is appropriate; (2) unallocated overheads resulted from low production or idle capacity are recognized as cost of goods sold in the year in which they are incurred; and (3) abnormal cost, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the year. Such changes in accounting principal did not have a significant impact on the Company’s financial statements as of and for the year ended December 31, 2009.

4. Contents of Significant Accounts

(1) Cash and Cash Equivalents

	As of December 31,	
	2010	2009
Petty cash	$1,656	$1,012
Savings and checking accounts	22,740,037	18,181,798
Time deposits	61,638,261	76,465,082
Cash equivalents- bonds-Repo	1,547,403	-
Total	$85,927,357	$94,647,892

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

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

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

a.

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

The Company and subsidiaries entered into derivative contracts during the years ended December 31, 2010 and 2009 to manage exposures to foreign exchange rate changes. The derivative contracts entered into by the Company did not meet the criteria of hedge accounting prescribed by SFAS No. 34. Therefore, they were recorded as the held-for-trading financial assets and liabilities-current. Please refer to Note 10 to the financial statements for the disclosure of relative risk information.

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

(a) As of December 31, 2010:

Held-for-trading financial assets:

Financial Instruments	Type	Maturity	Contract amount (US$'000)
Forward exchange contracts	Sell USD	January 2011	USD45,000

(b) As of December 31, 2009:

Held-for-trading financial assets:

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

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

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

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

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

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

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

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

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

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

(6) Accounts Receivable-Net

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

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

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

The details of factor as of December 31, 2010 are summarized as follows:

The Factor (Transferee)	Interest rate	As of December 31, 2010 (US$'000)	Cash withdrawn	Unutilized (US$'000)	Credit line (US$'000)
Taishin International Bank	-	USD20,611	$-	USD20,611	USD95,310
DBS Bank Ltd.	-	USD2,778	-	USD2,778	USD20,000
		USD23,389	$-	USD23,389	USD115,310

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
		USD5,336	$-	USD5,336	USD103,000

(7) Other Receivables

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

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

(8) Inventories-Net

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

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

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

(9) Funds and Investments

a.

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

(To be continued)

(Continued)

Investee Company	As of December 31, 2010 Types	Share/unit	Amount	Ownership
BNP TWD Quarterly Callable 90d CP Range Accrual Structured Investment	Interest rate-linked deposit	-	294,991	-
BNP TWD Quarterly Callable 1Y CMS Range Accrual Structured Investment	Interest rate-linked deposit	-	295,121	-
Taishin 1.5 Years TWD CP90 Structured Investment	Interest rate-linked deposit	-	289,365	-
GS Inflation Shield Note	Bond	-	145,864	-
Open Design Microelectronics Corporation	Bond	-	-	-
Seti Co., Ltd.	Bond	16	99,784	-
Subtotal			2,233,070	

Available-for-sale financial assets-noncurrent				
Pixart Imaging Inc.	Common share	691,275	100,235	0.53%
Cathay No.1 Real Estate Investment Trust	Mutual fund	70,000,000	827,400	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	562,000	-
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	99,999	-
Gevcr II 36-Month Debentures	Bond	850	130,861	-
Subtotal			1,720,495	
Financial assets carried at cost-noncurrent				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Browave Corporation	Common share	380,000	-	0.69%
Communication V.C. Corp.	Common share	4,800,000	(420) (Note)	14.41%
Legend Tech. V.C. Inc. Corp.	Common share	527,168	(2,620) (Note)	6.33%
Alpha Imaging Technology Corp.	Common share	8,330,963	186,259	15.34%
Andes Technologies, Inc.	Common share	8,749,710	81,662	18.77%
Prime Sensor Technology Inc.	Common share	2,250,000	22,500	12.10%
Indigo Mobile Technologies Corp.	Common share	4,791,000	297	6.88%
Sino Photonics	Common share	134,400	-	9.88%

(To be continued)

(Continued)

	As of December 31, 2010			
Investee Company	Types	Share/unit	Amount	Ownership
Synerchip Co., Ltd.	Preferred share	2,533,783	87,240	7.56%
V Web Corp.	Preferred share	1,250,000	-	3.39%
Wi Harper Inc Fund Vi Ltd.	Preferred share and common share	31,391	82,648	2.60%
Imera Systems Inc.	Preferred share	536,382	23,397	5.13%
Mcube, Inc.	Preferred share	1,000,000	29,080	5.68%
Genesis Venture	Common share	4,000,000	116,320	18.03%
iPeer Multimedia International Ltd.	Preferred share	1,666,666	48,467	1.44%
Nozomi Fund	Capital	-	17,133	-
Jafco V2-(D) Fund	Capital	-	111,660	-
Jafco V3-(B) Fund	Capital	-	82,241	-
Jafco Asia (FATF4)	Capital	-	46,528	-
Pacific Growth Ventures, L.P.	Capital	-	116,320	-

Innovation Works Development Fund	Capital	-	34,896	-
Subtotal			1,083,608	
Bond portfolios with no active market-noncurrent				
Chinatrust Financial Holding Co. Ltd.	Serious B preferred stock	25,000,000	1,000,000	-
Investments accounted for using the equity method				
ALi Corporation	Common share	64,099,738	1,450,049	21.09%
Airoha Technology, Inc.	Common share	13,391,734	190,225	39.05%
Zena Technologies International, Inc.	Common share	600,000	18,237	48.63%
Subtotal			1,658,511	
Prepayment for long-term investments				
Innovation Works Limited			38,773	
Total			$7,734,457	

	As of December 31, 2009			
Investee Company	Types	Share/unit	Amount	Ownership
Financial assets designated as at fair value through profit or loss-noncurrent				
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	
Available-for-sale financial assets-noncurrent				
Pixart Imaging Inc.	Common share	691,275	186,812	0.53%
Cathay No.1 Real Estate Investment Trust	Mutual fund	70,000,000	774,200	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	549,500	-
Chinatrust 2006-1 Collateralized Loan Obligation-E	Securities	246	246,172	-
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	100,000	-
Taiwan Power 93-1 the Fourth Corporate Bond-E	Bond	20	100,864	-

Gevcr II 36-Month Debentures	Bond	850	144,152	-
Subtotal			2,101,700	
Financial assets carried at cost-noncurrent				
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	702,168	(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)

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

Subtotal	1,586,583
Total	$6,661,594

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

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

c. In 2010, the Company sold GS Globalization Basket Note and other financial assets which were classified as financial assets designated as at fair value through profit or loss at the aggregate price of NT$526,699 thousand and recognized a valuation gain on financial assets of NT$52,420 thousand. In 2009, the Company sold Foxconn Credit-linked Deposit which was classified as financial assets designated as at fair value through profit or loss at the price of NT$50,208 thousand and recognized a valuation gain on financial assets of NT$208 thousand.

d. In 2010, the Company redeem Chinatrust 2006-1 Collateralized Loan Obligation-E and other financial assets which were classified as available-for-sale financial assets at the aggregate price of NT$296,000 thousand. In 2009, the Company sold IIT Private Equity Real Estate Fund and other financial assets which were classified as available-for-sale financial assets at the aggregate price of NT$2,380,270 thousand and recognized an investment disposal gain of NT$77,766 thousand.

e. In 2010, the Company sold shares of Browave Corporation and other stocks which were classified as financial assets carried at cost at the aggregate price of NT$3,325 thousand and recognized an investment disposal gain of NT$1,296 thousand. In 2009, the Company sold shares of Young Fast Optoelectronics Co., Ltd. and other stocks which were financial assets carried at cost-noncurrent at the price of NT$122,127 thousand and recognized an investment disposal gain of NT$53,028 thousand.

f. In March 2009, the Company sold Chinatrust 96-2 Financial Debenture which was classified as held-to-maturity financial assets before maturity at the price of NT$242,498 thousand and recognized an investment disposal loss of NT$7,502 thousand. The Company reclassified the remaining held-to-maturity financial assets, such as Cathay Real Estate Investment Trust-Tun Nan C, to available-for-sale financial assets-noncurrent in the amount of NT$1,340,217 thousand.

g. In 2010, the Company sold shares of Airoha Technology, Inc. which was classified as investments accounted for using the equity method at the price of NT$13,081 thousand and recognized an investment disposal gain of NT$6,621 thousand.

h. In 2009, the Company and subsidiaries determined that part of available-for-sale financial assets were impaired and, therefore, recognized an impairment loss in the amount of NT$99,449 thousand.

i. In 2010, the Company invested in BNP DCP credit-linked deposit and other financial assets which were classified as financial assets designated as at fair value through profit or loss in the amount of NT$1,713,320 thousand. In 2009, the Company invested in Seti Co., Ltd. which was classified as financial assets designated as at fair value through profit or loss in the amount of NT$109,906 thousand.

j. In 2010, the Company invested in Pacific Growth Ventures, L.P. and other financial assets which were classified as financial assets carried at cost. The investment cost amounted to NT$221,354 thousand. In 2009, the Company invested in Mcube Inc. and other financial assets which were classified as financial assets carried at cost. The investment cost amounted to NT$221,124 thousand.

k. In December 2005, 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:

(f) Duration： 7 years

(g) Par value： $10 per share

(h) Issuing price：$40 per share

(i) Dividends:

Dividend is at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.

(j) Redemption at maturity:

Preferred B is a 7-year preferred stock. Redemption price at maturity is at 100% of the issuing price, i.e. NT$40 per share.

l. Funds and investments mentioned above were not pledged as of December 31, 2010 and 2009.

(10) Property, Plant and Equipment

a. No interest was capitalized for the years ended December 31, 2010 and 2009.

b. Property, plant and equipment were not pledged as of December 31, 2010 and 2009.

(11) Intangible Assets

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

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

(12) Accrued Pension Liabilities

a. Defined Benefit Plans

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

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

	For the year ended December 31,	
	2010	2009

Service cost	$2,134	$913
Interest cost	8,260	4,260
Expected return on plan assets	(1,023)	(1,102)
Amortization	11,035	1,564
Net pension cost	$20,406	$5,635

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

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

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

(e)The underlying actuarial assumptions

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

b. Defined Contribution Pension Plan

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

(13) Common Stock

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

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

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

As of December 31, 2010, the Company issued 183,612 new shares at par value of NT$10 for the employee stock options exercised, including 36,501 shares at the price of NT$365 thousand which was accounted for as capital collected in advance due to the government approval has not been successfully obtained.

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

(14) Legal Reserve

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

(15) Capital Reserve

	As of December 31,	
	2010	2009
Additional paid-in capital	$11,051,733	$7,385,442
Treasury stock transaction	785,420	583,194
Donated assets	1,260	1,260
Long-term investment transaction	207,315	169,422
Employee stock option	213,676	128,508
Total	$12,259,404	$8,267,826

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

The Company had paid cash dividends in the amount of NT$202,226 thousand and NT$108,682 thousand to the subsidiary who owned the Company's common shares for the years ended December 31, 2010 and 2009, respectively. Since the Company's shares held by the subsidiary are treated as treasury stocks, the cash dividends paid to the Company's subsidiary are accounted for as an adjustment to capital reserve; under the category of treasury stock transactions.

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

(16) Employee Stock Options

In December 2007, July 2009 and May 2010, the Company was authorized by the Financial Supervisory Commission, Executive Yuan, to issue employee stock options with a total number of 5,000,000 units, 3,000,000 units and 3,500,000 units, each option eligible to subscribe for one common share. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company's shareholding with voting rights, directly or indirectly, is more than fifty percent. The options are valid for ten years and exercisable at certain percentage subsequent to the second anniversary of the granted date. Under the terms of the plan, the options are granted at an exercise price equal to the closing price of the Company's common share listed on the TWSE on the grant date.

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

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2008.03.31	1,134,119	705,786	705,786	$378.6
2008.08.28	1,640,285	1,116,944	1,116,944	362.0
2009.08.18	1,382,630	1,060,965	1,060,965	468.8
2010.08.27	1,605,757	1,417,153	1,417,153	436.5
2010.11.04	26,839	26,839	26,839	402.0

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

The compensation cost was recognized under the fair value method and the Black-Scholes Option Pricing model was used to estimate the fair value of options granted. In 2010 and 2009, the compensation cost arising from employee stock options were NT$91,476 thousand and NT$87,864 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

	Employee Stock Option
Expected dividend yield	3.13%~6.63%
Expected volatility	34.41%~50.06%
Risk free interest rate	0.93%~2.53%
Expected life	6.5 years

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

	For the year ended December 31,			
	2010		2009	
Employee Stock Option	Options (Unit)	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Outstanding at beginning of period	3,790,285	$408	2,676,535	$378
Granted	1,632,596	435.9	1,382,630	473
Exercised	(183,612)	373	-	-
Forfeited (Expired)	(911,582)	413	(268,880)	388
Outstanding at end of period	4,327,687	416	3,790,285	408
Exercisable at end of period	410,052		-	
Weighted-average fair value of options granted during the period (in NTD)	$96.3		$122	

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

		Outstanding Stock Options			Exercisable Stock Options	
	Range of Exercise Price (NTD)	Options (Unit)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Stock option plan of 2007	$362~378.6	1,822,730	4.00	$369	410,052	$369
Stock option plan of 2009	468.8	1,060,965	5.13	469	-	-
Stock option plan of 2010	$402~436.5	1,443,992	6.17	435.9	-	-
		4,327,687		$416	410,052	

(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, 2010 and 2009, the amounts of the employee' bonuses were estimated to be at NT$3,863,296 thousand and NT$12,226,536 thousand, respectively. During the years ended December 31, 2010 and 2009, the amount of remunerations to directors and supervisors were estimated to be at NT$71,628 thousand and NT$91,274 thousand, respectively. Employee bonuses were estimated based on 10% and 25% of net income for the years ended December 31, 2010 and 2009, respectively, (excluding the impact of employees' bonuses) while remunerations to directors and supervisors were estimated based on the Company's Articles of Incorporation. Estimated amount of employee bonuses and remunerations paid to directors and supervisors were charged to current income as operating expenses for the years ended December 31, 2010 and 2009. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, the Company shall recognize the change as an adjustment to income of next year.

(18) Treasury Stock

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

Owner	January 1, 2010		Additions		December 31, 2010		
	Shares	Amount	Shares	Amount	Shares	Amount	Market Value
MediaTek Capital Corp.	7,778,530	$55,970	15,555 (Note)	$-	7,794,085	$55,970	$3,254,030

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

Note：Stock dividends

(19) Net Operating Revenue

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

(20) Personnel, Depreciation and Amortization Expenses

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

(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%. In June 2010, the Income Tax Law of the Republic of China was amended and the income tax rate of profit-seeking enterprise was reduced from 20% to 17%. The income tax rate of 17% is applied on January 1, 2010.

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

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

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

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

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

	As of December 31,	
	2010	2009

Deferred income tax assets-noncurrent	$7,462,307	$9,757,117
Valuation allowance for deferred income tax assets-noncurrent	(7,193,842)	(9,371,660)
Net deferred income tax assets-noncurrent	268,465	385,457
Deferred income tax liabilities-noncurrent	(695,366)	(545,377)
Net deferred income tax assets and liabilities-noncurrent	$(426,901)	($159,920)

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

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

f. The Company's income tax returns for the years from 2002 to 2007 have been assessed by the tax authorities. In addition, the assessed income tax return for the year 2002, 2003, 2005 and 2006 was imposed additional income tax payable in an aggregate amount of NT$1,808,711 thousand. The discrepancy between the Company's tax return filing and the result of tax authority's assessment was mainly due to different interpretations on calculating exempted income. After assessing the potential outcome, the Company has fully accrued the additional tax liability. Although the Company has vigorously filed several administrative appeals to tax authority and Courts, the Company has paid the amount in full.

g. The Company's available investment tax credits as of December 31, 2010 were as follows:

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

h. Integrated income tax information

	As of December 31,	
	2010	2009
Balance of the imputation credit account (ICA)	$1,450,933	$1,880,385

	2010	2009
Expected (Actual) creditable ratio	2.78%(Note)	3.26%

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

i. Information related to undistributed retained earnings

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

(22) Earnings Per Share

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

	Amount(Numerator)			Earnings per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
For the year ended December 31, 2010					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	$32,312,751	$30,961,437	1,088,689,895	$29.68	$28.44
Effect of dilutive potential common shares:					
Bonus to employees	-	-	20,532,897		
Stock option to employees	-	-	445,854		
Diluted EPS	$32,312,751	$30,961,437	1,109,668,646	$29.12	$27.90

(To be continued)

(Continued)

	Amount(Numerator)			Earnings per share	

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

	Amount(Numerator)			Earnings per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
For the year ended December 31, 2009					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	$37,430,260	$36,705,640	1,077,995,291	$34.72	$34.05
Effect of dilutive potential common shares:					
Bonus to employees	-	-	28,407,903		
Stock option to employees	-	-	279,444		
Diluted EPS	$37,430,260	$36,705,640	1,106,682,638	$33.82	$33.17
Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	$(10,174)	$(10,174)	1,077,995,291	$(0.01)	$(0.01)
Effect of dilutive potential common shares:					
Bonus to employees	-	-	28,407,903		
Stock option to employees	-	-	279,444		
Diluted EPS	$(10,174)	$(10,174)	1,106,682,638	$(0.01)	$(0.01)

5. Related Party Transactions

(1) Related parties and relations

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

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

(2) Major transactions with related parties

a. Sales

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

Sales prices to the above related parties were similar to those to third-party customers. For the years ended December 31, 2010 and 2009, the trade credit terms for related parties and third-party customers were both 45 to 60 days. Third-party customers may prepay their accounts in advance. The Company's sales to ALi were royalty revenues, which were charged based on an agreed percentage of the Company's net sales.

b. IC testing, experimental services and manufacturing technology services

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

c. Rental Income

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

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

(3) Payables resulted from the above transactions

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

(4) Remunerations paid to major managers

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

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

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

6. Assets Pledged As Collateral

(1) As of December 31, 2010:

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

(2) As of December 31, 2009:

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

7. Commitments and Contingencies

(1) Lawsuit:

a. British Telecommunication ("BT") brought a complaint against MediaTek Wireless, Inc. ("MWS"), a wholly-owned subsidiary of MediaTek Inc., in November 2009 in the United States District Court, District of Massachusetts, alleging patent infringement under 35 U.S.C. §271, et seq., against MWS's products for infringement of United States patent No. 5,153,591("the '591 patent"). BT is alleging patent infringement of its '591 patent by certain products that were transferred from Analog Devices Inc. ("ADI") to MWS through the purchase of certain ADI's assets and business. The Company contended that MWS does not believe that any of its products infringe the '591 patent. In addition, the '591 patent has expired. In June 2010, the Company has settled the litigation and signed a settlement agreement with BT. BT shall file for dismissal of the lawsuit and shall forever release MediaTek and its subsidiaries from any claims of infringement of the patent asserted in the litigation and its related foreign counterparts, continuations, etc. worldwide.

b. (a) Rambus Inc. ("Rambus") brought a complaint against 26 companies on December 1, 2 010 in U.S. International Trade Commission, alleging patent infringement under Section 337 of the Tariff Act of 1930, against the Company's products for infringement of United States patents No. 6,470,405, 6,591,353, 7,287,109, 7,602,857, 7,602,858 and 7,715,494. Rambus is alleging two patents infringement of abovementioned patents (patens No. 6,591,353 and 7,287,109) by MediaTek DVD chip and DTV chip.

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

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

(2) Operating Lease:

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

Lease Period	Amount
2011.01.01~2011.12.31	$30,371
2012.01.01~2012.12.31	30,371
2013.01.01~2013.12.31	30,371
2014.01.01~2014.12.31	30,371
2015.01.01~2015.12.31	30,371
2016.01.01~2027.12.31	244,418
Total	$396,273

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

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

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

10. Others

(1) Financial Instruments

a. Fair value of financial instruments

	As of December 31,			
	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Non-derivative				
Assets				
Cash and cash equivalents	$85,927,357	$85,927,357	$94,647,892	$94,647,892
Financial assets designated as at fair value through profit or loss	$2,743,492	$2,743,492	$1,041,745	$1,041,745
Receivables	$7,164,346	$7,164,346	$7,266,916	$7,266,916
Other receivables	$1,174,831	$1,174,831	$901,195	$901,195
Available-for-sale financial assets	$7,309,467	$7,309,467	$4,285,035	$4,285,035
Financial assets carried at cost	$1,083,608	$-	$931,566	$-
Bond portfolios with no active market	$1,000,000	$1,078,925	$1,000,000	$1,089,108
Investments accounted for using the equity method				
-with market value	$1,450,049	$2,830,003	$1,368,384	$4,967,730
-without market value	$208,462	$-	$218,199	$-
Refundable deposits	$261,488	$261,488	$328,579	$328,579
Restricted deposits	$30,387	$30,387	$33,255	$33,255
Liabilities				
Payables (including related parties)	$8,419,004	$8,419,004	$11,794,344	$11,794,344
Accrued expenses	$15,668,939	$15,668,939	$16,317,295	$16,317,295
Payables to contractors and equipment suppliers	$16,488	$16,488	$9,648	$9,648
Deposits received	$973	$973	$983	$983
Derivatives				
Assets				
Held-for-trading financial assets -forward exchange contracts	$46,271	$46,271	$16,042	$16,042

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

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

ii. The fair values of the Company and subsidiaries' refundable deposits, deposits received and restricted deposits approximate their carrying value because the

Company and subsidiaries predict the future cash inflows or outflows will be of similar amounts to the carrying values.

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

iv. Financial assets carried at cost represent holdings of equity securities of non-public companies and have no material influence, or derivatives linked to and settled in those stocks. As these equity securities are not traded in open market, the fair value is not available.

v. The bond portfolios with no active market have no quoted price from active market but have fixed or determinable payments. Fair values are estimated using the discounted cash flow method.

vi. The fair value of investments accounted for under the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.

vii. The fair value of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.

(b) Gains recognized for the changes in fair values of financial assets estimated using valuation techniques were NT$104,995 thousand and NT$88,140 thousand for the years ended December 31, 2010 and 2009, respectively.

(c) As of December 31, 2010 and 2009, financial assets exposed to fair value risk from fixed interest rate were NT$60,905,429 thousand and NT$78,419,239 thousand, respectively, and financial assets exposed to cash flow risk from variable interest rate were NT$5,801,157 thousand and NT$6,767 thousand, respectively.

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

(e) The impairment loss on financial assets were nil and NT$99,449 thousand for the years ended December 31, 2010 and 2009, respectively.

b.

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

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

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

(b) Information of financial risks

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

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$450 thousand and NT$550 thousand as of December 31, 2010 and 2009, respectively. Credit-linked deposits and interest rate-linked deposits are affected by interest rates. When interest rate increases, the market value may decrease and may even be below the initial investment cost, and vice versa. The fair value of exchange rate-linked deposits is affected by interest rate fluctuation. The fair value of mutual fund, government bonds and corporate bonds will be exposed to fluctuations from other market factors as well as movement in interest rates.

Credit risk

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

Credit risk of credit-linked deposits, interest rate-linked deposits and convertible bonds arises if the issuing banks breached the contracts or the debt issuer could not pay off the debts; the maximum exposure is the carrying value of credit-linked deposits. Therefore, the Company minimized the credit risk by only transacting with counter-party who is reputable, transparent and in good financial standing.

Liquidity risk

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

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

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

Cash flow risk from variable interest rate

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

(2) Other Information

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

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

b. Acquisition of subsidiary

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

Purchase price(cash disbursement)		$122,119
The fair value of identifiable net assets:		
Cash and cash equivalents	$7,905	
Identifiable net assets except for cash and cash equivalents	68,296	76,201
Goodwill		$45,918

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

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

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

(To be continued)

(Continued)

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

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

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

(To be continued)

(Continued)

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

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

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

Note 2: Transactions are categorized as follows:

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

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

11. Segment Information

(1) Major Customers

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

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

(2) Export Sales

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

(3) Geographic data

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

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

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

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

(4) Industry data

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

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 2010 and as of the date of this Annual Report:

None.

(End)