

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

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REVIEW REPORT

AS OF JUNE 30, 2011 AND 2010
AND FOR THE SIX MONTHS THEN ENDED

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Review Report

To the Board of Directors and Shareholders
of MediaTek Inc.

We have reviewed the accompanying consolidated balance sheets of MediaTek Inc. and its subsidiaries as of June 30, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

We conducted our reviews in accordance with the Statements of Auditing Standards No. 36, "Review of Financial Statements" of the Republic of China (R.O.C.). A review is limited primarily to applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with 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
July 27, 2011
Taipei, Taiwan
Republic of China

Notice to Readers

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

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

MEDIATEK INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
As of June 30, 2011 and 2010
(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	2011	2010	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2011	2010
Current assets				Current liabilities			
Cash and cash equivalents	2, 4(1)	\$ 89,326,102	\$ 115,304,494	Held-for-trading financial liabilities-current	2, 4(2)	\$ 869	\$ 20,855
Held-for-trading financial assets-current	2, 4(2)	2,868	75	Accounts payable		6,850,039	9,379,932
Financial assets designated as at fair value through profit or loss-current	2, 4(3)	1,649,756	129,600	Payables to related parties	5	1,073,353	2,216,023
Available-for-sale financial assets-current	2, 4(4)	3,995,457	2,191,544	Income tax payable		674,767	993,751
Accounts receivable, net	2, 4(5)	7,832,873	7,256,379	Accrued expenses		15,741,854	17,779,164
Other receivables	4(6)	1,245,868	1,974,226	Other payables		21,999,466	28,343,237
Inventories, net	2, 4(7)	9,713,513	9,577,762	Payables to contractors and equipment suppliers		9,293	18,631
Prepayments		2,320,189	1,147,689	Other current liabilities		615,850	503,417
Other current assets		529,077	458,379	Total current liabilities		46,965,491	59,255,010
Deferred income tax assets-current	2, 4(20)	139,046	208,496				
Restricted assets-current	6	13,308	13,099				
Total current assets		116,768,057	138,261,743	Other liabilities			
Funds and investments	2, 4(8)			Accrued pension liabilities	2, 4(11)	123,967	97,393
Financial assets designated as at fair value through profit or loss-noncurrent		1,630,929	2,001,610	Deposits received	5	6,065	984
Available-for-sale financial assets-noncurrent		2,361,539	1,656,375	Deferred income tax liabilities-noncurrent	2, 4(20)	612,739	360,074
Held-to-maturity financial assets-noncurrent		240,487	-	Other liabilities-others		14,865	-
Financial assets carried at cost-noncurrent		1,417,973	1,029,135	Total other liabilities		757,636	458,451
Bond portfolios with no active market-noncurrent		1,000,000	1,000,000	Total liabilities		47,723,127	59,713,461
Investments accounted for using the equity method		1,900,199	1,733,163				
Prepayments for long-term investments		-	81,771	Shareholders' equity			
Total funds and investments		8,551,127	7,502,054	Equity attributable to shareholders of the parent			
Property, plant and equipment	2, 4(9)			Capital			
Land		888,722	-	Common stock	4(12)	10,999,772	10,901,189
Buildings and facilities		5,828,190	5,061,738	Capital collected in advance		-	862
Machinery and equipment		160,945	209,422	Stock dividend to be distributed		-	96,657
Computer and telecommunication equipment		1,655,361	1,126,299	Capital reserve			
Testing equipment		2,510,107	2,292,717	Additional paid-in capital	4(14)	11,055,025	7,424,510
Miscellaneous equipment		860,915	809,555	Treasury stock transaction	4(14)	785,420	583,194
Total cost		11,904,240	9,499,731	Donated assets	4(14)	1,260	1,260
Less : Accumulated depreciation		(4,252,855)	(3,451,868)	Long-term investment transaction	4(14)	207,315	181,285
Add : Construction in progress		1,367,834	1,587,872	Employee stock option	4(14), 4(15)	254,022	173,648
Prepayments for equipment		107,657	64,346	Others		-	3,593,106
Property, plant and equipment, net		9,126,876	7,700,081	Total capital reserve		12,303,042	11,957,003
Intangible assets	2, 4(10)			Retained earnings			
Patents		194,535	347,374	Legal reserve	4(13)	21,710,122	18,613,978
Software		244,272	561,183	Special reserve	4(16)	4,198,121	355,131
Goodwill		6,863,129	6,837,830	Undistributed earnings	4(16)	51,435,963	62,941,359
IPs and others		1,602,769	2,640,250	Other adjustments			
Total intangible assets		8,904,705	10,386,637	Cumulative translation adjustments	2	(4,718,100)	(275,135)
Other assets				Unrealized gain (loss) on financial instruments	2	23,213	56,805
Refundable deposits		265,826	392,495	Treasury stock	4(17)	(55,970)	(55,970)
Deferred charges		37,421	45,815	Total shareholders' equity attributable to parent company		95,896,163	104,591,879
Restricted assets-noncurrent	6	757	23,262	Minority interests		35,479	6,747
Total other assets		304,004	461,572	Total shareholders' equity		95,931,642	104,598,626
Total assets		<u>\$ 143,654,769</u>	<u>\$ 164,312,087</u>	Total liabilities and shareholders' equity		<u>\$ 143,654,769</u>	<u>\$ 164,312,087</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

For the six months ended June 30, 2011 and 2010

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

Description	Notes	2011	2010
Gross sales		\$ 42,776,091	\$ 67,451,545
Less : Sales returns		(24,062)	(36,373)
Sales discounts		(1,903,052)	(4,753,903)
Net sales	2, 4(18), 5	40,848,977	62,661,269
Cost of goods sold	4(19), 5	(22,038,191)	(27,628,168)
Gross profits		18,810,786	35,033,101
Operating expenses	4(19)		
Selling expenses		(1,060,618)	(1,894,173)
General and administrative expenses		(1,422,359)	(1,848,995)
Research and development expenses		(10,052,954)	(10,952,988)
Total operating expenses		(12,535,931)	(14,696,156)
Operating income		6,274,855	20,336,945
Non-operating income and gains			
Interest income		408,582	265,444
Gain on equity investments, net	2, 4(8)	49,041	153,040
Gain on disposal of investments	2, 4(8)	67,952	7,917
Foreign exchange gain, net	2	101,339	221,571
Others		180,702	223,023
Total non-operating income and gains		807,616	870,995
Non-operating expenses and losses			
Loss on disposal of property, plant and equipment	2	(14,019)	(20,941)
Valuation loss on financial assets	2, 4(2)	(14,984)	(77,540)
Valuation loss on financial liabilities	2, 4(2)	(869)	(20,855)
Others		(114,130)	(716)
Total non-operating expenses and losses		(144,002)	(120,052)
Income from continuing operations before income tax		6,938,469	21,087,888
Income tax expense	2, 4(20)	(304,518)	(938,463)
Consolidated net income		\$ 6,633,951	\$ 20,149,425
Income Attributable to :			
Shareholders of the parent		\$ 6,635,547	\$ 20,163,789
Minority interests		(1,596)	(14,364)
Consolidated net income		\$ 6,633,951	\$ 20,149,425
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(21)	Before tax After tax	Before tax After tax
Consolidated net income		\$ 6.35 \$ 6.08	\$ 19.44 \$ 18.57
Net loss attributable to minority interests		- -	0.01 0.01
Net income attributable to the parent		\$ 6.35 \$ 6.08	\$ 19.45 \$ 18.58
Diluted Earnings Per Share (in New Taiwan Dollars)	2, 4(21)		
Consolidated net income		\$ 6.27 \$ 5.99	\$ 18.92 \$ 18.08
Net loss attributable to minority interests		- -	0.01 0.01
Net income attributable to the parent		\$ 6.27 \$ 5.99	\$ 18.93 \$ 18.09

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended June 30, 2011 and 2010

(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	Stock dividend to be distributed		Legal reserve	Special	Undistributed earnings						
Balance as of January 1, 2010	\$ 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 1):													
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 six months ended June 30, 2010	-	-	-	-	-	-	20,163,789	-	-	-	20,163,789	-	20,163,789
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	-	(115,368)	-	(115,368)	-	(115,368)
Employee stock option distributed to subsidiaries' employees	-	-	-	52,123	-	-	-	-	-	-	52,123	-	52,123
Issuance of stock from exercising employee stock options	-	862	-	32,084	-	-	-	-	-	-	32,946	-	32,946
Adjustment arising from changes in the percentage of ownership in investees	-	-	-	11,864	-	-	-	-	-	-	11,864	-	11,864
Cumulative translation adjustments	-	-	-	-	-	-	-	252,169	-	-	252,169	-	252,169
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	(14,371)	(14,371)
Balance as of June 30, 2010	\$ 10,901,189	\$ 862	\$ 96,657	\$ 11,957,003	\$ 18,613,978	\$ 355,131	\$ 62,941,359	\$ (275,135)	\$ 56,805	\$ (55,970)	\$ 104,591,879	\$ 6,747	\$ 104,598,626
Balance as of January 1, 2011	\$ 10,999,682	\$ -	\$ -	\$ 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
Appropriation and distribution of 2010 earnings (Note 2):													
Legal reserve	-	-	-	-	3,096,144	-	(3,096,144)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	3,842,990	(3,842,990)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(21,999,457)	-	-	-	(21,999,457)	-	(21,999,457)
Net income attributable to parent company for the six months ended June 30, 2011	-	-	-	-	-	-	6,635,547	-	-	-	6,635,547	-	6,635,547
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	-	(159,395)	-	(159,395)	-	(159,395)
Employee stock option distributed to subsidiaries' employees	-	-	-	40,364	-	-	-	-	-	-	40,364	-	40,364
Issuance of stock from exercising employee stock options	90	-	-	3,274	-	-	-	-	-	-	3,364	-	3,364
Cumulative translation adjustments	-	-	-	-	-	-	-	(337,370)	-	-	(337,370)	-	(337,370)
Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	35,254	35,254
Balance as of June 30, 2011	\$ 10,999,772	\$ -	\$ -	\$ 12,303,042	\$ 21,710,122	\$ 4,198,121	\$ 51,435,963	\$ (4,718,100)	\$ 23,213	\$ (55,970)	\$ 95,896,163	\$ 35,479	\$ 95,931,642

Note 1: Directors' and supervisors' remuneration of NT\$65,907 thousand and employees' bonuses of NT\$12,226,536 thousand had been charged against earnings of 2009.

Note 2: Directors' and supervisors' remuneration of NT\$48,405 thousand and employees' bonuses of NT\$3,863,296 thousand had been charged against earnings of 2010.

The accompanying notes are an integral part of these financial statements

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2011 and 2010

(Amounts in thousands of New Taiwan Dollars)

Description	2011	2010
Cash flows from operating activities :		
Consolidated net income	\$ 6,633,951	\$ 20,149,425
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	586,758	527,898
Amortization	742,839	938,682
Bad debt provision	54,527	170,142
Employee stock option distributed	40,364	52,123
Amortization of financial assets discount or premium	1,188	20
(Gain) loss on (recovery) decline in market value and obsolescence of inventories	(793,289)	1,162,714
Net gain on equity investments	(49,041)	(153,040)
Net loss on disposal of property, plant and equipment	14,019	20,941
Net loss on disposal of intangible assets (included in other losses)	74	-
Gain on disposal of investment	(67,952)	(7,917)
Adjustment of valuation on financial assets and liabilities	31,752	11,601
Deferred income tax	166,007	252,622
Employees' bonuses	829,070	2,555,462
Changes in operating assets and liabilities:		
Financial assets designated as at fair value through profit or loss	(534,673)	(1,056,062)
Accounts receivable	(1,557,619)	(1,104,487)
Other receivables	722,360	(130,441)
Inventories	462,360	(2,565,767)
Prepayments	(150,229)	(875,080)
Other current assets	(35,789)	(155,675)
Accounts payable	(539,805)	(628,918)
Payables to related parties	44,193	430,529
Income taxes payable	(394,183)	8,552
Accrued expenses	(756,155)	2,586,232
Other payables	9	147
Other current liabilities	2,975	155,538
Accrued pension liabilities	16,740	9,978
Other liabilities-others	14,865	-
Net cash provided by operating activities	5,485,316	22,355,219
Cash flows from investing activities :		
Decrease (increase) in restricted assets	16,322	(3,106)
Increase in available-for-sale financial assets	(3,244,981)	-
Proceeds from disposal of available-for-sale financial assets	4,097,347	324,752
Increase in held-to-maturity financial assets	(240,487)	-
Increase in financial assets carried at cost	(303,571)	(93,967)
Proceeds from disposal of financial assets carried at cost	-	3,344
Proceeds from disposal of investments accounted for using the equity method	-	13,081
Increase in investments accounted for using the equity method	(192,660)	-
Increase in prepayment for long-term investments	-	(81,771)
Purchase of property, plant and equipment	(1,922,636)	(1,358,110)
Proceeds from disposal of property, plant and equipment	9,203	8,785
Increase in refundable deposits	(4,338)	(63,916)
Increase in intangible assets and deferred assets	(73,949)	(704,051)
Net cash used in investing activities	(1,859,750)	(1,954,959)
Cash flows from financing activities :		
Increase in deposits received	5,092	-
Proceeds from exercise of employee stock options	3,364	32,946
Change in minority interests	35,995	-
Net cash provided by financing activities	44,451	32,946
Effect of exchange rate	(271,272)	223,396
Net increase in cash and cash equivalents	3,398,745	20,656,602
Cash and cash equivalents at the beginning of the period	85,927,357	94,647,892
Cash and cash equivalents at the end of the period	\$ 89,326,102	\$ 115,304,494
Supplemental disclosures of cash flow information :		
Income tax paid during the period	\$ 679,393	\$ 596,614
Activities partially affected cash flows :		
Purchase of property, plant and equipment	\$ 1,915,441	\$ 1,367,093
Add: decrease (increase) in payables to contractors and equipment suppliers	7,195	(8,983)
Cash paid for the purchase of property, plant and equipment	\$ 1,922,636	\$ 1,358,110
Cash dividends to stockholders	\$ 21,999,457	\$ 28,343,090
Less: other payables at the end of the period	(21,999,457)	(28,343,090)
Cash paid for cash dividends to stockholders	\$ -	\$ -
Non-cash activities :		
Stock dividends and employees' bonuses capitalized	\$ -	\$ 96,657
Change in unrealized loss on financial instruments	\$ (159,395)	\$ (115,368)

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 UNAUDITED 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 June 30, 2011 and 2010, total numbers of employees of the Company and subsidiaries' were 5,663 and 4,879, 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 June 30,		Note
		2011	2010	
MediaTek Investment Corp.	General investing	100.00%	100.00%	1
Hsu-Chung Investment Corp.	General investing	-	100.00%	1
Hsu-Xin Investment Corp.	General investing	-	100.00%	1
Hsu-Ta Investment Limited	General investing	100.00%	100.00%	-
Hsu-Chia Investment Limited	General investing	100.00%	100.00%	-
Hsu-Kang Investment Limited	General investing	100.00%	100.00%	-
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%	-	2
E-vehicle Semiconductor Technology Co. Ltd.	Research, manufacturing and sales	68.97%	-	3
Gaintech Co. Limited	General investing	100.00%	100.00%	-
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%	-

(To be continued)

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

(Continued)

Company	Main Business	Percentage of Ownership As of June 30,		Note
		2011	2010	
MediaTek (Chengdu) Inc.	Technology services	100.00%	-	4
MediaTek (Wuhan) Inc.	Technology services	100.00%	-	5
MediaTek (Shanghai) Inc.	Technology services	100.00%	-	6
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%	-	7
Zena Technologies International Inc. (BVI)	General investing	48.63%	80.00%	8
Zena Technologies, Inc. (USA)	Research	100.00%	100.00%	8
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.	Technology services	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%	-	9
Gold Rich International (Samoa) Limited	General investing	100.00%	-	10
Smarthead Limited	General investing	100.00%	-	11
Gold Rich International (HK) Limited	General investing	100.00%	-	12

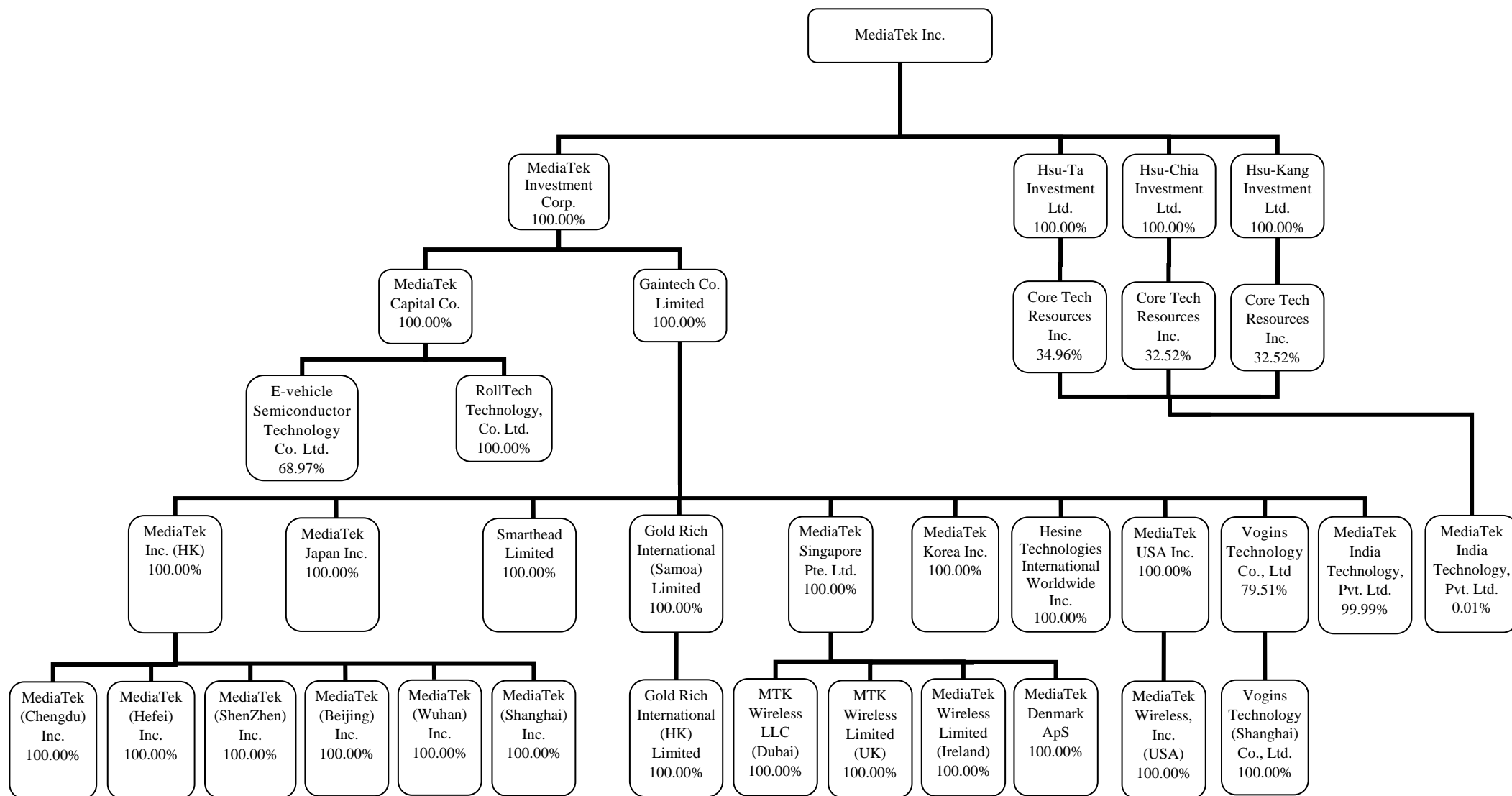
1. Hsu-Chung Investment Corp. and Hsu-Xin Investment Corp. were merged into MediaTek Investment Corp. on January 1, 2011.
2. MediaTek Capital Corp. acquired RollTech Technology, Co. Ltd. in July 2010.
3. MediaTek Capital Corp. acquired E-vehicle Semiconductor Technology Co. Ltd. in May 2011.
4. MediaTek (HK) Inc. established MediaTek (Chengdu) Inc. in July 2010.
5. MediaTek (HK) Inc. established MediaTek (Wuhan) Inc. in December 2010.
6. MediaTek (HK) Inc. established MediaTek (Shanghai) Inc. in January 2011.
7. MediaTek Singapore Pte. Ltd. established MTK Wireless L.L.C. (Dubai) in September 2010.
8. Gaintech Co. Limited lost control over Zena Technologies International Inc. (BVI) and its subsidiary - Zena Technologies, Inc. (USA) due to direct and indirect shareholding was under 50% and therefore excluded these two companies from its consolidated financial statements since the 4th quarter of 2010. However, revenues and expenses of Zena Technologies International Inc. (BVI) and its subsidiary incurred before October 2010 have been included in the Company's consolidated financial statements.
9. Gaintech Co. Limited established Hesine Technologies International Worldwide Inc. in December 2010.
10. Gaintech Co. Limited established Gold Rich International (Samoa) Limited in May 2011.
11. Gaintech Co. Limited established Smarthead Limited in April 2011.
12. Gold Rich International (Samoa) Limited established Gold Rich International (HK) Limited in May 2011.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The following diagram presented information regarding the relationship and ownership percentages among the Company and subsidiaries as of June 30, 2011.



MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Principles of Consolidation

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

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

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

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Cash Equivalents

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

Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

b. Bond portfolios with no active market

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

c. Financial assets carried at cost

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

d. Held-to-maturity financial assets

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

e. Available-for-sale financial assets

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

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

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

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

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Evaluation of Impairment of Accounts Receivable

Prior to January 1, 2011, the evaluation of impairment of account receivable was based on historical experience in analyzing the aging and determining the collectibility of notes and accounts receivable.

Effective January 1, 2011, the Company first assesses whether objective evidence of impairment exists for notes and accounts receivable that are individually significant. If there is objective evidence that an impairment loss has occurred, the amount of impairment loss is assessed individually. For notes and accounts receivable other than those mentioned above, the Company groups those assets with financial assets with similar credit risk characteristics and collectively assess them for impairment.

Inventories

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

Investment Accounted for Using the Equity Method

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

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

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- B. Unrealized gains and losses arising from intercompany transactions are deferred and recognized when realized.
- C. For equity investees in which the Company does not possess control, the Company recognizes its investee's losses only to the extent of the Company's long-term investment on that investee. However, if the Company intends to provide further financial support for the investee company, or the investee company's losses are temporary and there exists sufficient evidence showing imminent return to profitable operations, then the Company shall continue to recognize investment losses in proportion to the stock ownership percentage. Such credit balance for the long-term investment shall first be offset by the advance (if any) the Company made to the investee company, the remaining shall be recorded under other liabilities. For equity investees in which the Company possesses control, the Company recognizes its investee's total losses unless other investors are obligated to and have the ability to assume a portion of the loss. Once the investee company begins to generate profit, such profit is allocated to the Company until all the losses previously absorbed by the Company have been recovered.
- D. The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of the Company, and the accounts of investees in which the Company's ownership percentage is less than 50% but the Company has a controlling interest.

Property, Plant and Equipment

- A. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment. Depreciation is computed on a straight-line basis over the following useful lives:
- | | | |
|--|---------|-------|
| Buildings and facilities | 3 to 50 | Years |
| Machinery and equipment | 3 to 5 | Years |
| Computer and telecommunication equipment | 3 to 10 | Years |
| Testing equipment | 3 to 10 | Years |
| Miscellaneous equipment | 3 to 15 | Years |
- B. Improvements and replacements are capitalized and depreciated over their estimated useful lives while ordinary repairs and maintenance are expensed as incurred.
- C. When property, plant and equipment are disposed of, their original cost, accumulated depreciation and accumulated impairment are written off and related gains or losses are included as non-operating income or expenses.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Intangible Assets

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

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

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

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

Deferred Assets

Including office decoration and electrical engineering, are amortized on a straight-line basis over 3 to 10 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

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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. For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Income Tax

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

Employee Stock Option

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

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

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

Employee Bonuses and Remunerations Paid to Directors and Supervisors

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

Earnings Per Share

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

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Treasury Stock

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

Derivative Financial Instruments-Held for Trading

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

Operating Segments Information

An operating segment is a component of an entity that has the following characteristics:

- a. engages in business activities from which it may earn revenues and incur expenses;
- b. whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- c. for which discrete financial information is available.

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

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

3. Reasons and Effects for Change in Accounting Principles

- (1) Effective January 1, 2011, the Company adopted the third revised R.O.C. SFAS 34, "Financial Instruments: Recognition and Measurement". This change in accounting principles had no significant effect on net income and earnings per share for the six months ended June 30, 2011.
- (2) Effective January 1, 2011, the Company adopted R.O.C. SFAS No. 41, "Operating Segments" (R.O.C. SFAS No. 41), to present operating segment information. The newly issued R.O.C. SFAS No. 41 replaced R.O.C. SFAS No. 20, "Segment Reporting".

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

	As of June 30,	
	2011	2010
Petty cash	\$1,773	\$1,947
Savings and checking accounts	9,157,069	31,836,073
Time deposits	78,040,243	83,369,640
Cash equivalents-bonds-Repo	2,127,017	96,834
Total	<u>\$89,326,102</u>	<u>\$115,304,494</u>

a. As of June 30, 2011 and 2010, the Company and subsidiaries were committed to selling the bonds-Repo back to the brokers in July 2011 and 2010.

b. Cash and cash equivalents were not pledged as of June 30, 2011 and 2010.

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

a.

	As of June 30,	
	2011	2010
Held-for-trading financial assets-Current		
Forward exchange contracts	<u>\$2,868</u>	<u>\$75</u>

b.

	As of June 30,	
	2011	2010
Held-for-trading financial liabilities-Current		
Forward exchange contracts	<u>\$869</u>	<u>\$20,855</u>

The Company and subsidiaries entered into derivative contracts during the six months ended June 30, 2011 and 2010 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.

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

As of June 30, 2011 and 2010, outstanding forward exchange contracts were as follows:

(a) As of June 30, 2011:

Held-for-trading financial assets:

<u>Financial Instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>
Forward exchange contracts	Sell USD	July 2011	20,000

Held-for-trading financial liabilities:

<u>Financial Instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>
Forward exchange contracts	Sell USD	July 2011	20,000

(b) As of June 30, 2010:

Held-for-trading financial assets:

<u>Financial Instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>
Forward exchange contracts	Sell USD	July 2010	6,000

Held-for-trading financial liabilities:

<u>Financial Instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>
Forward exchange contracts	Sell USD	July-August 2010	98,000

For the six months ended June 30, 2011 and 2010, loss arising from the forward exchange contracts were NT\$28,373 thousand and NT\$123,617 thousand, respectively.

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

	<u>As of June 30,</u>	
	<u>2011</u>	<u>2010</u>
Convertible bonds	\$109,459	\$129,600
Bonds	286,799	-
Interest rate-linked deposits	1,253,498	-
Total	<u>\$1,649,756</u>	<u>\$129,600</u>

Convertible bonds, 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.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(4) Available-for-sale Financial Assets-Current**

	As of June 30,	
	2011	2010
Funds	\$3,445,095	\$1,605,142
Bonds	492,944	586,402
Depository receipts	57,418	-
Total	<u>\$3,995,457</u>	<u>\$2,191,544</u>

(5) Accounts Receivable-Net

	As of June 30,	
	2011	2010
Accounts receivable	\$8,175,687	\$7,676,941
Less: Allowance for doubtful accounts	(342,814)	(420,562)
Net	<u>\$7,832,873</u>	<u>\$7,256,379</u>

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 June 30, 2011 and 2010. Receivables from banks due to factoring agreement is NT\$793,397 thousand and NT\$942,590 thousand, respectively.

As of June 30, 2011 and 2010, accounts receivable derecognized from financial statements are as follows:

As of June 30, 2011:

The Factor (Transferee)	Interest rate	As of June 30, 2011 (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International					
Bank	-	23,924	-	23,924	110,310
DBS Bank Ltd.	-	3,622	-	3,622	20,000
		<u>27,546</u>	<u>-</u>	<u>27,546</u>	<u>130,310</u>

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

As of June 30, 2010:

The Factor (Transferee)	Interest rate	As of June 30, 2010 (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International					
Bank	-	26,056	-	26,056	83,000
DBS Bank Ltd.	-	3,146	-	3,146	20,000
		<u>29,202</u>	<u>-</u>	<u>29,202</u>	<u>103,000</u>

(6) Other Receivables

	As of June 30,	
	2011	2010
Interest receivable	\$192,405	\$127,553
VAT refundable	208,663	820,709
Others	844,800	1,025,964
Total	<u>\$1,245,868</u>	<u>\$1,974,226</u>

As of June 30, 2011 and 2010, receivables from banks due to factoring agreement is NT\$793,397 thousand and NT\$942,590 thousand, respectively. Please refer to Note 4(5).

(7) Inventories-Net

	As of June 30,	
	2011	2010
Work in process	\$7,281,972	\$5,675,684
Finished goods	5,970,357	7,364,553
Subtotal	13,252,329	13,040,237
Less: Allowance for loss on decline in market value and obsolescence	(3,538,816)	(3,462,475)
Net	<u>\$9,713,513</u>	<u>\$9,577,762</u>

a. For the six months ended June 30, 2011 and 2010, the Company and subsidiaries recognized the (gain) loss on (recovery) decline in market value and obsolescence of inventories which were included in cost of goods sold in the amount of NT\$(793,289) thousand and NT\$1,162,714 thousand, respectively.

b. Inventories were not pledged as of June 30, 2011 and 2010.

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

a.

Investee Company	As of June 30, 2011			
	Types	Share/unit	Amount	Ownership
<u>Financial assets designated as at fair value through profit or loss-noncurrent</u>				
Dynamic Credit Protection Notes	Credit-linked deposit	-	\$45,450	-
Csi Best of 3 Cppi Portfolios USD 5yrs Principal Protected Note	Credit-linked deposit	-	226,220	-
GS 3 Year USD Denominated Note Linked to MH	Credit-linked deposit	-	228,849	-
3Y Collared Floater EMTN (6MLibor)	Interest rate-linked deposit	-	114,805	-
3Y Collared Floater EMTN (3MLibor)	Interest rate-linked deposit	-	229,379	-
4Y Floating Rate Note with Cap & Floor	Interest rate-linked deposit	-	257,715	-
3Y Floating Rate Note with Floor	Interest rate-linked deposit	-	256,082	-
GS Inflation Shield Note	Bond	-	149,986	-
Seti Co., Ltd.	Bond	16	122,443	-
Subtotal			<u>1,630,929</u>	
<u>Available-for-sale financial assets-noncurrent</u>				
Cathay No.1 Real Estate Investment Trust	Mutual fund	70,000,000	867,300	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	573,500	-
Hutchison Port Holdings Singapore Trust CMN	Mutual fund	13,540,000	239,686	-
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	100,004	-
National Australia Bank CPN	Bond	-	18,801	-
Commonwealth Bank of Australia	Bond	-	18,831	-
HK Mortgage CPN	Bond	-	18,766	-
Agricultural Bank of China HK	Bond	-	18,775	-

(To be continued)

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

(Continued)

Investee Company	Types	As of June 30, 2011		
		Share/unit	Amount	Ownership
ICBCHK CPN	Bond	-	18,794	-
MTRC(C.I) CPN	Bond	-	18,991	-
Clp Power	Bond	-	20,273	-
Swire HKD FRN Hibor	Bond	-	18,638	-
Hui Xian Real Estate Investmen CMN	Bond	-	284,181	-
Gevcr II 36-Month Debentures	Bond	850	144,999	-
Subtotal			2,361,539	
<u>Held-to-maturity financial assets-noncurrent</u>				
Beijing Enterprises Water Grou CPN	Bond	54,000,000	240,487	-
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Browave Corporation	Common share	380,000	-	0.69%
Communication V.C. Corp.	Common share	4,800,000	(420)	14.41%
			(Note)	
Legend Tech. V.C. Inc. Corp.	Common share	527,168	(2,620)	6.33%
			(Note)	
Alpha Imaging Technology Corp.	Common share	8,330,963	186,259	15.30%
Andes Technologies, Inc.	Common share	8,749,710	81,662	18.75%
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%
Synerchip Co., Ltd.	Preferred share	2,850,175	92,940	6.10%
V Web Corp.	Preferred share	1,250,000	-	3.39%
Wi Harper Inc Fund Vi Ltd.	Preferred share			
	and			
	common share	31,391	81,858	2.60%
Imera Systems Inc.	Preferred share	536,382	23,173	5.13%
Mcube, Inc.	Preferred share	2,762,487	172,812	10.85%
Genesis Venture	Common share	4,000,000	115,208	18.03%
iPeer Multimedia International Ltd.	Preferred share	1,666,666	48,003	1.44%
Innovation Works Limited	Preferred share	2,000,000	57,604	3.86%
Nozomi Fund	Capital	-	27,469	-
Jafco V2-(D) Fund	Capital	-	110,592	-
Jafco V3-(B) Fund	Capital	-	99,047	-
Jafco Asia (FATF4)	Capital	-	46,084	-

(To be continued)

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

(Continued)

Investee Company	Types	As of June 30, 2011		
		Share/unit	Amount	Ownership
Pacific Growth Ventures, L.P.	Capital	-	115,208	-
Innovation Works Development Fund	Capital	-	34,563	-
Shanghai Walden Venture Capital Enterprise	Capital	-	105,734	-
Subtotal			1,417,973	
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Serious B preferred stock	25,000,000	1,000,000	-
<u>Investments accounted for using the equity method</u>				
ALi Corporation	Common share	64,099,738	1,506,104	21.09%
Airoha Technology, Inc.	Common share	13,391,734	197,356	39.00%
Zena Technologies International, Inc.	Common share	600,000	6,723	48.63%
Bshark Holdings Ltd.	Preferred share	5,682	26,157	30.30%
General Mobile Technology Company Limited	Common share	5,000,000	11,982	35.71%
CMC Capital Investments, L.P.	Capital	-	151,877	77.42%
Subtotal			1,900,199	
Total			\$8,551,127	

Investee Company	As of June 30, 2010			
	Types	Share/unit	Amount	Ownership
<u>Financial assets designated as at fair value through profit or loss-noncurrent</u>				
Dynamic Credit Protection Notes	Credit-linked deposit	-	\$50,360	-
Csi Best of 3 Cppi Portfolios USD 5yrs Principal Protected Note	Credit-linked deposit	-	246,990	-
BNP DCP	Credit-linked deposit	9	284,198	-
GS 3 Year USD Denominated Note Linked to MH	Credit-linked deposit	-	251,252	-
3Y Collared Floater EMTN (6MLibor)	Interest rate-linked deposit	-	125,949	-

(To be continued)

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

(Continued)

Investee Company	Types	As of June 30, 2010		
		Share/unit	Amount	Ownership
3Y Collared Floater EMTN (3MLibor)	Interest rate-linked deposit	-	258,224	-
GS Globalization Basket Note	Bond	-	178,530	-
Pimco USD Principal Protection Note	Bond	1,000	335,649	-
GS Inflation Shield Note	Bond	-	159,702	-
Seti Co., Ltd.	Bond	16	110,756	-
Subtotal			2,001,610	
<u>Available-for-sale financial assets-noncurrent</u>				
Pixart Imaging Inc.	Common share	691,275	125,121	0.53%
Cathay No.1 Real Estate Investment Trust	Mutual fund	70,000,000	752,500	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	533,500	-
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	100,004	-
Gevcr II 36-Month Debentures	Bond	850	145,250	-
Subtotal			1,656,375	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Browave Corporation	Common share	380,000	-	0.69%
Communication V.C. Corp.	Common share	6,400,000	(420)	14.41%
			(Note)	
Legend Tech. V.C. Inc. Corp.	Common share	702,168	(2,620)	6.33%
			(Note)	
Alpha Imaging Technology Corp.	Common share	8,005,015	179,485	14.99%
Andes Technologies, Inc.	Common share	3,305,587	-	12.42%
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	96,834	11.40%
V Web Corp.	Preferred share	1,250,000	-	3.39%
Imera System Inc.	Preferred share	536,382	25,970	4.93%
Mcube, Inc.	Preferred share	1,000,000	32,278	5.23%
Genesis Venture	Common share	4,000,000	129,112	18.03%
iPeer Multimedia International Ltd.	Preferred share	1,666,666	53,797	1.40%

(To be continued)

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

(Continued)

Investee Company	Types	As of June 30, 2010		
		Share/unit	Amount	Ownership
Wi Harper Inc Fund Vi Ltd.	Preferred share and common share	31,391	91,737	2.60%
Nozomi Fund	Capital	-	19,017	-
Jafco V2-(D) Fund	Capital	-	123,939	-
Jafco V3-(B) Fund	Capital	-	76,452	-
Jafco Asia (FATF4)	Capital	-	51,645	-
Pacific Growth Ventures, L.P.	Capital	-	129,112	-
Subtotal			1,029,135	
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Serious B preferred stock	25,000,000	1,000,000	-
<u>Investments accounted for using the equity method</u>				
ALi Corporation	Common share	64,099,738	1,527,874	21.09%
Airoha Technology, Inc.	Common share	13,391,734	205,289	39.65%
Subtotal			1,733,163	
<u>Prepayment for long-term investments</u>				
Innovation Works Limited	-	-	43,037	-
Innovation Works Development Fund	-	-	38,734	-
Subtotal			81,771	
Total			\$7,502,054	

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

- b. For the six months ended June 30, 2011 and 2010, the Company recognized an investment gain accounted for under the equity method in the amount of NT\$49,041 thousand and NT\$153,040 thousand, respectively.
- c. For the six months ended June 30, 2011, the Company invested in 4Y Floating Rate Note with Cap & Floor credit-linked deposit and other financial assets which were classified as financial assets designated as at fair value through profit or loss in the aggregate amount of NT\$518,436 thousand. For the six months ended June 30, 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 aggregate amount of NT\$936,062 thousand.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- d. For the six months ended June 30, 2011, the Company invested in Hutchison Port Holdings Singapore Trust CMN and other financial assets which were classified as available-for-sale financial assets in the aggregate amount of NT\$760,162 thousand.
- e. For the six months ended June 30, 2011, the Company sold shares of Pixart Imaging Inc. which were classified as available-for-sale financial assets at the aggregate price of NT\$79,652 thousand and recognized an investment disposal gain of NT\$74,174 thousand.
- f. For the six months ended June 30, 2011, the Company invested in Beijing Enterprises Water Grou CPN bond which was classified as held-to-maturity financial asset. The investment cost amounted to NT\$240,487 thousand.
- g. For the six months ended June 30, 2011, the Company invested Shanghai Walden Venture Capital Enterprise which was classified as financial assets carried at cost. The investment cost amounted to NT\$303,571 thousand.
- h. For the six months ended June 30, 2010, the Company sold shares of Browave Corporation which were classified as financial assets carried at cost at the price of NT\$3,344 thousand and recognized an investment disposal gain of NT\$1,296 thousand.
- i. For the six months ended June 30, 2011, the Company invested in CMC Capital, Investments L.P. and other financial assets which were classified as investments accounted for using the equity method. The investment cost amounted to NT\$192,660 thousand.
- j. For the six months ended June 30, 2010, the Company sold shares of Airoha Technology, Inc. which were 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.
- k. In December 2005, the Company acquired series B preferred stocks ("Preferred B") of Chinatrust Financial Holding Company by NT\$1,000,000 thousand. Terms and conditions of the stock are listed as follows:
 - (a) Duration : 7 years
 - (b) Par value : \$10 per share
 - (c) Issuing price : \$40 per share
 - (d) Dividends:
Dividend is at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.

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

(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.

1. Funds and investments mentioned above were not pledged as of June 30, 2011 and 2010.

(9) Property, Plant and Equipment

a. No interest was capitalized for the six months ended June 30, 2011 and 2010.

b. Property, plant and equipment were not pledged as of June 30, 2011 and 2010.

(10) Intangible Assets

	For the six months ended June 30, 2011		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$2,712,581	\$9,034,111	\$11,746,692
Increase - separately acquired	65,895	25,882	91,777
Decrease - elimination and others	(619,138)	(555,933)	(1,175,071)
Balance at end of period	2,159,338	8,504,060	10,663,398
Accumulated amortization			
Balance at beginning of period	(2,379,528)	(6,657,958)	(9,037,486)
Increase - amortization	(153,461)	(589,378)	(742,839)
Decrease - elimination and others	617,923	540,580	1,158,503
Balance at end of period	(1,915,066)	(6,706,756)	(8,621,822)
Net	\$244,272	\$1,797,304	\$2,041,576

	For the six months ended June 30, 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	584,364	111,614	695,978
Decrease - elimination and others	591	5,699	6,290
Balance at end of period	2,619,435	9,064,000	11,683,435
Accumulated amortization			
Balance at beginning of period	(1,731,011)	(5,464,935)	(7,195,946)
Increase - amortization	(327,241)	(611,441)	(938,682)
Balance at end of period	(2,058,252)	(6,076,376)	(8,134,628)
Net	\$561,183	\$2,987,624	\$3,548,807

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(11) Accrued Pension Liabilities

- a. The Company and subsidiaries' pension fund contributed to a fiduciary account in Bank of Taiwan amounted to NT\$47,718 thousand and NT\$46,427 thousand as of June 30, 2011 and 2010, respectively. The total pension expenses amounted to NT\$17,293 thousand and NT\$10,239 thousand for the six months ended June 30, 2011 and 2010, respectively.
- b. 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\$230,446 thousand and NT\$146,687 thousand for the six months ended June 30, 2011 and 2010, respectively.

(12) Common Stock

As of January 1, 2010, the authorized and issued common shares of the Company amounted to NT\$12,000,000 thousand and NT\$10,901,189 thousand, divided into 1,200,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,090,118,854 shares, respectively, each share at par value of NT\$10.

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, respectively. The record date was set on August 3, 2010 and the government approval has been successfully obtained.

As of June 30, 2011, the Company issued 192,674 new shares at par value of NT\$10 for the employee stock options exercised and the government approval has been successfully obtained.

As of June 30, 2011, the authorized and issued common shares of the Company amounted to NT\$12,000,000 thousand and NT\$10,999,772 thousand, divided into 1,200,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,099,977,246 shares, respectively, each share at par value of NT\$10.

(13) Legal Reserve

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

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(14) Capital Reserve**

	As of June 30,	
	2011	2010
Additional paid-in capital	\$11,055,025	\$7,424,510
Treasury stock transaction	785,420	583,194
Donated assets	1,260	1,260
Long-term investment transaction	207,315	181,285
Employee stock option	254,022	173,648
Others	-	3,593,106
Total	<u>\$12,303,042</u>	<u>\$11,957,003</u>

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

In the first half year of 2010, based on the resolution of shareholders' general meeting, the Company resolved to issue 7,485,481 new shares at par value of NT\$10 for the capitalization of employees' bonus of NT\$3,667,961 thousand. The issuance resulted an addition of capital reserve-others in the amount of NT\$3,593,106 thousand. Please refer to Note 4(12), which was reclassified to additional paid-in capital after the ex-dividend date.

(15) Employee Stock Options

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

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

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

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2008.03.31	1,134,119	570,266	570,266	\$378.6
2008.08.28	1,640,285	912,481	912,481	362.0
2009.08.18	1,382,630	840,999	840,999	468.8
2010.08.27	1,605,757	1,136,882	1,136,882	436.5
2010.11.04	65,839	17,714	17,714	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. For the six months ended June 30, 2011 and 2010, the compensation costs arising from employee stock options were NT\$40,364 thousand and NT\$52,123 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:

Employee Stock Option	For the six months ended June 30,			
	2011		2010	
	Options (Unit)	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Outstanding at beginning of period	4,327,687	\$416	3,790,285	\$408
Granted	-	-	-	-
Exercised	(9,062)	371	(86,248)	382
Forfeited (Expired)	(840,283)	418	(190,211)	407
Outstanding at end of period	<u>3,478,342</u>	415	<u>3,513,826</u>	408
Exercisable at end of period	<u>651,126</u>		<u>210,324</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$-</u>		<u>\$-</u>	

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

The information regarding the Company's outstanding stock options as of June 30, 2011 is disclosed as follows:

	Range of Exercise Price (NTD)	Outstanding Stock Options			Exercisable Stock Options	
		Options (Unit)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Stock option plan of 2007	\$362~378.6	1,482,747	3.51	\$368	651,126	\$371
Stock option plan of 2009	468.8	840,999	4.63	469	-	-
Stock option plan of 2010	\$402~436.5	<u>1,154,596</u>	5.67	436	<u>-</u>	-
		<u>3,478,342</u>		\$415	<u>651,126</u>	

(16) Earnings Distribution and Dividends Distribution Policy

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

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

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

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

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

During the six months ended June 30, 2011 and 2010, the amounts of the employee' bonuses were estimated to be NT\$829,070 thousand and NT\$2,555,462 thousand, respectively. During the six months ended June 30, 2011 and 2010, the amounts of remunerations to directors and supervisors were estimated to be NT\$15,159 thousand and NT\$46,274 thousand, respectively. Employee bonuses were estimated based on 10% of net income for the six months ended June 30, 2011 and 2010, respectively (excluding the impact of employees' bonuses) while remunerations to directors and supervisors were estimated based on the Company's Articles of Incorporation. Estimated amount of employee bonuses and remunerations paid to directors and supervisors were charged to current income. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, the Company shall recognize the change as an adjustment to income of next year.

(17) Treasury Stock

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

Owner	January 1, 2011		Additions		June 30, 2011		
	Shares	Amount	Shares	Amount	Shares	Amount	Market Value
MediaTek							
Capital Corp.	<u>7,794,085</u>	<u>\$55,970</u>	<u>-</u>	<u>\$-</u>	<u>7,794,085</u>	<u>\$55,970</u>	<u>\$2,431,755</u>

Owner	January 1, 2010		Additions		June 30, 2010		
	Shares	Amount	Shares	Amount	Shares	Amount	Market Value
MediaTek							
Capital Corp.	<u>7,778,530</u>	<u>\$55,970</u>	<u>-</u>	<u>\$-</u>	<u>7,778,530</u>	<u>\$55,970</u>	<u>\$3,519,785</u>

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(18) Net Operating Revenue**

	For the six months ended June 30,	
	2011	2010
Revenues from sales of multimedia and cell phone chipsets	\$42,505,578	\$67,290,799
Other operating revenue	270,513	160,746
Subtotal	42,776,091	67,451,545
Less: Sales returns	(24,062)	(36,373)
Less: Sales discounts	(1,903,052)	(4,753,903)
Net Operating Revenue	<u>\$40,848,977</u>	<u>\$62,661,269</u>

(19) Personnel, Depreciation and Amortization Expenses

	For the six months ended June 30,					
	2011			2010		
	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	\$107,765	\$6,532,087	\$6,639,852	\$76,579	\$8,893,739	\$8,970,318
Insurance	4,795	256,150	260,945	2,867	182,471	185,338
Pension	5,080	242,659	247,739	3,152	153,774	156,926
Other expenses	2,009	177,703	179,712	2,770	216,837	219,607
Total	<u>\$119,649</u>	<u>\$7,208,599</u>	<u>\$7,328,248</u>	<u>\$85,368</u>	<u>\$9,446,821</u>	<u>\$9,532,189</u>
Depreciation	<u>\$3,180</u>	<u>\$583,578</u>	<u>\$586,758</u>	<u>\$2,169</u>	<u>\$525,729</u>	<u>\$527,898</u>
Amortization	<u>\$382</u>	<u>\$742,457</u>	<u>\$742,839</u>	<u>\$568</u>	<u>\$938,114</u>	<u>\$938,682</u>

(20) Income Tax

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

	For the six months ended June 30,	
	2011	2010
Income tax payable	\$171,843	\$689,922
10% surtax on undistributed earnings	202,285	458,854
Investment tax credits	(211,916)	(463,358)
Deferred income tax effects		
Investment tax credits	122,678	611,590
Valuation allowance	14,276	(391,545)
Others	29,053	32,577
Others	(23,701)	423
Income tax expense from continuing operations	<u>\$304,518</u>	<u>\$938,463</u>

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

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

	As of June 30,			
	2011		2010	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets				
Recognition of unrealized allowance				
for inventory obsolescence	\$3,147,496	\$535,074	\$3,253,835	\$553,151
Allowance for doubtful debt in excess	135,569	23,047	139,352	23,690
of deductible limit				
Unrealized technology license fee	1,307,624	222,296	821,736	139,695
Unrealized foreign exchange loss	201,912	34,325	6,761	1,149
Unrealized loss on valuation of				
financial instruments	-	-	20,780	3,533
Unrealized loss on asset impairment	746,807	126,957	242,796	41,275
Others		155,374		114,850
Loss carryforwards-foreign		359,247		455,572
Investment tax credits-domestic		8,748,018		8,680,451
-foreign		210,571		193,991
Deferred income tax assets		10,414,909		10,207,357
Valuation allowance for deferred				
income tax assets		(10,072,463)		(9,770,473)
Net deferred income tax assets		342,446		436,884
Deferred income tax liabilities				
Unrealized amortization of intangible				
assets	(4,772,048)	(811,247)	(3,408,606)	(579,463)
Unrealized gain on valuation of				
financial assets	(1,999)	(340)	-	-
Others		(4,552)		(8,999)
Deferred income tax liabilities		(816,139)		(588,462)
Net deferred income tax assets and				
liabilities		<u>\$(473,693)</u>		<u>\$(151,578)</u>

	As of June 30,	
	2011	2010
Deferred income tax assets-current	\$2,917,518	\$875,203
Valuation allowance for deferred income tax		
assets-current	(2,773,592)	(657,708)
Net deferred income tax assets-current	143,926	217,495
Deferred income tax liabilities-current	(4,880)	(8,999)
Net deferred income tax assets and		
liabilities-current	<u>\$139,046</u>	<u>\$208,496</u>

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

	As of June 30,	
	2011	2010
Deferred income tax assets-noncurrent	\$7,497,391	\$9,332,154
Valuation allowance for deferred income tax assets-noncurrent	(7,298,871)	(9,112,765)
Net deferred income tax assets-noncurrent	198,520	219,389
Deferred income tax liabilities-noncurrent	(811,259)	(579,463)
Net deferred income tax assets and liabilities-noncurrent	\$(612,739)	\$(360,074)

- 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 and subsidiaries are not allowed to file consolidated income tax returns.
- e. The Company’s income tax returns for the years from 2002 to 2007 have been assessed by the tax authorities. For the 2002, 2003 and 2006 return, the tax authorities have assessed additional taxes in the aggregate amount of NT\$1,595,350 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.
- f. The Company’s available investment tax credits as of June 30, 2011 were as follows:

Total credit amount	Unused amount	Year expired
\$2,360,402	\$1,987,251	2011
2,291,169	2,291,169	2012
4,469,598	4,469,598	2013
<u>\$9,121,169</u>	<u>\$8,748,018</u>	

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

g. Integrated income tax information

	As of June 30,	
	2011	2010
Balance of the imputation credit account (ICA)	\$1,962,902	\$2,441,404
	2010	2009
	2.66%	3.26%

h. All earnings generated prior to December 31, 1997 have been appropriated.

(21) 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	
			Shares		
	Before tax	After tax	(Denominator)	Before tax	After tax
<u>For the six months ended June 30, 2011</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$6,940,065	\$6,635,547	1,092,144,951	<u>\$6.35</u>	<u>\$6.08</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	15,239,946		
Stock option to employees	-	-	1,709		
Diluted EPS	<u>\$6,940,065</u>	<u>\$6,635,547</u>	<u>1,107,386,606</u>	<u>\$6.27</u>	<u>\$5.99</u>
Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	\$(1,596)	\$(1,596)	1,092,144,951	<u>\$-</u>	<u>\$-</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	15,239,946		
Stock option to employees	-	-	1,709		
Diluted EPS	<u>\$(1,596)</u>	<u>\$(1,596)</u>	<u>1,107,386,606</u>	<u>\$-</u>	<u>\$-</u>

(To be continued)

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

(Continued)

	<u>Amount (Numerator)</u>			<u>Earnings per share</u>	
	<u>Before tax</u>	<u>After tax</u>	<u>Shares (Denominator)</u>	<u>Before tax</u>	<u>After tax</u>
<u>For the six months ended June 30, 2010</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$21,102,252	\$20,163,789	1,085,202,382	<u>\$19.45</u>	<u>\$18.58</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	28,749,628		
Stock option to employees	-	-	894,211		
Diluted EPS	<u>\$21,102,252</u>	<u>\$20,163,789</u>	<u>1,114,846,221</u>	<u>\$18.93</u>	<u>\$18.09</u>
Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	\$(14,364)	\$(14,364)	1,085,202,382	<u>\$(0.01)</u>	<u>\$(0.01)</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	28,749,628		
Stock option to employees	-	-	894,211		
Diluted EPS	<u>\$(14,364)</u>	<u>\$(14,364)</u>	<u>1,114,846,221</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>

5. Related Party Transactions

(1) Related parties and relations

<u>Related parties</u>	<u>Relations</u>
King Yuan Electronics Co., Ltd. ("King Yuan")	The chairman of the Company and the chairman of King Yuan are close relatives
ALi Corporation ("ALi")	Equity investee
Airoha Technology, Inc. ("Airoha")	Equity investee
JMicron Technology Corporation ("JMicon")	The Company's chairman doubles as JMicon's chairman

(2) Major transactions with related parties

a. Sales

	<u>For the six months ended June 30,</u>			
	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>% of net sales</u>	<u>Amount</u>	<u>% of net sales</u>
ALi	<u>\$73,248</u>	<u>0.18</u>	<u>\$-</u>	<u>-</u>

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

For the six months ended June 30, 2011 and 2010, the trade credit terms for related parties and third-party customers were both 45 to 60 days. Third-party customers may prepay their accounts in advance. The Company's sales to ALi were royalty revenues, which were charged based on an agreed percentage of the Company's net sales.

b. IC testing, experimental services and manufacturing technology services

	Transactions	For the six months ended June 30,	
		2011	2010
King Yuan	IC testing and experimental services	\$2,191,109	\$3,519,920

c. Rental Income

	Rental Income		Other Receivables	
	For the six months ended June 30,		As of June 30,	
	2011	2010	2011	2010
Airoha	\$-	\$4,448	\$-	\$800
JMicron	4,573	4,573	-	316
Total	\$4,573	\$9,021	\$-	\$1,116

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

(3) Payables resulted from the above transactions

	As of June 30,			
	2011		2010	
	Amount	%	Amount	%
King Yuan	\$1,073,353	13.55	\$2,216,023	19.11

6. Assets Pledged As Collateral**(1) As of June 30, 2011:**

	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	3,030	Customs Office	Tariff execution deposits
Restricted deposits-current	3,361	Danske Bank	Credit guarantee
Restricted deposits-noncurrent	80	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	677	Citibank	Tariff execution deposits
Total	\$14,065		

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

(2) As of June 30, 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	3,182	Danske Bank	Credit guarantee
Restricted deposits-noncurrent	87	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	382	Citibank	Tariff execution deposits
Restricted deposits-noncurrent	22,793	Citibank	Lease guarantee
Total	<u>\$36,361</u>		

7. Commitments and Contingencies

(1) Lawsuit:

- a. Rambus Inc. ("Rambus") brought a complaint against 26 companies on December 1, 2010 in U.S. International Trade Commission, alleging patent infringement 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.

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.

- b. Freescale Semiconductor, Inc. ("Freescale") filed a complaint with the International Trade Commission against the Company and two other respondents on June 8, 2011 alleging infringement of United States Patents No. 5,467,455. Freescale is alleging against the patent infringement of DTV chips and asking to prevent certain products from being sold in the future.

Freescale filed a complaint in the United States District Court for Western District of Texas against the Company and one other defendant on June 8, 2011 alleging infringement of United States Patent No. 5,467,455. Freescale is alleging against the patent infringement of DTV chips and asking to prevent certain products from being sold in the future.

The Company will defend the case vigorously.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(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
2011.07.01~2012.06.30	\$30,371
2012.07.01~2013.06.30	30,371
2013.07.01~2014.06.30	30,371
2014.07.01~2015.06.30	30,371
2015.07.01~2016.06.30	30,371
2016.07.01~2027.12.31	229,233
Total	<u>\$381,088</u>

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

Lease Period	Amount
2011.07.01~2012.06.30	\$105,070
2012.07.01~2013.06.30	79,684
2013.07.01~2014.06.30	67,300
2014.07.01~2015.06.30	52,072
2015.07.01~2016.06.30	25,198
2016.07.01~2027.12.31	80,648
Total	<u>\$409,972</u>

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

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

	As of June 30,			
	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
Assets				
Cash and cash equivalents	\$89,326,102	\$89,326,102	\$115,304,494	\$115,304,494
Financial assets designated as at fair value through profit or loss	\$3,280,685	\$3,280,685	\$2,131,210	\$2,157,485
Receivables	\$7,832,873	\$7,832,873	\$7,256,379	\$7,256,379
Other receivables	\$1,245,868	\$1,245,868	\$1,974,226	\$1,974,226
Available-for-sale financial assets	\$6,356,996	\$6,356,996	\$3,847,919	\$3,848,275
Held-to-maturity financial assets	\$240,487	\$239,739	\$-	\$-
Financial assets carried at cost	\$1,417,973	\$-	\$1,029,135	\$-
Bond portfolios with no active market	\$1,000,000	\$1,087,625	\$1,000,000	\$1,102,473
Investments accounted for using the equity method				
-with market value	\$1,506,104	\$2,660,139	\$1,527,874	\$3,256,267
-without market value	\$394,095	\$-	\$205,289	\$-
Refundable deposits	\$265,826	\$265,826	\$392,495	\$392,495
Restricted assets	\$14,065	\$14,065	\$36,361	\$36,361
Liabilities				
Payables (including related parties)	\$7,923,392	\$7,923,392	\$11,595,955	\$11,595,955
Accrued expenses	\$15,741,854	\$15,741,854	\$17,779,164	\$17,779,164
Other payables	\$21,999,466	\$21,999,466	\$28,343,237	\$28,343,237
Payables to contractors and equipment suppliers	\$9,293	\$9,293	\$18,631	\$18,631
Deposits received	\$6,065	\$6,065	\$984	\$984
<u>Derivative</u>				
Assets				
Held-for-trading financial assets				
-forward exchange contracts	\$2,868	\$2,868	\$75	\$75
Liabilities				
Held-for-trading financial liabilities				
-forward exchange contracts	\$869	\$869	\$20,855	\$20,855

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (a) The following methods and assumptions were used by the Company 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, other payables 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 Fair value of held-to-maturity financial assets was 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. The discount rates used in the valuation techniques were estimated by the rate of return of similar financial assets.
 - (vi) 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.
 - (vii) 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.
 - (viii) 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.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (b) Gains recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$14,443 thousand and NT\$4,332 thousand for the six months ended June 30, 2011 and 2010, respectively.
- (c) As of June 30, 2011 and 2010, financial assets exposed to fair value risk from fixed interest rate were NT\$81,554,892 thousand and NT\$85,238,957 thousand, respectively, and financial assets exposed to cash flow risk from variable interest rate were NT\$3,290,545 thousand and NT\$979,750 thousand, respectively.
- (d) Interest income recognized from financial assets that are not at fair value through profit or loss amounted to NT\$390,372 thousand and NT\$263,495 thousand for the six months ended June 30, 2011 and 2010, respectively. The Company recognized unrealized losses of NT\$28,331 thousand and NT\$58,081 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2011 and 2010, respectively, and the amounts that were recycled from equity to losses were NT\$13,034 thousand and nil for the six months ended June 30, 2011 and 2010, respectively. The Company also recognized an unrealized losses of NT\$144,098 thousand and NT\$57,287 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 six months ended June 30, 2011 and 2010, respectively.
- (e) For the six months ended June 30, 2011 and 2010, the Company and subsidiaries did not have impairment loss on financial assets.

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-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, held-to-maturity financial assets, 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.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(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 purchase or sale activities which are not denominated in the Company and subsidiaries' functional currency. The Company and subsidiaries review their assets and liabilities denominated in foreign currency and enter into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Had the USD moved against NTD by increasing 1 cent, the fair value of the forward exchange contracts would decrease by NT\$400 thousand and NT\$1,040 thousand as of June 30, 2011 and 2010, respectively. Credit-linked deposits and interest rate-linked deposits are affected by interest rates. When interest rate increases, the market value may decrease and may even be below the initial investment cost, and vice versa. The fair value of exchange rate-linked deposits is affected by interest rate fluctuation. The fair value of mutual fund, government bonds and corporate bonds will be exposed to fluctuations from other market factors as well as movement in interest rates.

Credit risk

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

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Liquidity risk

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

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

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

Cash flow risk from variable interest rate

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

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

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

As of June 30,						
2011			2010			
Foreign Currency (thousand)	Exchange rate	NTD (thousand)	Foreign Currency (thousand)	Exchange rate	NTD (thousand)	
<u>Financial assets</u>						
Monetary item						
USD	\$1,441,058	\$28.802	\$41,505,349	\$1,308,135	\$32.278	\$42,223,979
Non-monetary item						
USD	\$179,103	\$28.802	\$5,158,532	\$101,222	\$32.278	\$3,267,253
CNY	\$252,842	\$4.456	\$1,126,691	\$-	\$-	\$-
<u>Investments accounted for using the equity method</u>						
USD	\$6,831	\$28.802	\$196,739	\$-	\$-	\$-
<u>Financial liabilities</u>						
Monetary item						
USD	\$326,222	\$28.802	\$9,395,834	\$270,309	\$32.278	\$8,725,048
JPY	\$500,000	\$0.358	\$178,870	\$-	\$-	\$-

- b. Based on the resolution of the board of directors' meeting on March 16, 2011, the Company resolved its merger with Ralink Technology Corp. ("Ralink") through share swap with the Company as the surviving entity. Subsequently, based on the resolution of board of directors' meeting on May 5, 2011, the Company finalized its acquisition of Ralink by shares exchange, in which Ralink will be 100%-owned by the Company. The business combination was resolved by shareholders' general meetings of both companies on June 15, 2011. Considering the profitability, market prices, technology and future development, it is expected that 3.15 shares of Ralink will be exchanged for 1 share of the Company. The business combination is expected to become effective on October 1, 2011, after the legal procedures are completed.

The effect of the business combination will be reflected on the integration of resources of internet and communication products, such as wireless network, Ethernet, xDSL and other communication chip solution programs. Furthermore, the Company expects to grow exponentially by extending wired/wireless family or enterprise network terminal products, expanding its global business and operation and further strengthening its industry position, and by increasing stockholders' equity for both companies.

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

- c. Inter-company relationships and significant inter-company transactions for the six months ended June 30, 2011 are as follows: (For the Company's shares owned by the subsidiary, please refer to the Note 4.(17) 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	\$52,191	Based on contract	0.04%
				Sales revenues	\$285,000		0.70%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$10,722		0.01%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$632,579	Based on contract	0.44%
			3	Research and development expenses	\$578,903		1.42%
		MediaTek Denmark ApS	3	Payables to related parties	\$23,605		0.02%
			3	Research and development expenses	\$125,879		0.31%
		MTK Wireless Limited (UK)	3	Payables to related parties	\$27,497		0.02%
			3	Research and development expenses	\$192,881		0.47%
		MediaTek USA Inc.	3	Payables to related parties	\$1,511,345		1.05%
			3	Research and development expenses	\$453,031		1.11%
		MediaTek Japan Inc.	3	Payables to related parties	\$15,417		0.01%
			3	Research and development expenses	\$89,461		0.22%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$21,894		0.02%
			3	Research and development expenses	\$121,147		0.30%

(To be continued)

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

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek Korea Inc.	3	Payables to related parties	\$16,129	Based on contract	0.01%
			3	Research and development expenses	\$74,897		0.18%
		MediaTek (ShenZhen) Inc.	3	Prepayments	\$30,173		0.02%
			3	Research and development expenses	\$612,477		1.50%
		MediaTek (Hefei) Inc.	3	Payables to related parties	\$38,539		0.03%
			3	Research and development expenses	\$282,120		0.69%
		MediaTek (Beijing) Inc.	3	Prepayments	\$1,034,146		0.72%
			3	Research and development expenses	\$769,980		1.88%

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

Inter-company relationships and significant inter-company transactions for the six months ended June 30, 2010 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	\$57,665	Based on contract	0.04%
				Sales revenues	\$401,538		0.64%
		MTK Wireless Limited (UK)	1	Other receivables	\$444		0.00%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$12,016		0.01%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$753,259	Based on contract	0.46%
			3	Research and development expenses	\$745,210		1.19%
		MediaTek Denmark ApS	3	Payables to related parties	\$130,051		0.08%
			3	Research and development expenses	\$125,716		0.20%
		MTK Wireless Limited (UK)	3	Payables to related parties	\$62,164		0.04%
			3	Research and development expenses	\$169,964		0.27%
		MediaTek USA Inc.	3	Payables to related parties	\$980,992		0.60%
			3	Research and development expenses	\$289,049		0.46%
		MediaTek Japan Inc.	3	Payables to related parties	\$78,885		0.05%
			3	Research and development expenses	\$87,635		0.14%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$21,480		0.01%
			3	Research and development expenses	\$63,310		0.10%

(To be continued)

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

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek Korea Inc.	3	Payables to related parties	\$36,374	Based on contract	0.02%
			3	Research and development expenses	\$76,607		0.12%
		MediaTek (ShenZhen) Inc.	3	Prepayments	\$82,423		0.05%
			3	Research and development expenses	\$451,484		0.72%
		MediaTek (Hefei) Inc.	3	Payables to related parties	\$40,148		0.02%
			3	Research and development expenses	\$190,032		0.30%
		MediaTek (Beijing) Inc.	3	Prepayments	\$8,345		0.01%
			3	Research and development expenses	\$531,287		0.85%

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 for transactions of balance sheet items is based on each item’s balance at period-end.

The percentage with respect to the consolidated net sales for profit or loss items and cumulative balance is used as basis.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

11. Segment Information

The major sales of the Company and subsidiaries come from multimedia and mobile phone chips and other integrated circuit design products. The chief operating decision maker reviews the overall operating results to make decisions about resources to be allocated to and evaluates the overall performance. Therefore, the Company and subsidiaries are aggregated into a single segment.