

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

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE NINE MONTHS THEN ENDED
SEPTEMBER 30, 2011 AND 2010

English Translation of a Report Originally Issued in Chinese

Review Report of Independent Accountants

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 September 30, 2011 and 2010, and the related consolidated statements of income and cash flows for the nine 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 requirements of the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan, 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
October 21, 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 September 30, 2011 and 2010

(Amounts in thousands of New Taiwan Dollar)

ASSETS	Notes	2011	2010	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2011	2010
Current assets				Current liabilities			
Cash and cash equivalents	3(1)	\$ 72,965,343	\$ 87,135,986	Short-term loans	3(11)	\$ 2,317,175	\$ -
Held-for-trading financial assets-current	3(2)	137,961	45,531	Held-for-trading financial liabilities-current	3(2)	87,306	413
Financial assets designated as at fair value through profit or loss-current	3(3)	1,346,879	136,200	Notes payable		-	8,444
Available-for-sale financial assets-current	3(4)	1,760,756	2,103,568	Accounts payable		5,627,920	8,073,496
Accounts receivable, net	3(5)	8,383,728	7,824,505	Payables to related parties	4	1,190,074	1,447,152
Other receivables	3(6), 4	2,465,780	2,919,568	Income tax payable		702,968	1,194,576
Inventories, net	3(7)	7,171,815	9,341,076	Accrued expenses		13,160,126	15,613,351
Prepayments		2,362,533	1,534,369	Other current liabilities		853,291	623,398
Other current assets		419,101	541,989	Total current liabilities		23,938,860	26,960,830
Deferred income tax assets-current		286,306	322,418				
Restricted assets-current	5	13,222	13,356				
Total current assets		97,313,424	111,918,566				
Funds and investments	3(8)			Other liabilities			
Financial assets designated as at fair value through profit or loss-noncurrent		2,262,992	2,698,377	Accrued pension liabilities		156,852	102,329
Available-for-sale financial assets-noncurrent		2,543,994	1,696,752	Deposits received	4	5,969	981
Held-to-maturity financial assets-noncurrent		254,164	-	Deferred income tax liabilities-noncurrent		778,845	499,840
Financial assets carried at cost-noncurrent		1,998,261	1,166,875	Other liabilities-others		15,711	-
Bond portfolios with no active market-noncurrent		1,000,000	1,000,000	Total other liabilities		957,377	603,150
Investments accounted for using the equity method		1,764,094	1,608,044	Total liabilities		24,896,237	27,563,980
Prepayments for long-term investments		14,499	75,133				
Total funds and investments		9,838,004	8,245,181				
Property, plant and equipment	3(9)			Shareholders' equity			
Land		888,722	888,722	Equity attributable to shareholders of the parent			
Buildings and facilities		5,916,978	5,729,677	Capital			
Machinery and equipment		155,443	207,602	Common stock	3(12)	10,999,772	10,998,708
Computer and telecommunication equipment		1,795,481	1,244,325	Capital collected in advance		-	609
Testing equipment		2,622,756	2,411,817	Capital reserve			
Miscellaneous equipment		1,010,761	822,330	Additional paid-in capital	3(14)	11,055,025	11,038,662
Total cost		12,390,141	11,304,473	Treasury stock transaction	3(14)	941,301	785,420
Less : Accumulated depreciation		(4,584,269)	(3,663,602)	Donated assets	3(14)	1,260	1,260
Add : Construction in progress		1,400,937	70,941	Long-term investment transaction	3(14)	207,315	203,200
Prepayments for equipment		97,560	58,176	Employee stock option	3(14), 3(15)	271,478	190,928
Property, plant and equipment, net		9,304,369	7,769,988	Total capital reserve		12,476,379	12,219,470
Intangible assets	3(10)			Retained earnings			
Patents		158,777	311,987	Legal reserve	3(13)	21,710,122	18,613,978
Software		230,066	429,913	Special reserve	3(16)	4,198,121	355,131
Goodwill		6,863,129	6,950,665	Undistributed earnings	3(16)	55,505,983	69,910,814
IPs and others		1,396,989	2,362,004	Other adjustments			
Total intangible assets		8,648,961	10,054,569	Cumulative translation adjustments		(2,065,388)	(1,332,424)
Other assets				Unrealized gain (loss) on financial instruments		(199,223)	145,302
Refundable deposits		267,192	385,982	Treasury stock	3(17)	(2,165,884)	(55,970)
Deferred charges		35,736	49,586	Total shareholders' equity attributable to parent company		100,459,882	110,855,618
Restricted assets-noncurrent	5	730	22,793	Minority interests		52,297	27,067
Total other assets		303,658	458,361	Total shareholders' equity		100,512,179	110,882,685
Total assets		<u>\$ 125,408,416</u>	<u>\$ 138,446,665</u>	Total liabilities and shareholders' equity		<u>\$ 125,408,416</u>	<u>\$ 138,446,665</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 nine months ended September 30, 2011 and 2010

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

Description	Notes	2011		2010	
Gross sales		\$	68,009,198	\$	97,755,159
Less : Sales returns			(40,297)		(45,445)
Sales discounts			(3,744,184)		(6,867,579)
Net sales	3(18), 4		64,224,717		90,842,135
Cost of goods sold	3(7), 4		(34,874,146)		(41,091,746)
Gross profits			29,350,571		49,750,389
Operating expenses					
Selling expenses			(1,875,791)		(2,530,779)
General and administrative expenses			(2,140,671)		(2,580,578)
Research and development expenses			(15,357,360)		(17,387,146)
Total operating expenses			(19,373,822)		(22,498,503)
Operating income			9,976,749		27,251,886
Non-operating income and gains					
Interest income			652,020		434,039
Gain on equity investments, net	3(8)		68,976		151,634
Gain on disposal of investments	3(8)		67,671		118,927
Foreign exchange gain, net			269,326		-
Valuation gain on financial assets	3(2)		20,375		204,110
Others			220,719		386,021
Total non-operating income and gains			1,299,087		1,294,731
Non-operating expenses and losses					
Interest expenses			(1,925)		(291)
Loss on disposal of property, plant and equipment			(15,021)		(23,784)
Foreign exchange loss, net			-		(186,443)
Valuation loss on financial liabilities	3(2)		(87,306)		(413)
Others			(82,661)		-
Total non-operating expenses and losses			(186,913)		(210,931)
Income from continuing operations before income tax			11,088,923		28,335,686
Income tax expense			(389,659)		(1,208,858)
Consolidated net income		\$	10,699,264	\$	27,126,828
Income Attributable to :					
Shareholders of the parent		\$	10,705,568	\$	27,133,244
Minority interests			(6,304)		(6,416)
Consolidated net income		\$	10,699,264	\$	27,126,828
Basic Earnings Per Share (in New Taiwan Dollars)	3(19)	Before tax	After tax	Before tax	After tax
Consolidated net income		\$ 10.16	\$ 9.80	\$ 26.05	\$ 24.94
Net loss attributable to minority interests		0.01	0.01	0.01	0.01
Net income attributable to the parent		\$ 10.17	\$ 9.81	\$ 26.06	\$ 24.95
Diluted Earnings Per Share (in New Taiwan Dollars)	3(19)				
Consolidated net income		\$ 10.05	\$ 9.70	\$ 25.50	\$ 24.41
Net loss attributable to minority interests		0.01	0.01	0.01	0.01
Net income attributable to the parent		\$ 10.06	\$ 9.71	\$ 25.51	\$ 24.42

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 nine months ended September 30, 2011 and 2010
(Amounts in thousands of New Taiwan Dollars)

Description	2011	2010
Cash flows from operating activities :		
Consolidated net income	\$ 10,699,264	\$ 27,126,828
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	873,224	813,146
Amortization	1,100,419	1,403,638
Bad debt provision	28,981	84,709
Employee stock option distributed	57,820	68,727
Amortization of financial assets discount or premium	1,847	311
(Gain) loss on (recovery) decline in market value and obsolescence of inventories	(1,779,055)	2,513,856
Net gain on equity investments	(68,976)	(151,634)
Net loss on disposal of property, plant and equipment	15,021	23,784
Net loss on disposal of intangible assets (included in other losses)	74	-
Gain on disposal of investment	(67,671)	(118,927)
Adjustment of valuation on financial assets and liabilities	61,800	(103,790)
Cash dividends from equity investees	166,503	123,713
Deferred income tax	184,853	279,432
Employees' bonuses	1,373,306	3,414,850
Changes in operating assets and liabilities:		
Financial assets designated as at fair value through profit or loss	(1,044,652)	(1,769,807)
Accounts receivable	(3,129,120)	(1,658,997)
Other receivables	612,911	(984,846)
Inventories	3,968,868	(3,693,316)
Prepayments	(192,573)	(1,260,480)
Other current assets	74,187	(239,285)
Notes payable	-	8,444
Accounts payable	(1,761,924)	(1,936,367)
Payables to related parties	160,914	(338,342)
Income taxes payable	(365,982)	209,377
Accrued expenses	(3,882,119)	(419,217)
Other current liabilities	231,123	244,479
Accrued pension liabilities	49,625	14,914
Other liabilities-others	15,711	-
Net cash provided by operating activities	7,384,379	23,655,200
Cash flows from investing activities :		
Decrease (increase) in restricted assets	16,435	(2,894)
Increase in available-for-sale financial assets	(3,426,647)	-
Proceeds from disposal of available-for-sale financial assets	6,105,726	449,752
Increase in held-to-maturity financial assets	(254,164)	-
Increase in financial assets carried at cost	(836,842)	(341,326)
Proceeds from disposal of financial assets carried at cost	-	202,358
Proceeds from disposal of investments accounted for using the equity method	-	13,081
Increase in investments accounted for using the equity method	(203,614)	-
Net cash outflow from acquisition of subsidiaries	-	(114,214)
Increase in prepayment for long-term investments	(14,499)	(75,313)
Purchase of property, plant and equipment	(2,344,694)	(1,725,891)
Proceeds from disposal of property, plant and equipment	10,358	8,884
Increase in refundable deposits	(5,704)	(57,393)
Increase in intangible assets and deferred assets	(160,843)	(755,556)
Net cash used in investing activities	(1,114,488)	(2,398,512)
Cash flows from financing activities :		
Increase in short-term loans	2,317,175	-
Increase (decrease) in deposits received	4,996	(2)
Proceeds from exercise of employee stock options	3,364	55,277
Cash dividends	(21,999,457)	(28,343,090)
Cash dividends distributed to subsidiaries holding the Company's stock	155,881	202,226
Treasury stock acquired	(2,109,914)	-
Change in minority interests	54,486	79,505
Net cash used in financing activities	(21,573,469)	(28,006,084)
Effect of exchange rate	2,341,564	(762,510)
Net decrease in cash and cash equivalents	(12,962,014)	(7,511,906)
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	\$ 72,965,343	\$ 87,135,986
Supplemental disclosures of cash flow information :		
Interest paid during the year	\$ -	\$ 291
Income tax paid during the period	\$ 746,503	\$ 637,312
Activities partially affected cash flows :		
Purchase of property, plant and equipment	\$ 2,337,499	\$ 1,732,615
Add: decrease (increase) in payables to contractors and equipment suppliers	7,195	(6,724)
Cash paid for the purchase of property, plant and equipment	\$ 2,344,694	\$ 1,725,891
Non-cash activities :		
Stock dividends and employees' bonuses capitalized (including additional paid-in capital)	\$ -	\$ 3,689,763
Change in unrealized loss on financial instruments	\$ (381,831)	\$ (26,871)

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)

MediaTek Inc. and the consolidated entities (the “Company”) has prepared the notes in conformity with the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan, which simplifies the disclosure requirement. According to this order, the Company is only required to disclose the differences of accounting policies between the latest annual audited consolidated financial statements and the current ones and to disclose the consolidated entities. The following items can be exempt from disclosures:

- i. History and organization;
- ii. Income tax;
- iii. Pension plan;
- iv. Summary of operation cost and expenses including salary, depreciation, and amortization; and
- v. Attachments pertaining to significant transactions, investments, and investments in Mainland China.

1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements are prepared in accordance with the requirements of the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan, Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China (R.O.C.). Significant accounting policies are summarized as follows.

Significant accounting policies adopted in preparing the accompanying consolidated financial statements are those adopted in preparing the latest annual consolidated financial statements, except those stated below:

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:

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

Company	Main Business	Percentage of Ownership As of September 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%	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%	-
MediaTek (Chengdu) Inc.	Technology services	100.00%	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%	100.00%	7
Zena Technologies International Inc. (BVI)	General investing	48.63%	48.63%	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%	79.51%	-
Vogins Technology (Shanghai) Co., Ltd.	Software development	100.00%	100.00%	-
Hesine Technologies International Worldwide Inc.	General investing	100.00%	-	9
Hesine Technologies, Inc.	Technology services	100.00%	-	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)

Company	Main Business	Percentage of Ownership As of September 30,		Note
		2011	2010	
Gold Rich International (Samoa) Limited	General investing	100.00%	-	11
Smarthead Limited	General investing	100.00%	-	12
Gold Rich International (HK) Limited	General investing	100.00%	-	13
Lepower Limited	General investing	71.09%	-	14
Lepower (HK) Limited	General investing	100.00%	-	15

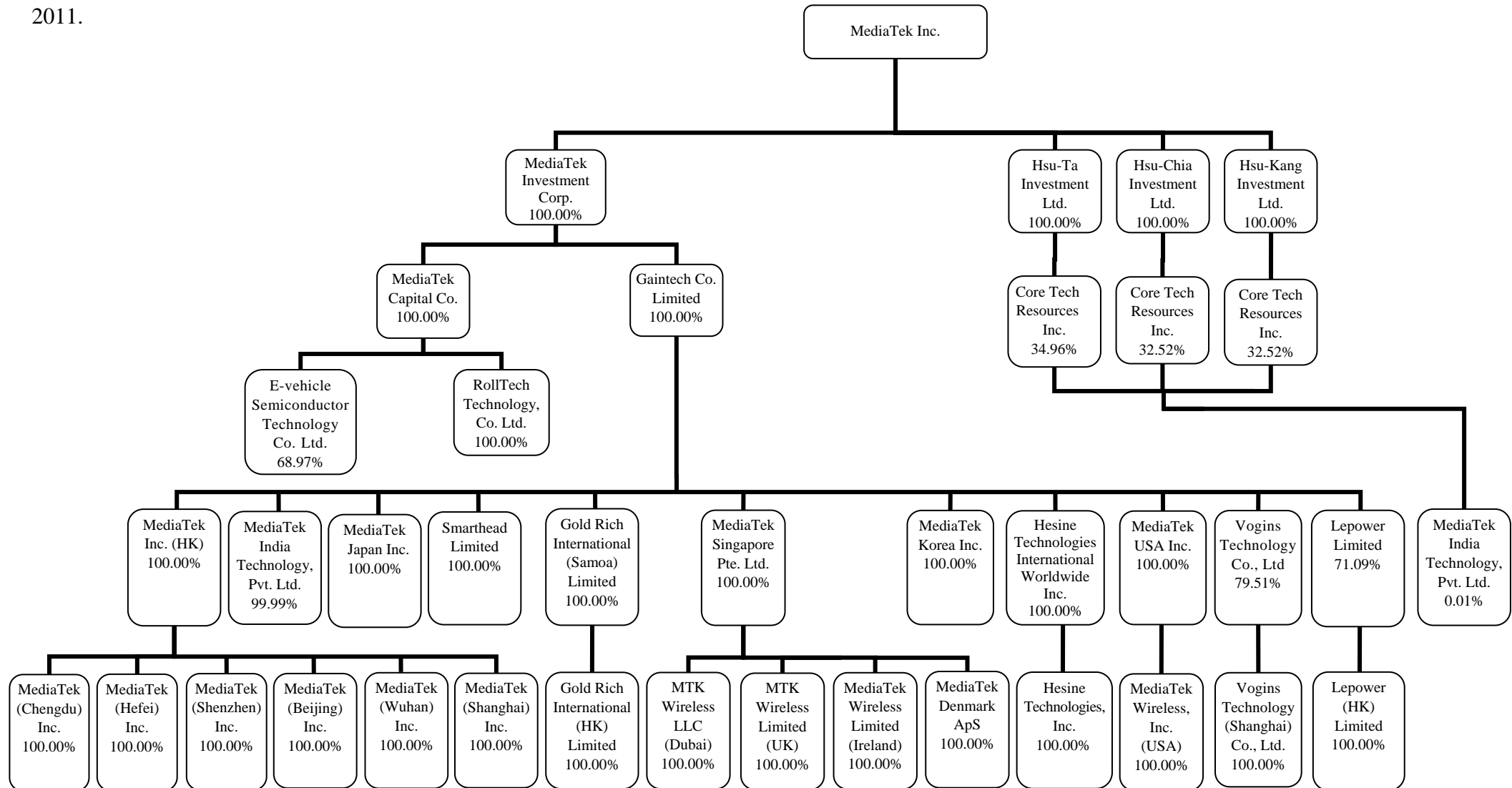
1. Hsu-Chung Investment Corp. and Hsu-Xin Investment Corp. were merged into MediaTek Investment Corp. on January 1, 2011.
2. MediaTek Capital Corp. acquired RollTech Technology, Co. Ltd. in July 2010.
3. MediaTek Capital Corp. acquired E-vehicle Semiconductor Technology Co. Ltd. in May 2011.
4. MediaTek (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 the fact that 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. Hesine Technologies International Worldwide Inc. invested in Hesine Technologies, Inc. in July 2011.
11. Gaintech Co. Limited established Gold Rich International (Samoa) Limited in May 2011.
12. Gaintech Co. Limited established Smarthead Limited in April 2011.
13. Gold Rich International (Samoa) Limited established Gold Rich International (HK) Limited in May 2011.
14. Gaintech Co. Limited established Lepower Limited in July 2011.
15. Lepower Limited established Lepower (HK) Limited in July 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 September 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.

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.

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.

2. 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 nine months ended September 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”.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****3. Contents of Significant Accounts****(1) Cash and Cash Equivalents**

	As of September 30,	
	2011	2010
Petty cash	\$1,254	\$1,745
Savings and checking accounts	8,597,172	20,144,367
Time deposits	64,366,917	66,895,670
Cash equivalents-bonds-Repo	-	94,204
Total	<u>\$72,965,343</u>	<u>\$87,135,986</u>

a. As of September 30, 2010, the Company was committed to selling the bonds-Repo back to the brokers in October, 2010.

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

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

a.

	As of September 30,	
	2011	2010
Held-for-trading financial assets-Current		
Forward exchange contracts	\$323	\$45,531
Cross currency swap contracts	137,638	-
Total	<u>\$137,961</u>	<u>\$45,531</u>

b.

	As of September 30,	
	2011	2010
Held-for-trading financial liabilities-Current		
Forward exchange contracts	<u>\$87,306</u>	<u>\$413</u>

(a) The Company entered into derivative contracts during the nine months ended September 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 9 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 September 30, 2011 and 2010, outstanding forward exchange contracts were as follows:

(i) As of September 30, 2011:

Held-for-trading financial assets:

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	October 2011	10,000

Held-for-trading financial liabilities:

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	October- November 2011	100,000

(ii) As of September 30, 2010:

Held-for-trading financial assets:

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	October 2010	95,000

Held-for-trading financial liabilities:

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	October 2010	5,000
Forward exchange contracts	Buy USD	October 2010	5,000

For the nine months ended September 30, 2011 and 2010, (loss) gain arising from the forward exchange contracts were NT\$(138,385) thousand and NT\$128,984 thousand, respectively.

(b) As of September 30, 2011, outstanding cross currency swap contracts was as follow:

Held-for-trading financial assets:

Financial Instruments	Maturity	Contract amount (US\$'000)	Range of interest rate paid	Range of interest rate received
Cross currency swap contracts	November 2011	75,000	-%	3.80%~3.95%

For the nine months ended September 30, 2011, gain arising from the cross currency swap contracts was NT\$137,638 thousand.

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

	As of September 30,	
	2011	2010
Convertible bonds	\$103,299	\$136,200
Bonds	306,640	-
Interest rate-linked deposits	936,940	-
Total	<u>\$1,346,879</u>	<u>\$136,200</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 9 to the financial statements for the disclosures of relative risk information.

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

	As of September 30,	
	2011	2010
Funds	\$1,597,184	\$1,641,061
Bonds	118,030	462,507
Depository receipts	45,542	-
Total	<u>\$1,760,756</u>	<u>\$2,103,568</u>

(5) Accounts Receivable-Net

	As of September 30,	
	2011	2010
Accounts receivable	\$8,707,516	\$8,160,151
Less: Allowance for doubtful accounts	(323,788)	(335,646)
Net	<u>\$8,383,728</u>	<u>\$7,824,505</u>

The Company entered into several factoring agreements without recourse with financial institutions in Taiwan. According to those agreements, the Company does not take the risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related accounts receivable after deducting the estimated value of commercial disputes. The Company has not withdrawn cash entitled by the factoring agreements from banks as of September 30, 2011 and 2010. Receivables from banks due to factoring agreement were NT\$1,903,860 thousand and NT\$1,603,086 thousand, respectively.

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

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

As of September 30, 2011:

The Factor (Transferee)	Interest rate	As of September 30, 2011 (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International					
Bank	-	37,800	-	37,800	115,310
HSBC Bank	-	24,745	-	24,745	95,000
		<u>62,545</u>	<u>-</u>	<u>62,545</u>	<u>210,310</u>

As of September 30, 2010:

The Factor (Transferee)	Interest rate	As of September 30, 2010 (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International					
Bank	-	44,371	-	44,371	83,000
DBS Bank	-	6,796	-	6,796	20,000
		<u>51,167</u>	<u>-</u>	<u>51,167</u>	<u>103,000</u>

(6) Other Receivables

	As of September 30,	
	2011	2010
Interest receivable	\$190,030	\$131,251
VAT refundable	316,799	1,120,427
Others	1,958,951	1,667,890
Total	<u>\$2,465,780</u>	<u>\$2,919,568</u>

As of September 30, 2011 and 2010, receivables from banks due to factoring agreement were NT\$1,903,860 thousand and NT\$1,603,086 thousand, respectively. Please refer to Note 3(5).

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(7) Inventories-Net**

	As of September 30,	
	2011	2010
Work in process	\$5,703,580	\$7,667,466
Finished goods	4,042,241	6,474,134
Subtotal	9,745,821	14,141,600
Less: Allowance for loss on decline in market value and obsolescence	(2,574,006)	(4,800,524)
Net	\$7,171,815	\$9,341,076

a. For the nine months ended September 30, 2011 and 2010, the Company 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\$(1,779,055) thousand and NT\$2,513,856 thousand, respectively.

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

(8) Funds and Investments

a.

Investee Company	As of September 30, 2011			
	Type	Share/unit	Amount	Ownership
<u>Financial assets designated as at fair value through profit or loss-noncurrent</u>				
Dynamic Credit Protection Notes	Credit-linked deposit	-	\$48,095	-
Csi Best of 3 Cppi Portfolios USD 5yrs	Credit-linked deposit	-	238,757	-
UBS USD 4 Year Floating Rate Note with Cap & Floor	Interest rate-linked deposit	-	263,029	-
GS 3 Year USD Denominated Note Linked to MH	Credit-linked deposit	-	234,266	-
3Y Collared Floater EMTN (6MLibor)	Interest rate-linked deposit	-	119,690	-
3Y Collared Floater EMTN (3MLibor)	Interest rate-linked deposit	-	238,284	-

(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	As of September 30, 2011			
	Type	Share/unit	Amount	Ownership
4Y Floating Rate Note with Cap & Floor	Interest rate-linked deposit	-	267,358	-
3Y Floating Rate Note with Floor	Interest rate-linked deposit	-	266,152	-
TWD Bond Total Return Swap	Interest rate-linked deposit	-	100,246	-
3Y Denominated FX Linked Notes	Exchange rate-linked deposit	-	227,107	-
GS Group 3Y USD Floating-Rate Note	Interest rate-linked deposit	-	142,883	-
Seti Co., Ltd.	Bond	16	117,125	-
Subtotal			2,262,992	
<u>Available-for-sale financial assets-noncurrent</u>				
Cathay No.1 Real Estate Investment Trust	Mutual fund	70,000,000	847,000	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	597,500	-
Hui Xian Real Estate Investmen CMN	Mutual fund	13,540,000	202,912	-
Hutchison Port Holdings Singapore Trust CMN	Mutual fund	10,534,000	189,186	-
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	100,004	-
Gevcr II 36-Month Debentures	Bond	850	164,535	-
National Australia Bank CPN	Bond	-	19,787	-
Antstock Ltd.	Bond	-	282,780	-
Commonwealth Bank of Australia	Bond	-	19,811	-
HK Mortgage CPN	Bond	-	19,779	-
Agricultural Bank of China HK	Bond	-	19,758	-
ICBCHK CPN	Bond	-	19,832	-
MTRC(C.I) CPN	Bond	-	19,989	-
CLP Power	Bond	-	21,449	-
Swire HKD FRN Hibor	Bond	-	19,672	-
Subtotal			2,543,994	

(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	As of September 30, 2011			
	Type	Share/unit	Amount	Ownership
<u>Held-to-maturity financial assets-noncurrent</u>				
Beijing Enterprises Water Grou CPN	Bond	54,000,000	254,164	-
<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	4,000,000	(420)	14.41%
			(Note)	
Legend Tech. V.C. Inc. Corp.	Common share	427,168	(2,620)	6.33%
			(Note)	
Alpha Imaging Technology Corp.	Common share	8,330,963	186,259	15.29%
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	98,225	8.41%
V Web Corp.	Preferred share	1,250,000	-	3.39%
Wi Harper Inc Fund Vi Ltd.	Preferred share			
	and			
	common share	31,391	86,514	2.60%
Imera Systems, Inc.	Preferred share	536,382	24,491	5.13%
Mcube, Inc.	Preferred share	2,762,487	182,641	11.21%
Genesis Venture	Common share	4,000,000	121,760	18.03%
iPeer Multimedia International Ltd.	Preferred share	1,666,666	50,733	1.44%
Innovation Works Limited	Preferred share	2,000,000	60,880	5.23%
Spice Digital Ltd.	Preferred share	4,288,969	456,600	10.00%
China Broadband Capital Partners II, L.P.	Capital	-	36,528	-
Nozomi Fund	Capital	-	29,031	-
Jafco V2-(D) Fund	Capital	-	116,881	-
Jafco V3-(B) Fund	Capital	-	124,516	-
Jafco Asia (FATF4)	Capital	-	51,748	-
Pacific Growth Ventures, L.P.	Capital	-	121,760	-
Innovation Works Development Fund	Capital	-	36,528	-
Shanghai Walden Venture Capital				
Enterprise	Capital	-	111,747	-
Subtotal			1,998,261	

(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	As of September 30, 2011			
	Type	Share/unit	Amount	Ownership
<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	1,358,176	21.09%
Airoha Technology, Inc.	Common share	13,391,734	206,397	38.99%
Zena Technologies International, Inc.	Common share	600,000	2,162	48.63%
Bshark Holdings Ltd.	Preferred share	5,682	27,121	30.30%
General Mobile Technology Company Limited	Common share	5,000,000	9,739	33.93%
CMC Capital Investments, L.P.	Capital	-	160,499	76.80%
Subtotal			1,764,094	
<u>Capital collected in advance</u>				
Momagic Technologies Private Limited	Common share	-	14,499	-
Total			\$9,838,004	

Investee Company	As of September 30, 2010			
	Type	Share/unit	Amount	Ownership
<u>Financial assets designated as at fair value through profit or loss-noncurrent</u>				
Dynamic Credit Protection Notes	Credit-linked deposit	-	\$49,408	-
Csi Best of 3 Cppi Portfolios USD 5yrs	Credit-linked deposit	-	247,795	-
Principal Protected Note				
BNP DCP	Credit-linked deposit	9	279,009	-
GS 3 Year USD Denominated Note Linked to MH	Credit-linked deposit	-	249,136	-
3Y Collared Floater EMTN (6MLibor)	Interest rate-linked deposit	-	125,118	-
3Y Collared Floater EMTN (3MLibor)	Interest rate-linked deposit	-	248,948	-

(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	As of September 30, 2010			
	Type	Share/unit	Amount	Ownership
BNP TWD Quarterly Callable 90d CP Range Accrual Structured Investment	Interest rate-linked deposit	-	295,056	-
BNP Quarterly Callable ly CMS Range Accrual Structured Investment	Interest rate-linked deposit	-	295,139	-
Taishin 1.5 Years TWD CP90 Structured Investment	Interest rate-linked deposit	-	289,405	-
GS Inflation Shield Note	Bond	-	156,744	-
Pimco USD Principal Protection Note	Bond	-	355,115	-
Open Design Microelectronics Corporation	Bond	-	-	-
Seti Co., Ltd.	Bond	16	107,504	-
Subtotal			2,698,377	
<u>Available-for-sale financial assets-noncurrent</u>				
Pixart Imaging Inc.	Common share	691,275	105,765	0.53%
Cathay No.1 Real Estate Investment Trust	Mutual fund	70,000,000	794,500	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	555,500	-
Cathay Real Estate Investment Trust -Tun Nan C	Securities	20	100,001	-
Gevcr II 36-Month Debentures	Bond	850	140,986	-
Subtotal			1,696,752	
<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	8,248,607	304,003	15.42%
Andes Technologies, Inc.	Common share	3,305,587	-	12.42%
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	2,533,783	93,990	7.56%

(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	As of September 30, 2010			
	Type	Share/unit	Amount	Ownership
V Web Corp.	Preferred share	1,250,000	-	3.39%
Wi Harper Inc Fund Vi Ltd.	Preferred share and common share	31,391	89,043	2.60%
Imera Systems, Inc.	Preferred share	536,382	25,207	5.03%
Mcube, Inc.	Preferred share	1,000,000	31,330	5.68%
Genesis Venture	Common share	4,000,000	125,320	18.03%
iPeer Multimedia International Ltd.	Preferred share	1,666,666	52,217	1.44%
Nozomi Fund	Capital	-	18,459	-
Jafco V2-(D) Fund	Capital	-	120,298	-
Jafco V3-(B) Fund	Capital	-	74,207	-
Jafco Asia (FATF4)	Capital	-	50,128	-
Pacific Growth Ventures, L.P.	Capital	-	125,320	-
Innovation Works Development Fund	Capital	-	37,596	-
Subtotal			1,166,875	
<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	1,409,576	21.09%
Airoha Technology, Inc.	Common share	13,391,734	198,468	39.10%
Subtotal			1,608,044	
<u>Prepayment for long-term investments</u>				
Andes Technologies, Inc.	Common share	-	33,540	-
Innovation Works Limited	-	-	41,593	-
Subtotal			75,133	
Total			\$8,245,181	

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

- b. For the nine months ended September 30, 2011 and 2010, the Company recognized an investment gain accounted for under the equity method in the amount of NT\$68,976 thousand and NT\$151,634 thousand, respectively.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- c. For the nine months ended September 30, 2011, the Company invested in 4Y Floating Rate Note with Cap & Floor interest-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\$1,318,401 thousand. For the nine months ended September 30, 2010, the Company invested in BNP DCP interest-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\$1,806,062 thousand.
- d. For the nine months ended September 30, 2010, the Company sold GS Globalization Basket Note which was classified as financial assets designated as at fair value through profit or loss at the price of NT\$156,255 thousand.
- e. For the nine months ended September 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\$1,101,377 thousand.
- f. For the nine months ended September 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. For the nine months ended September 30, 2010, the Company redeemed Chinatrust 2006-1 Collateralized Loan Obligation-E which was classified as available-for-sale financial assets at the price of NT\$296,000 thousand.
- g. For the nine months ended September 30, 2011, the Company invested in Beijing Enterprises Water Group CPN bond which was classified as held-to-maturity financial asset. The investment cost amounted to NT\$254,164 thousand.
- h. For the nine months ended September 30, 2011, the Company invested in Shanghai Walden Venture Capital Enterprise and other financial assets which were classified as financial assets carried at cost in the aggregate amount of NT\$836,842 thousand. For the nine months ended September 30, 2010, the Company invested in Alpha Imaging Technology Corp. and other financial assets which were classified as financial assets carried at cost in the aggregate amount of NT\$341,326 thousand.
- i. For the nine months ended September 30, 2010, the Company sold shares of Alpha Imaging Technology Corp. and other financial assets which were classified as financial assets carried at cost at the price of NT\$202,358 thousand and recognized an investment disposal gain of NT\$112,306 thousand.
- j. For the nine months ended September 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 in the aggregate amount of NT\$203,614 thousand.

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

- k. For the nine months ended September 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.
- l. In December 2005, the Company acquired series B preferred stocks ("Preferred B") of Chinatrust Financial Holding Company by NT\$1,000,000 thousand. Terms and conditions of the stock are listed as follows:
- (a) Duration : 7 years
 - (b) Par value : \$10 per share
 - (c) Issuing price : \$40 per share
 - (d) Dividends:
Dividend is at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.
 - (e) Redemption at maturity:
Preferred B is a 7-year preferred stock. Redemption price at maturity is at 100% of the issuing price, i.e. NT\$40 per share.
- m. Funds and investments mentioned above were not pledged as of September 30, 2011 and 2010.
- (9) Property, Plant and Equipment
- a. No interest was capitalized for the nine months ended September 30, 2011 and 2010.
 - b. Property, plant and equipment were not pledged as of September 30, 2011 and 2010.

(10) Intangible Assets

	For the nine months ended September 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	115,108	52,266	167,374
Decrease - elimination and others	(2,051,401)	(3,652,866)	(5,704,267)
Balance at end of period	776,288	5,433,511	6,209,799
Accumulated amortization			
Balance at beginning of period	(2,379,528)	(6,657,958)	(9,037,486)
Increase - amortization	(215,211)	(885,208)	(1,100,419)
Decrease - elimination and others	2,048,517	3,665,421	5,713,938
Balance at end of period	(546,222)	(3,877,745)	(4,423,967)
Net	\$230,066	\$1,555,766	\$1,785,832

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

	For the nine months ended September 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	602,268	117,927	720,195
Decrease - elimination and others	7,129	(9,673)	(2,544)
Balance at end of period	2,643,877	9,054,941	11,698,818
Accumulated amortization			
Balance at beginning of period	(1,731,011)	(5,464,935)	(7,195,946)
Increase - amortization	(487,623)	(916,015)	(1,403,638)
Decrease - elimination and others	4,670	-	4,670
Balance at end of period	(2,213,964)	(6,380,950)	(8,594,914)
Net	\$429,913	\$2,673,991	\$3,103,904

(11) Short-term loans

	As of September 30,	
	2011	2010
Unsecured bank loans	\$2,317,175	\$-

The interest rate of the unsecured bank loans as of September 30, 2011 was 0.84%.

(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 September 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.

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

As of September 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 shares.

(14) Capital Reserve

	As of September 30,	
	2011	2010
Additional paid-in capital	\$11,055,025	\$11,038,662
Treasury stock transaction	941,301	785,420
Donated assets	1,260	1,260
Long-term investment transaction	207,315	203,200
Employee stock option	271,478	190,928
Total	<u>\$12,476,379</u>	<u>\$12,219,470</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 the surplus reserve is insufficient for making up such losses.

- a. The Company had paid cash dividends in the amount of NT\$155,881 thousand and NT\$202,226 thousand to the subsidiary who owned the Company's common shares for the nine months ended September 30, 2011 and 2010, respectively. Since the Company's shares held by the subsidiary are treated as treasury stocks, the cash dividends paid to the Company's subsidiary are accounted for as an adjustment to capital reserve; under the category of treasury stock transactions.
- b. 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 in an addition of capital in the amount of NT\$3,593,106 thousand. Please refer to Note 3(12).

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(15) Employee Stock Options**

In December 2007, July 2009, May 2010 and August 2011, 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, 3,500,000 units and 3,500,000 units, each option eligible to subscribe for one common share. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company's shareholding with voting rights, directly or indirectly, is more than fifty percent. The options are valid for ten years and exercisable at certain percentage subsequent to the second anniversary of the granted date. Under the terms of the plan, the options are granted at an exercise price equal to the closing price of the Company's common share listed on the TWSE on the grant date.

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

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2008.03.31	1,134,119	535,465	535,465	\$378.6
2008.08.28	1,640,285	853,498	853,498	362.0
2009.08.18	1,382,630	810,351	810,351	468.8
2010.08.27	1,605,757	1,096,468	1,096,468	436.5
2010.11.04	65,839	17,714	17,714	402.0
2011.08.24	2,109,871	2,086,165	2,086,165	280.0

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 nine months ended September 30, 2011 and 2010, compensation costs arising from employee stock options were NT\$57,820 thousand and NT\$68,727 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

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

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

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

	For the nine months ended September 30,			
	2011		2010	
Employee Stock Option	Options (Unit)	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Outstanding at beginning of period	4,327,687	\$416	3,790,285	\$408
Granted	2,109,871	280	1,605,757	436.5
Exercised	(9,062)	371	(147,111)	374
Forfeited (Expired)	(1,028,835)	412	(406,112)	409
Outstanding at end of period	<u>5,399,661</u>	363	<u>4,842,819</u>	415
Exercisable at end of period	<u>1,091,626</u>		<u>553,812</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$56.5</u>		<u>\$96.5</u>	

The information regarding the Company's outstanding stock options as of September 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	1,388,963	3.26	\$368	845,923	\$368
Stock option plan of 2009	468.8	810,351	4.38	469	246,003	469
Stock option plan of 2010	402~436.5	1,114,182	5.42	436	-	-
Stock option plan of 2011	280.0	<u>2,086,165</u>	6.00	280	<u>-</u>	<u>-</u>
		<u>5,399,661</u>		\$363	<u>1,091,926</u>	

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(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.

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 nine months ended September 30, 2011 and 2010, the amounts of the employee' bonuses were estimated to be NT\$1,373,306 thousand and NT\$3,414,850 thousand, respectively. During the nine months ended September 30, 2011 and 2010, the amounts of remunerations to directors and supervisors were estimated to be NT\$24,595 thousand and NT\$61,391 thousand, respectively. Employee bonuses were estimated based on 10% of net income for the nine months ended September 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.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(17) Treasury Stock**

a. Changes in treasury stock during the nine months ended September 30, 2011 is as follows:

(a) For the nine months ended September 30, 2011

(In thousands of shares)

Purpose	January 1, 2011	Increase	Decrease	September 30, 2011
For the shareholder's interest	-	8,000	-	8,000

(b) According to the Securities and Exchange Law of R.O.C., the total shares of treasury stock shall not exceed 10% of the Company's issued stock, and the total purchase amount shall not exceed the sum of retained earnings, additional paid-in capital and realized additional paid-in capital. As such, the maximum number of shares of treasury stock that the Company could hold as of September 30, 2011 was 109,998 thousand shares, while the amount of ceiling was NT\$88,272,390 thousand.

(c) In compliance with Securities and Exchange Law of R.O.C., treasury stock should not be pledged, nor should it be entitled to voting rights or receiving dividends. Stock held by subsidiaries is treated as treasury stock. These subsidiaries have the same rights as other stockholders except for subscription to new stock issuance and voting rights.

b. 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		September 30, 2011		
	Shares	Amount	Shares	Amount	Shares	Amount	Market Value
MediaTek Capital Corp.	7,794,085	\$55,970	-	\$-	7,794,085	\$55,970	\$2,560,357

Owner	January 1, 2010		Additions		September 30, 2010		
	Shares	Amount	Shares	Amount	Shares	Amount	Market Value
MediaTek Capital Corp.	7,778,530	\$55,970	15,555 (Note)	\$-	7,794,085	\$55,970	\$3,421,603

Note : Stock dividends

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 nine months ended September	
	2011	2010
Revenues from sales of multimedia and cell phone chipsets	\$67,650,864	\$97,429,008
Other operating revenue	358,334	326,151
Subtotal	68,009,198	97,755,159
Less: Sales returns	(40,297)	(45,445)
Sales discounts	(3,744,184)	(6,867,579)
Net Operating Revenue	\$64,224,717	\$90,842,135

(19) Earnings Per Share

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

	Amount (Numerator)			Earnings per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
<u>For the nine months ended September 30, 2011</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$11,095,227	\$10,705,568	1,090,772,918	<u>\$10.17</u>	<u>\$9.81</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	12,290,741		
Stock option to employees	-	-	40,144		
Diluted EPS	<u>\$11,095,227</u>	<u>\$10,705,568</u>	<u>1,103,103,803</u>	<u>\$10.06</u>	<u>\$9.71</u>
Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	\$(6,304)	\$(6,304)	1,090,772,918	<u>\$(0.01)</u>	<u>\$(0.01)</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	12,290,741		
Stock option to employees	-	-	40,144		
Diluted EPS	<u>\$(6,304)</u>	<u>\$(6,304)</u>	1,103,103,803	\$(0.01)	\$(0.01)

(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 nine months ended September 30, 2010</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$28,342,102	\$27,133,244	1,087,523,188	<u>\$26.06</u>	<u>\$24.95</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	22,859,342		
Stock option to employees	-	-	800,005		
Diluted EPS	<u>\$28,342,102</u>	<u>\$27,133,244</u>	<u>1,111,182,535</u>	<u>\$25.51</u>	<u>\$24.42</u>
Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	\$(6,416)	\$(6,416)	1,087,523,188	<u>\$(0.01)</u>	<u>\$(0.01)</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	22,859,342		
Stock option to employees	-	-	800,005		
Diluted EPS	<u>\$(6,416)</u>	<u>\$(6,416)</u>	<u>1,111,182,535</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>

4. Related Party Transactions**(1) Related parties and relations with the Company**

<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 nine months ended September 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>0.11</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 nine months ended September 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

		For the nine months ended September 30,	
Transactions		2011	2010
King Yuan	IC testing and experimental services	\$3,541,552	\$4,904,574

(c) Rental Income

	Rental Income		Other Receivables	
	For the nine months ended September 30,		As of September 30,	
	2011	2010	2011	2010
Airoha	\$-	\$5,960	\$-	\$797
JMicron	4,573	6,860	389	385
Total	\$4,573	\$12,820	\$389	\$1,182

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 September 30,	
		2011	2010
		Amount	%
King Yuan		\$1,190,074	17.45

5. Assets Pledged As Collateral**(1) As of September 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	3,275	Danske Bank	Credit guarantee
Restricted deposits-noncurrent	78	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	652	Citibank	Tariff execution deposits
Total	\$13,952		

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

(2) As of September 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	3,439	Danske Bank	Credit guarantee
Restricted deposits-current	3,000	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	22,318	Citibank	Lease guarantee
Restricted deposits-noncurrent	387	Citibank	Tariff execution deposits
Restricted deposits-noncurrent	88	Customs Office	Tariff execution deposits
Total	<u>\$36,149</u>		

6. 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 and other respondents' 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
2011.10.01~2012.09.30	\$30,371
2012.10.01~2013.09.30	30,371
2013.10.01~2014.09.30	30,371
2014.10.01~2015.09.30	30,371
2015.10.01~2016.09.30	30,371
2016.10.01~2027.12.31	221,640
Total	<u>\$373,495</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
2011.10.01~2012.09.30	\$112,775
2012.10.01~2013.09.30	84,411
2013.10.01~2014.09.30	69,544
2014.10.01~2015.09.30	60,514
2015.10.01~2016.09.30	34,777
2016.10.01~2027.12.31	35,074
Total	<u>\$397,095</u>

7. Significant Casualty Loss

None

8. Significant Subsequent Events

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, 3.156 shares of Ralink will be exchanged for 1 share of the Company. The business combination has been approved by the government and the effective date was October 1, 2011.

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

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.

9. Others**(1) Financial Instruments****a. Fair value of financial instruments**

	As of September 30,			
	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
<u>Assets</u>				
Cash and cash equivalents	\$72,965,343	\$72,965,343	\$87,135,986	\$87,135,986
Financial assets designated as at fair value through profit or loss	\$3,609,871	\$3,609,871	\$2,834,577	\$2,834,577
Receivables	\$8,383,728	\$8,383,728	\$7,824,505	\$7,824,505
Other receivables	\$2,465,780	\$2,465,780	\$2,919,568	\$2,919,568
Available-for-sale financial assets	\$4,304,750	\$4,304,750	\$3,800,320	\$3,800,320
Held-to-maturity financial assets	\$254,164	\$257,208	\$-	\$-
Financial assets carried at cost	\$1,998,261	\$-	\$1,166,875	\$-
Bond portfolios with no active market	\$1,000,000	\$1,090,830	\$1,000,000	\$1,074,213
Investments accounted for using the equity method				
-with market value	\$1,358,176	\$2,208,236	\$1,409,576	\$3,211,329
-without market value	\$405,918	\$-	\$198,468	\$-
Refundable deposits	\$267,192	\$267,192	\$385,982	\$385,973
Restricted assets	\$13,952	\$13,952	\$36,149	\$36,149
<u>Liabilities</u>				
Short-term loans	\$2,317,175	\$2,317,175	\$-	\$-
Payables (including related parties)	\$6,817,994	\$6,817,994	\$9,529,092	\$9,529,092
Accrued expenses	\$13,160,126	\$13,160,126	\$15,613,351	\$15,613,351
Deposits received	\$5,969	\$5,969	\$981	\$981

(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)

	As of September 30,			
	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
<u>Derivative</u>				
<u>Assets</u>				
Held-for-trading financial assets				
-foreign exchange contracts	\$323	\$323	\$45,531	\$45,531
-cross currency swap contracts	\$137,638	\$137,638	\$-	\$-
<u>Liabilities</u>				
Held-for-trading financial liabilities				
-foreign exchange contracts	\$87,306	\$87,306	\$413	\$413

- (a) The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:
- 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, short-term loans, payables and accrued expenses.
 - The fair values of the Company's refundable deposits, deposits received and restricted assets approximate their carrying value because the Company predicts the future cash inflows or outflows will be of similar amounts to the carrying values.
 - The fair values of held-for-trading financial assets and available-for-sale financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
 - 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.
 - 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.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (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 values 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 values of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
- (b) (Loss) gains recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$(15,529) thousand and NT\$119,432 thousand for the nine months ended September 30, 2011 and 2010, respectively.
- (c) As of September 30, 2011 and 2010, financial assets exposed to fair value risk from fixed interest rate were NT\$64,734,926 thousand and NT\$68,725,950 thousand, respectively, and financial liabilities exposed to fair value risk from fixed interest rate were NT\$2,317,175 thousand and nil. Financial assets exposed to cash flow risk from variable interest rate were NT\$4,123,139 thousand and NT\$1,840,986 thousand, respectively, and financial liabilities exposed to cash flow risk from variable interest rate were nil.
- (d) Interest income recognized from financial assets and financial liabilities that are not at fair value through profit or loss amounted to NT\$585,355 thousand and NT\$432,101 thousand for the nine months ended September 30, 2011 and 2010, respectively. Interest expense recognized from financial assets and financial liabilities that are not at fair value through profit or loss amounted to NT\$1,925 thousand and NT\$291 thousand. The Company recognized unrealized (loss) gain of NT\$(75,164) thousand and NT\$42,003 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the nine months ended September 30, 2011 and 2010, respectively, and the amounts that were recycled from equity to losses were NT\$13,065 thousand and nil for the nine months ended September 30, 2011 and 2010, respectively. The Company also recognized an unrealized losses of NT\$319,732 thousand and NT\$68,874 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 nine months ended September 30, 2011 and 2010, respectively.
- (e) For the nine months ended September 30, 2011 and 2010, the Company did not have impairment loss on financial assets.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

b.

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

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

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

(b) Information of financial risks

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

Market risk

Market risk mainly includes currency risk. It comes from purchase or sale activities which are not denominated in the Company's functional currency. The Company reviews its assets and liabilities denominated in foreign currency and enters into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Had the USD moved against NTD by increasing 1 cent, the fair value of the forward exchange contracts would decrease by NT\$1,100 thousand and NT\$950 thousand as of September 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.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Credit risk

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

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

Liquidity risk

The Company has sufficient operating capital to meet cash needs upon settlement of derivatives financial instruments. Therefore, the liquidity 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 is traded in active markets and can be sold promptly at the prices close to their fair values. Since the exchange rates of forward exchange contracts are fixed at the time the contracts are entered into and the Company does hold and anticipates to hold sufficient financial assets denominated in USD, no significant additional cash requirement is anticipated.

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

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**Cash flow risk from variable interest rate

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

(2) Other Information

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

As of September 30,						
2011			2010			
Foreign Currency (thousand)	Exchange rate	NTD (thousand)	Foreign Currency (thousand)	Exchange rate	NTD (thousand)	
<u>Financial assets</u>						
Monetary item						
USD	\$1,580,967	\$30.44	\$48,124,637	\$4,864,235	\$31.33	\$152,396,488
Non-monetary item						
USD	\$196,648	\$30.44	\$5,985,980	\$98,999	\$31.33	\$3,101,442
CNY	\$78,392	\$4.77	\$374,139	\$-	\$-	\$-
<u>Investments accounted for using the equity method</u>						
USD	\$6,555	\$30.44	\$199,521	\$-	\$-	\$-
<u>Financial liabilities</u>						
Monetary item						
USD	\$347,324	\$30.44	\$10,572,532	\$248,774	\$31.33	\$7,794,100
JPY	\$-	\$-	\$-	\$800,000	\$0.375	\$300,200

- b. Certain accounts in the financial statements of the Company as of September 30, 2010 have been reclassified to conform to the presentation of the current period.

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 nine months ended September 30, 2011 were as follows: (For the Company's shares owned by the subsidiary, please refer to the Note 3.(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	\$50,484	Based on contract	0.04%
				Sales revenues	\$435,434		0.68%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$11,332		0.01%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$647,774	Based on contract	0.52%
			3	Research and development expenses	\$754,152		1.17%
		MediaTek Denmark ApS	3	Payables to related parties	\$13,076		0.01%
			3	Research and development expenses	\$172,006		0.27%
		MTK Wireless Limited (UK)	3	Payables to related parties	\$29,625		0.02%
			3	Research and development expenses	\$277,341		0.43%
		MediaTek USA Inc.	3	Payables to related parties	\$105,451		0.08%
			3	Research and development expenses	\$782,287		1.22%
		MediaTek Japan Inc.	3	Payables to related parties	\$20,261		0.02%
			3	Research and development expenses	\$140,738		0.22%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$25,714		0.02%
			3	Research and development expenses	\$194,389		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	\$16,231	Based on contract	0.01%
			3	Research and development expenses	\$119,653		0.19%
		MediaTek (ShenZhen) Inc.	3	Payables to related parties	\$92,038		0.07%
			3	Research and development expenses	\$943,590		1.47%
		MediaTek (Hefei) Inc.	3	Payables to related parties	\$83,126		0.07%
			3	Research and development expenses	\$462,863		0.72%
		MediaTek (Beijing) Inc.	3	Prepayment	\$56,706		0.05%
			3	Research and development expenses	\$1,125,062		1.75%
		MediaTek (Chengdu) Inc.	3	Prepayment	\$115,709		0.09%
			3	Research and development expenses	\$24,937		0.04%
		MediaTek (Shanghai) Inc.	3	Prepayment	\$49,263		0.04%
			3	Research and development expenses	\$12,456		0.02%

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 nine months ended September 30, 2010 were 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	\$57,575	Based on contract	0.04%
				Sales revenues	\$569,851		0.63%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$287		0.00%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$949,557	Based on contract	0.69%
			3	Research and development expenses	\$1,183,060		1.30%
		MediaTek Denmark ApS	3	Payables to related parties	\$160,511		0.12%
			3	Research and development expenses	\$197,388		0.22%
		MTK Wireless Limited (UK)	3	Payables to related parties	\$105,064		0.08%
			3	Research and development expenses	\$314,764		0.35%
		MediaTek USA Inc.	3	Payables to related parties	\$1,237,368		0.89%
			3	Research and development expenses	\$580,868		0.64%
		MediaTek Japan Inc.	3	Payables to related parties	\$69,058		0.05%
			3	Research and development expenses	\$138,885		0.15%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$15,288		0.01%
			3	Research and development expenses	\$111,154		0.12%

(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	\$32,190	Based on contract	0.02%
			3	Research and development expenses	\$121,032		0.13%
		MediaTek (ShenZhen) Inc.	3	Prepayments	\$121,567		0.09%
			3	Research and development expenses	\$746,182		0.82%
		MediaTek (Hefei) Inc.	3	Prepayments	\$150,636		0.11%
			3	Research and development expenses	\$326,018		0.36%
		MediaTek (Beijing) Inc.	3	Prepayments	\$92,365		0.07%
			3	Research and development expenses	\$925,134		1.02%

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)

10. 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.