

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

**MEDIATEK INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**WITH**

**INDEPENDENT AUDITORS' REPORT**

**AS OF DECEMBER 31, 2011 AND 2010**

**AND FOR THE YEARS THEN ENDED**

## REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2011 and for the year then ended prepared under the R.O.C.'s Statement of Financial Accounting Standards No.7 (referred to as "Consolidated Financial Statements") are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as "Combined Financial Statements"). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

March 21, 2012

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders  
of MediaTek Inc.

We have audited the accompanying consolidated balance sheets of MediaTek Inc. and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MediaTek Inc. and its subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the R.O.C.

Ernst & Young  
CERTIFIED PUBLIC ACCOUNTANTS  
March 21, 2012  
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**  
**CONSOLIDATED BALANCE SHEETS**  
**As of December 31, 2011 and 2010**

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	2011	2010	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2011	2010
<b>Current assets</b>				<b>Current liabilities</b>			
Cash and cash equivalents	2, 4(1)	\$ 85,821,438	\$ 85,927,357	Short-term loans	4(13)	\$ 4,089,150	\$ -
Held-for-trading financial assets-current	2, 4(2)	66	46,271	Accounts payable		8,062,967	7,389,844
Financial assets designated as at fair value through profit or loss-current	2, 4(3)	1,617,350	510,422	Payables to related parties	5	958,936	1,029,160
Available-for-sale financial assets-current	2, 4(4)	2,545,354	5,588,972	Income tax payable	2, 4(23)	681,003	1,068,950
Held-to-maturity financial assets-current	2, 4(5)	48,126	-	Accrued expenses	2, 4(19)	15,714,455	15,668,939
Bond portfolios with no active market-current	2, 4(9)	1,000,000	-	Other payables		151,121	16,488
Accounts receivable, net	2, 4(6)	7,360,317	7,164,346	Current portion of long-term payables	4(14)	18,081	-
Receivables from related parties, net	5	23,567	-	Other current liabilities		752,407	612,875
Other receivables	4(7)	3,027,004	1,174,831	Total current liabilities		30,428,120	25,786,256
Inventories, net	2, 4(8)	9,392,282	9,387,649				
Prepayments		689,987	2,169,960	<b>Long-term liabilities</b>			
Other current assets		282,585	493,288	Long-term payables	4(14)	147,662	-
Deferred income tax assets-current	2, 4(23)	220,940	119,215				
Restricted assets-current	6	13,112	13,043				
Total current assets		112,042,128	112,595,354				
<b>Funds and investments</b>	2, 4(9)			<b>Other liabilities</b>			
Financial assets designated as at fair value through profit or loss-noncurrent		1,739,337	2,233,070	Accrued pension liabilities	2, 4(12)	190,538	107,227
Available-for-sale financial assets-noncurrent		2,810,668	1,720,495	Deposits received		6,176	973
Held-to-maturity financial assets-noncurrent		828,422	-	Deferred income tax liabilities-noncurrent	2, 4(23)	590,934	426,901
Financial assets carried at cost-noncurrent		2,203,872	1,083,608	Other liabilities-others		49,351	-
Bond portfolios with no active market-noncurrent		-	1,000,000	Total other liabilities		836,999	535,101
Investments accounted for using the equity method		1,834,664	1,658,511	Total liabilities		31,412,781	26,321,357
Prepayments for long-term investments		-	38,773				
Total funds and investments		9,416,963	7,734,457				
<b>Property, plant and equipment</b>	2, 4(10)			<b>Shareholders' equity</b>			
Land		1,055,184	888,722	Equity attributable to shareholders of the parent			
Buildings and facilities		6,135,210	5,738,474	Capital	4(15)	11,475,108	10,999,317
Machinery and equipment		159,305	204,516	Common stock		83	365
Computer and telecommunication equipment		1,952,134	1,436,518	Capital collected in advance			
Testing equipment		2,817,023	2,439,991	Capital reserve	4(17)	23,161,573	11,051,733
Miscellaneous equipment		1,126,343	689,195	Additional paid-in capital in excess of par	4(17)	941,301	785,420
Total cost		13,245,199	11,397,416	Treasury stock transaction	4(17)	1,260	1,260
Less : Accumulated depreciation		(4,963,794)	(3,833,975)	Donated assets	4(17)	225,366	207,315
Add : Construction in progress		1,452,404	125,951	Long-term investment transaction	4(17), 4(18)	276,382	213,676
Prepayments for equipment		76,242	118,425	Employee stock option		24,605,882	12,259,404
Property, plant and equipment, net		9,810,051	7,807,817	Total capital reserve			
<b>Intangible assets</b>	2, 4(11)			Retained earnings			
Trademarks		27,448	-	Legal reserve	4(16)	21,710,122	18,613,978
Patents		256,844	267,490	Special reserve	4(19)	4,198,121	355,131
Software		279,424	333,053	Undistributed earnings	4(19)	56,554,982	73,739,007
Goodwill		13,428,387	6,863,129	Other adjustments			
IPs and others		2,158,556	2,108,663	Cumulative translation adjustments	2	(2,253,504)	(4,380,730)
Total intangible assets		16,150,659	9,572,335	Unrealized gain(loss) on financial instruments	2	43,192	182,608
<b>Other assets</b>				Treasury stock	4(20)	(55,970)	(55,970)
Refundable deposits		265,431	261,488	Total shareholders' equity attributable to parent company		116,278,016	111,713,110
Deferred charges	2	51,379	45,897	Minority interests		50,311	225
Restricted assets-noncurrent	6	671	17,344	Total shareholders' equity		116,328,327	111,713,335
Other assets	2, 4(12)	3,826	-				
Total other assets		321,307	324,729				
<b>Total assets</b>		\$ 147,741,108	\$ 138,034,692	<b>Total liabilities and shareholders' equity</b>		\$ 147,741,108	\$ 138,034,692

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**  
**CONSOLIDATED STATEMENTS OF INCOME**

**For the years ended December 31, 2011 and 2010**

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

Description	Notes	2011		2010	
<b>Gross sales</b>		\$	91,480,134	\$	122,374,147
Less : Sales returns			(44,450)		(45,445)
Sales discounts			(4,578,190)		(8,806,744)
Net sales	2, 4(21), 5		86,857,494		113,521,958
<b>Cost of goods sold</b>	4(22), 5		(47,513,337)		(52,613,892)
<b>Gross profits</b>			39,344,157		60,908,066
<b>Operating expenses</b>	4(22), 5				
Selling expenses			(2,860,530)		(3,160,968)
General and administrative expenses			(2,954,996)		(3,357,947)
Research and development expenses			(21,183,903)		(23,310,531)
Total operating expenses			(26,999,429)		(29,829,446)
<b>Operating income</b>			12,344,728		31,078,620
<b>Non-operating income and gains</b>					
Interest income			1,016,367		586,492
Gain on equity investments, net	2, 4(9)		124,047		180,041
Gain on disposal of investments	2, 4(9)		66,760		7,917
Foreign exchange gain, net	2		332,656		28,366
Reversal of bad debts			62,871		-
Valuation gain on financial assets	2, 4(2)		-		35,667
Others			367,824		414,927
Total non-operating income and gains			1,970,525		1,253,410
<b>Non-operating expenses and losses</b>					
Interest expenses			(9,378)		-
Loss on disposal of property, plant and equipment	2		(15,409)		(44,113)
Valuation loss on financial assets	2, 4(2)		(87,215)		-
Total non-operating expenses and losses			(112,002)		(44,113)
<b>Income from continuing operations before income tax</b>			14,203,251		32,287,917
<b>Income tax expense</b>			(587,448)		(1,351,314)
<b>Consolidated net income</b>		\$	13,615,803	\$	30,936,603
<b>Income Attributable to :</b>					
Shareholders of the parent		\$	13,623,070	\$	30,961,437
Minority interests			(7,267)		(24,834)
Consolidated net income		\$	13,615,803	\$	30,936,603
<b>Basic Earnings Per Share (in New Taiwan Dollars)</b>	2, 4(24)	Before tax	After tax	Before tax	After tax
Consolidated net income		\$ 12.87	\$ 12.34	\$ 29.66	\$ 28.42
Net loss attributable to minority interests		0.01	0.01	0.02	0.02
Net income attributable to the parent		\$ 12.88	\$ 12.35	\$ 29.68	\$ 28.44
<b>Diluted Earnings Per Share (in New Taiwan Dollars)</b>	2, 4(24)				
Consolidated net income		\$ 12.73	\$ 12.20	\$ 29.10	\$ 27.88
Net loss attributable to minority interests		0.01	0.01	0.02	0.02
Net income attributable to the parent		\$ 12.74	\$ 12.21	\$ 29.12	\$ 27.90

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**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the years ended December 31, 2011 and 2010**  
(Amounts in thousands of New Taiwan Dollars)

Description	Common stock		Capital reserve	Retained Earnings			Cumulative translation adjustments	Unrealized gain (loss) on financial instruments	Treasury stock	Total shareholders' equity attributable to parent company	Minority interests	Total shareholders' equity
	Common stock	Capital collected in advance		Legal reserve	Special reserve	Undistributed earnings						
Balance as of January 1, 2010	\$ 10,901,189	\$ -	\$ 8,267,826	\$ 14,943,414	\$ 273,489	\$ 74,894,668	\$ (527,304)	\$ 172,173	\$ (55,970)	\$ 108,869,485	\$ 21,118	\$ 108,890,603
Appropriation and distribution of 2009 earnings (Note 1):												
Legal reserve	-	-	-	3,670,564	-	(3,670,564)	-	-	-	-	-	-
Special reserve	-	-	-	-	81,642	(81,642)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(28,343,090)	-	-	-	(28,343,090)	-	(28,343,090)
Stock dividends	21,802	-	-	-	-	(21,802)	-	-	-	-	-	-
Bonus to employees - in stock	74,855	-	3,593,106	-	-	-	-	-	-	3,667,961	-	3,667,961
Net income attributable to parent company for the year ended December 31, 2010	-	-	-	-	-	30,961,437	-	-	-	30,961,437	-	30,961,437
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	10,435	-	10,435	-	10,435
Employee stock option distributed to subsidiaries' employees	-	-	91,476	-	-	-	-	-	-	91,476	-	91,476
Issuance of stock from exercising employee stock options	1,471	365	66,877	-	-	-	-	-	-	68,713	-	68,713
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	202,226	-	-	-	-	-	-	202,226	-	202,226
Adjustment arising from changes in the percentage of ownership in investees	-	-	37,893	-	-	-	-	-	-	37,893	-	37,893
Cumulative translation adjustments	-	-	-	-	-	-	(3,853,426)	-	-	(3,853,426)	-	(3,853,426)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	(20,893)	(20,893)
Balance as of December 31, 2010	10,999,317	365	12,259,404	18,613,978	355,131	73,739,007	(4,380,730)	182,608	(55,970)	111,713,110	225	111,713,335
Appropriation and distribution of 2010 earnings (Note 2):												
Legal reserve	-	-	-	3,096,144	-	(3,096,144)	-	-	-	-	-	-
Special reserve	-	-	-	-	3,842,990	(3,842,990)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(21,999,457)	-	-	-	(21,999,457)	-	(21,999,457)
Net income attributable to parent company for the year ended December 31, 2011	-	-	-	-	-	13,623,070	-	-	-	13,623,070	-	13,623,070
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	(139,416)	-	(139,416)	-	(139,416)
Issuance of new shares due to combination	555,336	-	12,259,039	-	-	-	-	-	-	12,814,375	-	12,814,375
Treasury stock acquired	-	-	-	-	-	-	-	-	(2,109,914)	(2,109,914)	-	(2,109,914)
Treasury stock retired	(80,000)	-	(161,410)	-	-	(1,868,504)	-	-	2,109,914	-	-	-
Employee stock option distributed to subsidiaries' employees	-	-	88,803	-	-	-	-	-	-	88,803	-	88,803
Issuance of stock from exercising employee stock options	455	(282)	3,321	-	-	-	-	-	-	3,494	-	3,494
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	155,881	-	-	-	-	-	-	155,881	-	155,881
Adjustment arising from changes in the percentage of ownership in investees	-	-	844	-	-	-	-	-	-	844	-	844
Cumulative translation adjustments	-	-	-	-	-	-	2,127,226	-	-	2,127,226	-	2,127,226
Increase in minority interests	-	-	-	-	-	-	-	-	-	-	50,086	50,086
Balance as of December 31, 2011	\$ 11,475,108	\$ 83	\$ 24,605,882	\$ 21,710,122	\$ 4,198,121	\$ 56,554,982	\$ (2,253,504)	\$ 43,192	\$ (55,970)	\$ 116,278,016	\$ 50,311	\$ 116,328,327

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

Note 2: Directors' and supervisors' remuneration of NT\$48,045 thousand and employees' bonuses of NT\$3,863,296 thousand had been charged against earnings of 2010.

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2011 and 2010**  
(Amounts in thousands of New Taiwan Dollars)

Description	2011	2010
<b>Cash flows from operating activities :</b>		
Consolidated net income	\$ 13,615,803	\$ 30,936,603
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,179,541	1,107,081
Amortization	1,549,783	1,870,604
Bad debt provision	(62,871)	46,388
Reversal of sales returns and discounts	(152,716)	-
Employee stock options distributed	88,803	91,476
Amortization of financial assets discount or premium	2,524	296
(Gain) loss on (recovery) decline in market value and obsolescence of inventories	(1,202,475)	2,113,727
Net gain on equity investments	(124,047)	(180,041)
Net loss on disposal of property, plant and equipment	15,409	44,113
Net loss on disposal of intangible assets (included in other losses)	74	-
Gain on disposal of investment	(66,760)	(7,917)
Adjustment of valuation on financial assets and liabilities	95,474	(106,455)
Cash dividends from equity investees	166,506	123,713
Deferred income tax	186,387	409,696
Employees' bonuses	1,714,243	3,863,296
Changes in operating assets and liabilities:		
Financial assets designated as at fair value through profit or loss	(577,460)	(1,683,443)
Accounts receivable	(50,626)	(181,042)
Receivables from related parties	(23,567)	-
Other receivables	(292,975)	406,563
Inventories	2,587,862	(3,536,726)
Prepayments	1,479,973	(1,896,674)
Other current assets	258,227	(202,897)
Accounts payable	175,012	(2,620,019)
Payables to related parties	(70,224)	(756,334)
Income taxes payable	(408,335)	83,751
Accrued expenses	(3,675,369)	(807,962)
Other payables	48,656	-
Current portion of long-term payables	2,953	-
Other current liabilities	119,852	270,071
Long-term payables	(5,126)	-
Accrued pension liabilities	83,490	19,812
Other liabilities-others	49,351	-
Net cash provided by operating activities	16,707,372	29,407,680
<b>Cash flows from investing activities :</b>		
Decrease in restricted assets	16,604	2,868
Increase in available-for-sale financial assets	(4,546,205)	(3,697,357)
Proceeds from disposal of available-for-sale financial assets	6,432,441	649,486
Increase in held-to-maturity financial assets	(876,548)	-
Increase in financial assets carried at cost	(1,058,547)	(221,354)
Proceeds from disposal of financial assets carried at cost	5,735	3,325
Proceeds from disposal of investments accounted for using the equity method	-	13,081
Increase in investments accounted for using the equity method	(201,769)	-
Net cash outflows from acquisition of subsidiaries	-	(114,214)
Increase in prepayment for long-term investments	(15,145)	(38,773)
Purchase of property, plant and equipment	(2,584,699)	(2,122,234)
Proceeds from disposal of property, plant and equipment	2,198	9,661
Decrease in refundable deposits	10,248	67,101
Increase in intangible assets and deferred assets	(209,200)	(825,939)
Net cash provided by business combination	4,040,514	-
Net cash provided by (used in) investing activities	1,015,627	(6,274,349)
<b>Cash flows from financing activities :</b>		
Increase in short-term loans	3,975,608	-
Increase (decrease) in deposits received	5,176	(10)
Proceeds from exercise of employee stock options	3,494	68,713
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	52,343	(815)
Net cash used in financing activities	(19,916,869)	(28,072,976)
Effect of exchange rate	2,087,951	(3,780,890)
Net decrease in cash and cash equivalents	(105,919)	(8,720,535)
Cash and cash equivalents at the beginning of the year	85,927,357	94,647,892
Cash and cash equivalents at the end of the year	\$ 85,821,438	\$ 85,927,357
<b>Supplemental disclosures of cash flow information :</b>		
Interest paid during the year	\$ 4,811	\$ -
Income tax paid during the year	\$ 939,988	\$ 688,054
<b>Activities partially affected cash flows :</b>		
Purchase of property, plant and equipment	\$ 2,577,504	\$ 2,129,074
Add: decrease (increase) in payables to contractors and equipment suppliers	7,195	(6,840)
Cash paid for the purchase of property, plant and equipment	\$ 2,584,699	\$ 2,122,234
<b>Non-cash activities :</b>		
Stock dividends and employees' bonuses capitalized (including additional paid-in capital)	\$ -	\$ 3,689,763
Shares issued to acquire a subsidiary	\$ 12,814,375	\$ -
Change in unrealized (loss) gain on financial instruments	\$ (139,416)	\$ 10,435

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

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

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

As of December 31, 2011 and 2010, total numbers of employees of MTK and subsidiaries' were 6,880 and 5,486, respectively.

**2. Summary of Significant Accounting Policies**

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

General Descriptions of the Consolidated Entities

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

Company	Main Business	Percentage of Ownership As of December 31,		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%	-

(To be continued)



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

Company	Main Business	Percentage of Ownership As of December 31,		Note
		2011	2010	
MediaTek (Chengdu) Inc.	Technology services	100.00%	100.00%	4
MediaTek (Wuhan) Inc.	Technology services	100.00%	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%	9
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%	100.00%	10
Hesine Technologies, Inc.	Technology services	100.00%	-	11
Gold Rich International (Samoa) Limited	General investing	100.00%	-	12
Smarthead Limited	General investing	100.00%	-	13
Gold Rich International (HK) Limited	General investing	100.00%	-	14
Lepower Limited	General investing	71.09%	-	15
Lepower (HK) Limited	General investing	100.00%	-	16
Ralink Technology Corp.	Research, manufacturing and sales	100.00%	-	17
Ralink Technology (Singapore) Corp. Pte. Ltd.	General investing	100.00%	-	17
T-Rich Technology (Cayman) Corp.	General investing	100.00%	-	17
T-Rich Technology Corp.	Research, manufacturing and sales	100.00%	-	17
Ralink Technology (Samoa) Corp.	General investing	100.00%	-	17
Ralink Technology Corporation (USA)	Research	100.00%	-	9&17
Shadow Investment Limited	General investing	100.00%	-	17
MediaTek (Suzhou) Inc.	Technology services	100.00%	-	17
MediaTek (Nanjing) Inc.	Technology services	100.00%	-	17

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.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

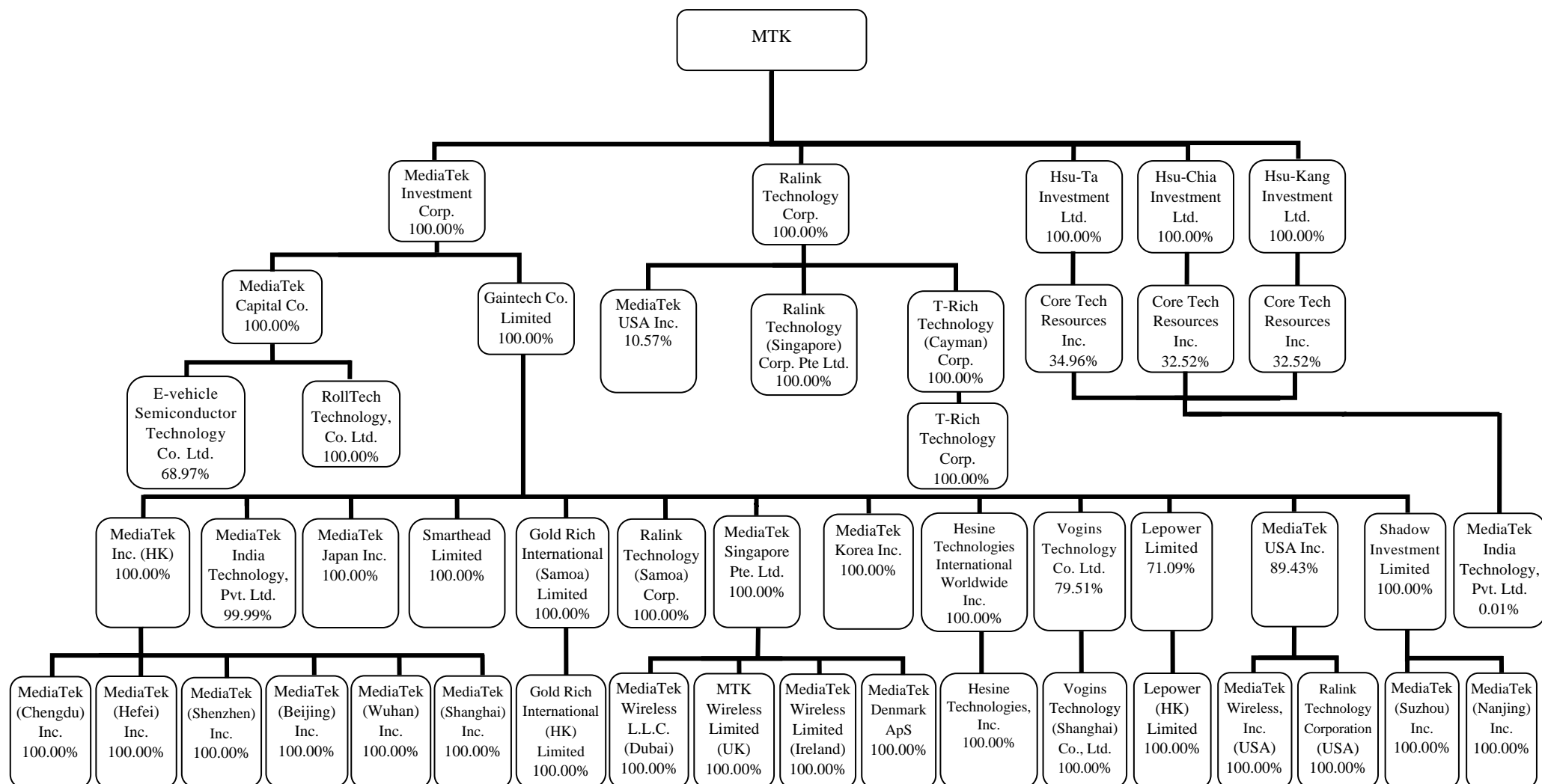
5. MediaTek (HK) Inc. established MediaTek (Wuhan) Inc. in December 2010.
6. MediaTek (HK) Inc. established MediaTek (Shanghai) Inc. in January 2011.
7. MediaTek Singapore Pte. Ltd. established MTK Wireless L.L.C. (Dubai) in September 2010.
8. Gaintech Co. Limited lost control over Zena Technologies 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 MTK's consolidated financial statements since the 4<sup>th</sup> quarter of 2010.
9. MediaTek USA Inc. issued new shares to acquire all shares of Ralink Technology Corporation's subsidiary - Ralink Technology Corporation (USA).
10. Gaintech Co. Limited established Hesine Technologies International Worldwide Inc. in December 2010.
11. Hesine Technologies International Worldwide Inc. invested in Hesine Technologies, Inc. in July 2011.
12. Gaintech Co. Limited established Gold Rich International (Samoa) Limited in May 2011.
13. Gaintech Co. Limited established Smarthead Limited in April 2011.
14. Gold Rich International (Samoa) Limited established Gold Rich International (HK) Limited in May 2011.
15. Gaintech Co. Limited established Lepower Limited in July 2011.
16. Lepower Limited established Lepower (HK) Limited in July 2011.
17. MTK issued new shares to exchange 100% shares of Ralink Technology Corp. in October 2011 and acquired all its subsidiaries: T-Rich Technology (Cayman) Corp., T-Rich Technology Corp., Ralink Technology (Singapore) Corp. Pte. Ltd, Ralink Technology Corporation (USA), Ralink Technology (Samoa) Corp., Shadow Investment Limited, MediaTek (Suzhou) Inc., and MediaTek (Nanjing) Inc. The record date of shares exchange was set on October 1, 2011, and accordingly Ralink Technology Corp. and its subsidiaries were included in MTK's 2011 consolidated financial statement. After the acquisition, the Company conducted a group reorganization by attaching Ralink Technology (Samoa) Corp., Shadow Investment Limited, MediaTek (Suzhou) Inc. and MediaTek (Nanjing) Inc. to Gaintech Co. Limited as its subsidiaries.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

The following diagram presented information regarding the relationships and ownership percentages among MTK and subsidiaries as of December 31, 2011:



**MEDIATEK INC.**

**NOTES TO 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 MTK 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 MTK 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, MTK controls an entity's finances, operations and personnel affairs;
  - c. MTK has authority to appoint or discharge more than half members of board of directors (or equivalents), by whom the investee is controlled;
  - d. MTK 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. 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.
- D. MTK together with its subsidiaries above mentioned are hereinafter referred to collectively as the "Company". Minority interests in the above mentioned subsidiaries are presented as a separate component of shareholders' equity.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

*Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency*

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

*Cash Equivalents*

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

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

*Financial Assets and Financial Liabilities*

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

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

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

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

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

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

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

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

(a) Financial asset that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

- (b) Financial instruments that would not have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

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

b. Bond portfolios with no active market

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

c. Financial assets carried at cost

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

d. Held-to-maturity financial assets

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

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

e. Available-for-sale financial assets

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

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

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

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



**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

*Evaluation of Impairment of Accounts Receivable*

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

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

*Inventories*

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

*Investment Accounted for Using the Equity Method*

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

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

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

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

*Property, Plant and Equipment*

- A. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment. Depreciation is computed on a straight-line basis over the following useful lives:
- |  |         |       |
|--|---------|-------|
| Buildings and facilities                 | 3 to 50 | Years |
| Machinery and equipment                  | 3 to 5  | Years |
| Computer and telecommunication equipment | 3 to 10 | Years |
| Testing equipment                        | 3 to 10 | Years |
| Miscellaneous equipment                  | 2 to 15 | Years |
- B. Improvements and replacements are capitalized and depreciated over their estimated useful lives while ordinary repairs and maintenance are expensed as incurred.
- C. When property, plant and equipment are disposed of, their original cost, accumulated depreciation and accumulated impairment are written off and related gains or losses are included as non-operating income or expenses.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

*Intangible Assets*

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

Trademarks	2 to 3 Years
Software (design software)	2 to 10 Years
Patents, IPs and others	2 to 10 Years

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

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

*Deferred Assets*

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

*Asset Impairment*

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

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

*Capital Expenditures vs. Operating Expenditures*

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

*Revenue Recognition*

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

*Employee Retirement Benefits*

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

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

*Income Tax*

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

*Employee Stock Option*

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

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

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

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

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

*Employee Bonuses and Remunerations Paid to Directors and Supervisors*

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

*Earnings Per Share*

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

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

*Treasury Stock*

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

*Derivative Financial Instruments-Held for Trading*

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

*Operating Segments Information*

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

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

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

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

**3. Reasons and Effects for Change in Accounting Principles**

- (1) Effective January 1, 2011, the Company adopted the third revised R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement". This change in accounting principles had no significant effect on net income and earnings per share for the year ended December 31, 2011.
- (2) Effective January 1, 2011, the Company adopted R.O.C. SFAS No. 41, "Operating Segments" (R.O.C. SFAS No. 41), to present operating segment information. The newly issued R.O.C. SFAS No. 41 replaced R.O.C. SFAS No. 20, "Segment Reporting".

**4. Contents of Significant Accounts**

- (1) Cash and Cash Equivalents

	As of December 31,	
	2011	2010
Petty cash	\$2,020	\$1,656
Savings and checking accounts	11,069,943	22,740,037
Time deposits	74,749,475	61,638,261
Cash equivalents-bonds-Repo	-	1,547,403
Total	<u>\$85,821,438</u>	<u>\$85,927,357</u>

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

b. Cash and cash equivalents were not pledged as of December 31, 2011 and 2010.

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

a.

	As of December 31,	
	2011	2010
Held-for-trading financial assets-Current		
Forward exchange contracts	<u>\$66</u>	<u>\$46,271</u>

The Company entered into derivative contracts during the years ended December 31, 2011 and 2010 to manage exposures to foreign exchange rate changes. The derivative contracts entered into by the Company did not meet the criteria of hedge accounting prescribed by SFAS No. 34. Therefore, they were recorded as the held-for-trading financial assets and liabilities-current. Please refer to Note 10 to the financial statements for the disclosure of relative risk information.



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

Outstanding forward exchange contracts as of December 31, 2011 and 2010 were as follows:

(a) As of December 31, 2011:

Held-for-trading financial assets:

Financial instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	January 2012	14,000

(b) As of December 31, 2010:

Held-for-trading financial assets:

Financial instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	January 2011	45,000

For the years ended December 31, 2011 and 2010, losses arising from the forward exchange contracts and the cross currency swap contracts were NT\$37,947 thousand and NT\$40,559 thousand, respectively.

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

	As of December 31,	
	2011	2010
Convertible bonds	\$103,510	\$122,100
Interest rate-linked deposits	1,513,840	388,322
Total	<u>\$1,617,350</u>	<u>\$510,422</u>

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

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

	As of December 31,	
	2011	2010
Funds	\$2,371,197	\$4,555,029
Bonds	117,721	1,033,943
Depository receipts	56,436	-
Total	<u>\$2,545,354</u>	<u>\$5,588,972</u>

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(5) Held-to-Maturity Financial Assets-Current**

	As of December 31,	
	2011	2010
Interest rate-linked deposits	\$48,126	\$-

**(6) Accounts Receivable-Net**

	As of December 31,	
	2011	2010
Accounts receivable	\$7,926,274	\$7,454,640
Less: Allowance for sales returns and discounts	(318,131)	-
Allowance for doubtful accounts	(247,826)	(290,294)
Net	\$7,360,317	\$7,164,346

The Company entered into several factoring agreements without recourse with financial institutions. According to those agreements, the Company does not take the risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related accounts receivable after deducting the estimated value of commercial disputes. The Company has not withdrawn cash entitled by the factoring agreements from banks as of December 31, 2011 and 2010. Receivables from banks due to factoring agreement were NT\$2,138,876 thousand and NT\$680,141 thousand, respectively.

As of December 31, 2011 and 2010, accounts receivable derecognized were as follows:

As of December 31, 2011:

The Factor (Transferee)	Interest rate	Accounts receivable	Cash	Unutilized (US\$'000)	Credit line (US\$'000)
		derecognized (US\$'000)	withdrawn (US\$'000)		
Taishin International					
Bank	-	45,717	-	45,717	129,946
BNP Paribas	-	24,896	-	24,896	65,000
		70,613	-	70,613	194,946

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

As of December 31, 2010:

The Factor (Transferee)	Interest rate	Accounts receivable derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International					
Bank	-	20,611	-	20,611	95,310
DBS Bank	-	2,778	-	2,778	20,000
		23,389	-	23,389	115,310

**(7) Other Receivables**

	As of December 31,	
	2011	2010
Interest receivable	\$325,791	\$114,083
VAT refundable	527,001	323,862
Others	2,174,212	736,886
Total	\$3,027,004	\$1,174,831

As of December 31, 2011 and 2010, receivables from banks due to factoring agreement were NT\$2,138,876 thousand and NT\$680,141 thousand, respectively. Please refer to Note 4(6).

**(8) Inventories-Net**

	As of December 31,	
	2011	2010
Work in process	\$7,499,193	\$7,320,869
Finished goods	5,424,535	6,393,820
Subtotal	12,923,728	13,714,689
Less: Allowance for loss on decline in market value and obsolescence	(3,531,446)	(4,327,040)
Net	\$9,392,282	\$9,387,649

a. As of December 31, 2011, the circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed. As a result, the Company recognized a reversal gain which was included in cost of goods sold in the amount of NT\$1,202,475 thousand. Write-down of inventories to net realizable value in the amount of NT\$2,113,727 thousand was included in the cost of goods sold for the year ended December 31, 2010.

b. Inventories were not pledged as of December 31, 2011 and 2010.

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

## (9) Funds and Investments

a.

Investee Company	As of December 31, 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	-	\$47,858	-
Csi Best of 3 Cppi Portfolios USD 5yrs Principal Protected Note	Credit-linked deposit	-	236,011	-
GS 3 Year USD Denominated Note Linked to MH	Credit-linked deposit	-	230,543	-
3Y Collared Floater EMTN (6MLibor)	Interest rate-linked deposit	-	117,828	-
3Y Collared Floater EMTN (3MLibor)	Interest rate-linked deposit	-	235,414	-
4Y Floating Rate Note with Cap & Floor	Interest rate-linked deposit	-	262,851	-
3Y Floating Rate Note with Floor	Interest rate-linked deposit	-	262,851	-
3Y Denominated FX Linked Notes	Exchange rate-linked deposit	-	226,981	-
Seti Co., Ltd.	Bond	16	119,000	-
Subtotal			1,739,337	
<u>Available-for-sale financial assets-noncurrent</u>				
Cathay No.1 Real Estate Investment Trust	Mutual fund	68,400,000	963,072	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	629,500	-
Hui Xian Real Estate Investment CMN	Mutual fund	13,540,000	227,417	-
Hutchison Port Holdings Singapore Trust CMN	Mutual fund	10,534,000	201,017	-
Tencent Holding Ltd.	Bond	6,450,000	190,926	-
Gevcr II 36-Month Debentures	Bond	850	182,608	-
Anstock Ltd.	Bond	60,000,000	277,205	-

(To be continued)

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

(Continued)

Investee Company	As of December 31, 2011			
	Type	Share/unit	Amount	Ownership
Commonwealth Bank of Australia	Bond	-	19,652	-
HK Mortgage CPN	Bond	-	19,585	-
Agricultural Bank of China HK	Bond	-	19,521	-
ICBCHK CPN	Bond	-	19,648	-
MTRC(C.I) CPN	Bond	-	19,702	-
CLP Power	Bond	-	21,208	-
Swire HKD FRN Hibor	Bond	-	19,607	-
Subtotal			2,810,668	
<u>Held-to-maturity financial assets-noncurrent</u>				
UBS USD 4Y FRN with Cap/Floor	Interest rate-linked deposit	-	272,610	-
GS Group 3Y USD Floating-Rate Note	Interest rate-linked deposit	-	302,900	-
Beijing Enterprises Water Group CPN	Bond	54,000,000	252,912	-
Subtotal			828,422	
<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	8,498,926	186,259	15.01%
Andes Technologies, Inc.	Common share	8,749,710	81,662	18.74%
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%
Synerchip Co., Ltd.	Preferred share	2,850,175	97,741	6.93%
V Web Corp.	Preferred share	1,250,000	-	3.39%
Wi Harper Inc Fund Vi Ltd.	Preferred share			
	and			
	common share	29,445	74,298	2.44%
Imera Systems, Inc.	Preferred share	536,382	24,371	5.13%
Mcube, Inc.	Preferred share	2,762,487	181,740	10.88%

(To be continued)

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

(Continued)

Investee Company	As of December 31, 2011			
	Type	Share/unit	Amount	Ownership
Genesis Venture	Common share	4,000,000	121,160	18.03%
iPeer Multimedia International Ltd.	Preferred share	1,666,666	50,483	1.44%
Innovation Works Limited	Preferred share	2,000,000	60,580	5.24%
Spice Digital Ltd.	Preferred share	4,288,969	454,350	10.00%
Zynga Inc.	Common share	1,600	485	0.01%
China Broadband Capital Partners II, L.P.	Capital	-	36,348	-
Nozomi Fund	Capital	-	46,107	-
Jafco V2-(D) Fund	Capital	-	116,306	-
Jafco V3-(B) Fund	Capital	-	123,902	-
Jafco Asia (FATF4)	Capital	-	51,493	-
Pacific Growth Ventures, L.P.	Capital	-	121,160	-
Innovation Works Development Fund	Capital	-	72,696	-
Shanghai Walden Venture Capital	Capital	-	222,394	-
Shenzhen Goodix Technology Co., Ltd.	Capital	-	60,580	18.41%
Subtotal			2,203,872	
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Series B			
	Preferred stock	25,000,000	1,000,000	-
Less: Current portion			(1,000,000)	
Subtotal			-	
<u>Investments accounted for using the equity method</u>				
ALi Corporation	Common share	64,099,738	1,422,697	21.09%
Airoha Technology, Inc.	Common share	13,391,734	209,299	38.99%
CMC Capital Investments, L.P.	Capital	-	159,710	-
Others			42,958	
Subtotal			1,834,664	
Total			\$9,416,963	

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

Investee Company	As of December 31, 2010			
	Type	Share/unit	Amount	Ownership
<u>Financial assets designated as at fair value through</u>				
<u>profit or loss-noncurrent</u>				
Dynamic Credit Protection Notes	Credit-linked			
	deposit	-	\$46,022	-
Csi Best of 3 Cppi Portfolios USD 5yrs	Credit-linked			
Principal Protected Note	deposit	-	227,379	-
BNP DCP	Credit-linked			
	deposit	9	256,433	-
GS 3 Year USD Denominated Note Linked to MH	Credit-linked			
	deposit	-	231,477	-
3Y Collared Floater EMTN (6MLibor)	Interest			
	rate-linked			
	deposit	-	115,913	-
3Y Collared Floater EMTN (3MLibor)	Interest			
	rate-linked			
	deposit	-	230,721	-
BNP TWD Quarterly Callable 90d CP	Interest			
Range Accrual Structured Investment	rate-linked			
	deposit	-	294,991	-
BNP TWD Quarterly Callable 1Y CMS	Interest			
Range Accrual Structured Investment	rate-linked			
	deposit	-	295,121	-
Taishin 1.5 Years TWD CP90	Interest			
Structured Investment	rate-linked			
	deposit	-	289,365	-
GS Inflation Shield Note	Bond	-	145,864	-
Open Design Microelectronics Corporation	Bond	-	-	-
Seti Co., Ltd.	Bond	16	99,784	-
Subtotal			<u>2,233,070</u>	
<u>Available-for-sale financial assets-noncurrent</u>				
Pixart Imaging Inc.	Common share	691,275	100,235	0.53%
Cathay No.1 Real Estate Investment Trust	Mutual fund	70,000,000	827,400	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	562,000	-
Cathay Real Estate Investment Trust -Tun				
Nan C	Securities	20	99,999	-

(To be continued)

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

(Continued)

Investee Company	As of December 31, 2010			
	Type	Share/unit	Amount	Ownership
Gevcr II 36-Month Debentures	Bond	850	130,861	-
Subtotal			1,720,495	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Browave Corporation	Common share	380,000	-	0.69%
Communication V.C. Corp.	Common share	4,800,000	(420)	14.41%
			(Note)	
Legend Tech. V.C. Inc. Corp.	Common share	527,168	(2,620)	6.33%
			(Note)	
Alpha Imaging Technology Corp.	Common share	8,330,963	186,259	15.34%
Andes Technologies, Inc.	Common share	8,749,710	81,662	18.77%
Prime Sensor Technology Inc.	Common share	2,250,000	22,500	12.10%
Indigo Mobile Technologies Corp.	Common share	4,791,000	297	6.88%
Sino Photonics	Common share	134,400	-	9.88%
Synerchip Co., Ltd.	Preferred share	2,533,783	87,240	7.56%
V Web Corp.	Preferred share	1,250,000	-	3.39%
Wi Harper Inc Fund Vi Ltd.	Preferred share			
	and			
	common share	31,391	82,648	2.60%
Imera System, Inc.	Preferred share	536,382	23,397	5.13%
Mcube, Inc.	Preferred share	1,000,000	29,080	5.68%
Genesis Venture	Common share	4,000,000	116,320	18.03%
iPeer Multimedia International Ltd.	Preferred share	1,666,666	48,467	1.44%
Nozomi Fund	Capital	-	17,133	-
Jafco V2-(D) Fund	Capital	-	111,660	-
Jafco V3-(B) Fund	Capital	-	82,241	-
Jafco Asia (FATF4)	Capital	-	46,528	-
Pacific Growth Ventures, L.P.	Capital	-	116,320	-
Innovation Works Development Fund	Capital	-	34,896	-
Subtotal			1,083,608	
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Series B			
	preferred stock	25,000,000	1,000,000	-

(To be continued)



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

(Continued)

Investee Company	As of December 31, 2010			
	Type	Share/unit	Amount	Ownership
<u>Investments accounted for using the equity method</u>				
ALi Corporation	Common share	64,099,738	1,450,049	21.09%
Airoha Technology, Inc.	Common share	13,391,734	190,225	39.65%
Others			18,237	
Subtotal			1,658,511	
<u>Prepayment for long-term investments</u>				
Innovation Works Limited			38,773	
Total			\$7,734,457	

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

- b. For the years ended December 31, 2011 and 2010, the Company recognized an investment gain accounted for under the equity method in the amount of NT\$124,047 thousand and NT\$180,041 thousand, respectively.
- c. During 2011, the Company invested in 4Y Floating Rate Note with Cap & Floor interest rate-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\$892,086 thousand. In 2010, the Company invested in BNP DCP credit-linked deposit and other financial assets which were classified as financial assets designated as at fair value through profit or loss in the aggregate amount of NT\$1,713,320 thousand.
- d. During 2011, the Company sold GS Inflation Shield Note 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\$246,747 thousand. In 2010, the Company sold GS Globalization Basket Note and other financial assets which were classified as financial assets designated as at fair value through profit or loss in the aggregate amount of NT\$526,699 thousand and recognized a valuation gain on financial assets of NT\$52,420 thousand.
- e. In 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\$1,294,627 thousand.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

- f. During 2011, the Company sold Cathay No. 1 Real Estate Investment Trust and other financial assets which were classified as available-for-sale financial assets at the aggregate price of NT\$201,305 thousand and recognized an investment disposal gain of NT\$80,019 thousand. In 2010, the Company sold Chinatrust 2006-1 Collateralized Loan Obligation-E and other financial assets which were classified as available-for-sale financial assets at the aggregate price of NT\$296,000 thousand.
- g. In 2011, the Company invested in Beijing Enterprises Water Grou CPN bond which was classified as held-to-maturity financial asset. The investment cost amounted to NT\$828,422 thousand.
- h. During 2011, the Company invested in Shanghai Walden Venture Capital and other financial assets which were classified as financial assets carried at cost in the aggregate amount of NT\$1,058,547 thousand. In 2010, the Company invested in Pacific Growth Ventures, L.P. and other financial assets which were classified as financial assets carried at cost in the aggregate amount of NT\$221,354 thousand.
- i. In 2011, the Company received the funds of capital reduction in the amount of NT\$5,735 thousand from Wi Happer Inc Fund Wi Ltd. which was classified as financial assets carried at cost. In 2010, the Company sold shares of Browave Corporation and other financial assets which were classified as financial assets carried at cost at the aggregate price of NT\$3,325 thousand and recognized an investment disposal gain of NT\$1,296 thousand.
- j. In 2011, the Company invested in CMC Capital Investments, L.P. and other financial assets which were classified as investments accounted for using the equity method. The investment cost amounted to NT\$202,613 thousand.
- k. In 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:

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

(a) Duration : 7 years

(b) Par value : \$10 per share

(c) Issuing price : \$40 per share

(d) Dividends:

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

(e) Redemption at maturity:

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

m. Funds and investments mentioned above were not pledged as of December 31, 2011 and 2010.

**(10) Property, Plant and Equipment**

a. No interest was capitalized for the years ended December 31, 2011 and 2010.

b. Property, plant and equipment were not pledged as of December 31, 2011 and 2010.

**(11) Intangible Assets**

	For the year ended December 31, 2011			
	Trademarks	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	-	136,319	57,387	193,706
Increase - through business combination	32,300	89,390	1,240,595	1,362,285
Decrease - elimination and others	-	(2,046,290)	(3,661,370)	(5,707,660)
Balance at end of period	32,300	892,000	6,670,723	7,595,023
Accumulated amortization				
Balance at beginning of period	-	(2,379,528)	(6,657,958)	(9,037,486)
Increase - amortization	(4,852)	(282,145)	(1,262,786)	(1,549,783)
Decrease - elimination and others	-	2,049,097	3,655,421	5,714,518
Balance at end of period	(4,852)	(612,576)	(4,255,323)	(4,872,751)
Net	\$27,448	\$279,424	\$2,415,400	\$2,722,272

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

	For the year ended December 31, 2010		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$2,034,480	\$8,946,687	\$10,981,167
Increase - separately acquired	680,043	51,870	731,931
Increase - through business combination	-	75,023	75,023
Decrease - elimination and others	(1,942)	(39,469)	(41,411)
Balance at end of period	2,712,581	9,034,111	11,746,692
Accumulated amortization			
Balance at beginning of period	(1,731,011)	(5,464,935)	(7,195,946)
Increase - amortization	(657,033)	(1,213,571)	(1,870,604)
Decrease - elimination and others	8,516	20,548	29,064
Balance at end of period	(2,379,528)	(6,657,958)	(9,037,486)
Net	\$333,053	\$2,376,153	\$2,709,206

**(12) Accrued Pension Liabilities**

a. MTK and its domestic subsidiaries adopted a defined benefit pension plan, the relative information is disclosed as follows:

(a) MTK and its domestic subsidiaries' pension fund contributed to a fiduciary account in Bank of Taiwan amounted to NT\$69,213 thousand and NT\$47,038 thousand as of December 31, 2011 and 2010, respectively.

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

	For the year ended December 31,	
	2011	2010
Service cost	\$2,990	\$2,134
Interest cost	11,761	8,260
Expected return on plan assets	(1,028)	(1,023)
Amortization and deferral	18,698	11,035
Net pension cost	\$32,421	\$20,406

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

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

	As of December 31,	
	2011	2010
Benefit obligations		
Vested benefit obligation	\$-	\$-
Non-vested benefit obligation	(227,157)	(205,873)
Accumulated benefit obligation	(227,157)	(205,873)
Effect of projected future salary increase	(255,190)	(374,304)
Projected benefit obligation	(482,347)	(580,177)
Fair value of plan assets	69,213	47,038
Funded status of pension plan	(413,134)	(533,139)
Unrecognized net transitional obligation	2,066	618
Unrecognized loss	278,066	425,766
Others	(53,710)	(472)
Accrued pension liabilities	<u>\$(186,712)</u>	<u>\$(107,227)</u>
	(Note)	

Note: Includes prepaid pension cost NT\$3,826 thousand, classified in other assets - other assets.

- (d) The vested benefit was nil as of December 31, 2011 and 2010.

- (e) The underlying actuarial assumptions

	For the year ended December 31,	
	2011	2010
Discount rate	2.00%	2.00%
Rate of increase in future compensation levels	3.00%	4.00%
Expected long-term rate of return on plan assets	2.00%	2.00%

- b. The Company adopted defined contribution pension plans and made periodical contributions to pension funds in accordance with related local statutory regulations and laws. Pension expenses aggregately amounted to NT\$461,111 thousand and NT\$328,758 thousand for the years ended December 31, 2011 and 2010, respectively.

## (13) Short-Term Loans

	As of December 31,	
	2011	2010
Unsecured loans	<u>\$4,089,150</u>	<u>\$-</u>

The interest rate of the unsecured loans as of December 31, 2011 was between 1.25%~1.50%.

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

Item	Period	As of December 31,		Installment Payment
		2011	2010	
Wi-LAN Inc. and Wi-LAN International Taiwan Inc.	January 2011- December 2016	\$165,743	\$-	Repayable in 24 quarterly installments.
Less: Current portion		(18,081)	-	
Net		<u>\$147,662</u>	<u>\$-</u>	

(1) The royalty payables was for Ralink Technology Corporation's use of patent owned by Wi-LAN Inc and Wi-LAN International Taiwan Inc.

(2) The Company did not provide collateral for the above payables.

**(15) Common Stock**

As of January 1, 2010, the authorized and issued common shares of MTK 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, MTK 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.

Based on the resolution of shareholders' general meeting on June 15, 2011, MTK resolved to issue new shares to exchange 100% shares of Ralink Technology Corp. MTK issued 55,533,588 new shares according to the business combination agreement, each share at par value of NT\$10. The record date of shares exchange was set on October 1, 2011, and the government approval has been successfully obtained.

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

On October 28, 2011, MTK retired 8,000,000 shares of treasury stock which were purchased during the period from July 14, 2011 to September 12, 2011 for the shareholders' interest. The government approval has been successfully obtained.

As of December 31, 2011, MTK issued 200,951 new shares at par value of NT\$10 for the employee stock options exercised. Among those new shares, 8,277 shares (NT\$83 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance.

As of December 31, 2011, the authorized and issued common shares of MTK amounted to NT\$12,000,000 thousand and NT\$11,475,108 thousand, divided into 1,200,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,147,510,834 shares, respectively, each share at par value of NT\$10. Capital collected in advance was NT\$83 thousand.

**(16) Legal Reserve**

According to the R.O.C. Company Law, 10% of MTK's net income after tax shall be appropriated to legal reserve prior to any distribution. Where such legal reserve amounts to the total authorized capital, this provision shall not apply. MTK shall not pay dividends or bonuses, unless its losses shall have been covered and a legal reserve shall have been set aside in accordance with the provisions of the Company Act. MTK also shall not pay dividends or bonuses, if there is no surplus earnings. Where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

**(17) Capital Reserve**

	As of December 31,	
	2011	2010
Additional paid-in capital	\$23,161,573	\$11,051,733
Treasury stock transaction	941,301	785,420
Donated assets	1,260	1,260
Long-term investment transaction	225,366	207,315
Employee stock option	276,382	213,676
Total	<u>\$24,605,882</u>	<u>\$12,259,404</u>

According to relevant laws, capital reserve can only be used for making up losses or reclassifying to paid-in capital. Where MTK incurs no loss, it may distribute its capital reserve, in whole or in part, by issuing new shares or by cash. MTK shall not use capital reserve to make up its loss unless legal reserve is insufficient for making up such losses.

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

- a. MTK had paid cash dividends in the amount of NT\$155,881 thousand and NT\$202,226 thousand to the subsidiary who owned MTK's common shares for the years ended December 31, 2011 and 2010, respectively. Since MTK's shares held by the subsidiary are treated as treasury stocks, the cash dividends paid to MTK's subsidiary are accounted for as an adjustment to capital reserve; under the category of treasury stock transactions.
- b. For the year ended December 31, 2010, based on the resolution of shareholders' general meeting, MTK 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 increase in additional paid-in capital in the amount of NT\$3,593,106 thousand. Please refer to Note 4(15).

**(18) Employee Stock Options**

- a. In December 2007, July 2009, May 2010, and August 2011, MTK 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 MTK or any of its domestic or foreign subsidiaries, in which MTK'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 MTK'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	477,971	477,971	\$374.7
2008.08.28	1,640,285	804,209	804,209	358.9
2009.08.18	1,382,630	790,614	790,614	460.6
2010.08.27	1,605,757	1,069,770	1,069,770	429.8
2010.11.04	65,839	17,714	17,714	397.0
2011.08.24	2,109,871	2,038,515	2,038,515	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.



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

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 years ended December 31, 2011 and 2010, compensation costs recognized were NT\$88,803 thousand and NT\$91,476 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

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

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

Employee Stock Option	For the year ended December 31,			
	2011		2010	
	Options	Weighted-average Exercise Price per Share (NTD)	Options	Weighted-average Exercise Price per Share (NTD)
	(Unit)		(Unit)	
Outstanding at beginning of period	4,327,687	\$416	3,790,285	\$408
Granted	2,109,871	280	1,632,596	435.9
Exercised	(9,062)	368	(183,612)	373
Forfeited (Expired)	(1,229,703)	400	(911,582)	413
Outstanding at end of period	<u>5,198,793</u>	360	<u>4,327,687</u>	416
Exercisable at end of period	<u>992,366</u>		<u>410,052</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$56.5</u>		<u>\$96.3</u>	

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

The information regarding MTK's outstanding stock options as of December 31, 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	\$358.9~374.7	1,282,180	3.01	\$365	750,692	\$365
Stock option plan of 2009	460.6	790,614	4.13	461	241,674	461
Stock option plan of 2010	397~429.8	1,087,484	5.17	429	-	-
Stock option plan of 2011	280.0	<u>2,038,515</u>	6.17	280	<u>-</u>	-
		<u>5,198,793</u>		\$360	<u>992,366</u>	

- b.MTK issued new shares to exchange 100% shares of Ralink Technology Corp. on October 1, 2011. According to the share-swap agreement, MTK also issued its own stock options to replace Ralink's stock options. The original terms of Ralink's options remain except for a) the underlying shares have been changed to MTK's shares and b) the number of shares each option can subscribe for has been changed according to the share exchange ratio stated in the share swap agreement.

Details of Ralink's stock options to be replaced are shown below:

Date of grant	Total number of options granted	Total number of options outstanding on the shares exchange date	Total number of options outstanding translated by share exchange ratio on the shares exchange date	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2006.06.30	91,000	1,575	499	499	499	\$14.3
2006.09.30	599,500	9,763	3,092	3,092	3,092	14.3
2006.12.31	78,000	3,936	1,247	1,247	1,247	14.3
2007.03.31	273,000	11,967	3,791	-	-	15.7
2007.06.30	150,000	32,879	10,416	10,416	10,416	15.7
2007.09.30	560,000	149,568	47,368	41,685	41,685	15.7
2007.12.30	17,000	944	299	299	299	15.7
2007.12.31	1,000,000	277,490	87,895	87,497	87,497	16.7

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.

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

The Black-Scholes Option Pricing model was used to estimate the fair value of options granted to replace Ralink's options. Assumptions used in calculating the fair value are disclosed as follows:

	Employee Stock Option
Expected dividend yield	6.57%
Expected volatility	39.5%
Risk free interest rate	0.71%~0.86%
Expected life	0.75 year

The weighted-average exercise price of the options granted to replace Ralink's options is disclosed as follows:

	For the year ended December 31, 2011	
Employee Stock Option	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Outstanding at beginning of period	-	\$-
Granted	-	-
Issued due to shares exchange	154,607	16.22
Exercised	(9,474)	15.91
Forfeited (Expired)	(398)	16.70
Outstanding at end of period	144,735	16.26
Exercisable at end of period	144,735	
Weighted-average fair value of options granted during the period (in NTD)	\$305.73	

Other information is disclosed as follows:

Authorized issue date	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)
2006.01.17	\$14.30	4,838	-	\$14.30	4,838	\$14.30
2007.01.29	15.70	52,400	0.33	15.70	52,400	15.70
2007.10.30	16.70	87,497	0.50	16.70	87,497	16.70
		144,735		\$16.26	144,735	

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

(19) Earnings Distribution and Dividends Distribution Policy

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

During the years ended December 31, 2011 and 2010, the amounts of the employee' bonuses were estimated to be NT\$1,714,243 thousand and NT\$3,863,296 thousand, respectively. During the years ended December 31, 2011 and 2010, the amounts of remunerations to directors and supervisors were estimated to be NT\$24,687 thousand and NT\$71,628 thousand, respectively. Employee bonuses were estimated based on a specific rate of net income for the years ended December 31, 2011 and 2010, respectively (excluding the impact of employees' bonuses) while remunerations to directors and supervisors were estimated based on MTK'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, MTK shall recognize the change as an adjustment to income of next year.

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

The appropriations of earnings for 2011 were resolved by the board of directors' meeting on March 21, 2012, (subject to the resolution of the shareholders' general meeting which will be held on June 13, 2012.) The appropriations of earnings for 2010 were resolved by the shareholders' general meeting on June 15, 2011. The details of the distribution are as follows:

	For the year ended December 31,	
	2011	2010
Directors' and supervisors' remuneration	\$28,497	\$48,045
Employee bonus-cash	\$1,714,243	\$3,863,296
Cash dividend	\$10,328,141	\$21,999,457

The difference between the resolution of the board of directors' meeting and the estimated expense of the directors' and supervisors' remuneration and the employee bonus for 2011 is as follows:

Appropriations	The amount resolved by the board of directors' meeting	Expense estimated	Difference	Difference reasons and the accounting treatment
Employee bonus -cash	\$1,714,243	\$1,714,243	\$-	-
Directors' and supervisors' remuneration	\$28,497	\$24,687	\$3,810	(Note)

Note: The original estimated expense and the proposed appropriation were based on different calculating basis.

The difference would be considered as changes in accounting estimate after resolved by the shareholder' meeting and would be included in the profit or loss in 2012.

The information about the appropriations of earnings which were resolved by the board of directors' meeting and the shareholders' meeting is available at the Market Observation Post System website.

**(20) Treasury Stock**

a. Changes in treasury stock during the year ended December 31, 2011 is as follows:

(a) For the year ended December 31, 2011

(In thousands of shares)

Purpose	January 1, 2011	Increase	Retire	December 31, 2011
For the shareholder's interest	-	8,000	8,000	-

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

(b) According to the Securities and Exchange Law of R.O.C., the total shares of treasury stock shall not exceed 10% of MTK's issued stock, and the total purchase amount shall not exceed the sum of retained earnings, additional paid-in capital in excess of par and realized additional paid-in capital. As such, the maximum number of shares of treasury stock that MTK could hold as of December 31, 2011 was 114,751 thousand shares, while the amount of ceiling was NT\$93,087,605 thousand. The treasury stocks which were purchased this year were retired fully in October, 2011.

(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 shareholders except for subscription to new stock issuance and voting rights.

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

Owner	January 1, 2011		Additions		December 31, 2011		
	Shares	Amount	Shares	Amount	Shares	Amount	Market Value
MediaTek Capital Corp.	7,794,085	\$55,970	-	\$-	7,794,085	\$55,970	\$2,162,859

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

Note : Stock dividends

**(21) Net Operating Revenue**

	For the year ended December 31,	
	2011	2010
Revenues from sales of multimedia and cell phone chipsets	\$90,908,686	\$121,864,120
Other operating revenue	571,448	510,027
Subtotal	91,480,134	122,374,147
Less: Sales returns	(44,450)	(45,445)
Sales discounts	(4,578,190)	(8,806,744)
Net Operating Revenue	\$86,857,494	\$113,521,958

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

## (22) Personnel, Depreciation and Amortization Expenses

	For the year ended December 31,					
	2011			2010		
	Recorded under cost of goods sold	Recorded under operating expense	Total	Recorded under cost of goods sold	Recorded under operating expense	Total
Personnel Expense						
Salaries & wages	\$232,890	\$13,552,763	\$13,785,653	\$196,897	\$16,744,756	\$16,941,653
Insurance	10,649	561,260	571,909	7,068	465,540	472,608
Pension	11,968	534,789	546,757	7,385	341,779	349,164
Other expenses	4,749	444,961	449,710	5,431	443,135	448,566
Total	<u>\$260,256</u>	<u>\$15,093,773</u>	<u>\$15,354,029</u>	<u>\$216,781</u>	<u>\$17,995,210</u>	<u>\$18,211,991</u>
Depreciation	<u>\$4,970</u>	<u>\$1,174,571</u>	<u>\$1,179,541</u>	<u>\$2,619</u>	<u>\$1,104,462</u>	<u>\$1,107,081</u>
Amortization	<u>\$830</u>	<u>\$1,548,953</u>	<u>\$1,549,783</u>	<u>\$935</u>	<u>\$1,869,669</u>	<u>\$1,870,604</u>

## (23) Income Tax

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

	For the year ended December 31,	
	2011	2010
Income tax payable	\$234,463	\$869,503
10% surtax on undistributed earnings	202,285	458,868
Investment tax credits	(202,285)	(596,190)
Deferred income tax effects		
Investment tax credits	1,606,729	404,765
Valuation allowance	(1,081,001)	(103,831)
Others	(339,341)	108,762
Others	<u>166,598</u>	<u>209,437</u>
Income tax expense from continuing operations	<u>\$587,448</u>	<u>\$1,351,314</u>

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

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

	As of December 31,			
	2011		2010	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets				
Recognition of unrealized allowance				
for inventory obsolescence	\$3,185,622	\$541,556	\$3,227,519	\$548,678
Allowance for doubtful debt in excess				
of deductible limit	401,736	68,295	161,814	27,509
Unrealized technology license fee	1,608,313	273,413	1,307,624	222,296
Unrealized foreign exchange loss	30,496	5,184	33,502	5,695
Unrealized loss on asset impairment	737,807	125,427	760,936	129,359
Loss carryforwards-domestic	122,450	20,817	-	-
-foreign		382,805		359,923
Investment tax credits-domestic		7,175,211		8,905,333
-foreign		299,327		175,934
Others		492,213		83,867
Deferred income tax assets		9,384,248		10,458,594
Valuation allowance for deferred				
income tax assets		(8,977,186)		(10,058,187)
Net deferred income tax assets		407,062		400,407
Deferred income tax liabilities				
Unrealized gain on valuation of				
financial assets	(65)	(11)	(46,271)	(7,866)
Unrealized pension expenses	(3,826)	(650)	-	-
Unrealized amortization of intangible				
assets	(4,536,621)	(771,226)	(4,090,327)	(695,356)
Others		(5,169)		(4,871)
Deferred income tax liabilities		(777,056)		(708,093)
Net deferred income tax assets and				
liabilities		\$(369,994)		\$(307,686)

(To be continued)



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

(Continued)

	As of December 31,	
	2011	2010
Deferred income tax assets-current	\$3,555,797	\$2,996,287
Valuation allowance for deferred income tax assets-current	(3,329,687)	(2,864,345)
Net deferred income tax assets-current	226,110	131,942
Deferred income tax liabilities-current	(5,170)	(12,727)
Net deferred income tax assets and liabilities-current	\$220,940	\$119,215
Deferred income tax assets-noncurrent	\$5,828,451	\$7,462,307
Valuation allowance for deferred income tax assets-noncurrent	(5,647,499)	(7,193,842)
Net deferred income tax assets-noncurrent	180,952	268,465
Deferred income tax liabilities-noncurrent	(771,886)	(695,366)
Net deferred income tax assets and liabilities-noncurrent	\$(590,934)	\$(426,901)

- c. Pursuant to Article 9-2 of the “Statute for Upgrading Industries”, MTK and subsidiary - Ralink Technology Corp. are qualified as a technical service industry and is therefore entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. MTK has elected the tax exemption periods from January 1, 2007 through December 31, 2011, January 1, 2009 through December 31, 2013, January 1, 2010 through December 31, 2014 and January 1, 2011 through December 31, 2015. The subsidiary, Ralink Technology Corp. has elected the tax exemption periods from March 1, 2007 through February 29, 2012.
- d. The Company is not allowed to file consolidated income tax returns.
- e. MTK’s income tax returns for all the fiscal years up to 2008 have been assessed by the tax authorities. The income tax returns for all the fiscal years up to 2009 of the subsidiary - Ralink Technology Corp. and Ralink’s subsidiary - T-Rich Technology Corp. have been assessed by the tax authorities.

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

- f. According to R.O.C. Income Tax Act amendment, losses incurred in the operations of business can be carried forward for ten years. T-Rich Technology Corp.'s loss carryforwards as of December 31, 2011 are as follows:

Total loss carryforward	Unused amount	Year expired
\$556	\$556	2019
58,021	58,021	2020
63,873	63,873	2021
<u>\$122,450</u>	<u>\$122,450</u>	

- g. The Company and the subsidiary Ralink Technology Corp.'s available investment tax credits as of December 31, 2011 are as follows:

Total credit amount	Unused amount	Year expired
\$2,448,042	\$2,448,042	2012
4,765,584	4,727,169	2013
<u>\$7,213,626</u>	<u>\$7,175,211</u>	

- h. Integrated income tax information

	As of December 31,	
	2011	2010
Balance of the imputation credit account (ICA)	<u>\$1,260,691</u>	<u>\$1,450,933</u>
	2011	2010
Expected (Actual) creditable ratio	<u>2.34%(Note)</u>	<u>2.66%</u>

Note: The ratio was computed based on the amount of actual available shareholder's tax credits plus estimated income tax payable as of December 31, 2011.

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

**(24) 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 are disclosed as follows:

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

	Amount (Numerator)			Earnings per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
<u>For the year ended December 31, 2011</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$14,210,518	\$13,623,070	1,103,110,322	<u>\$12.88</u>	<u>\$12.35</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	12,326,822		
Stock option to employees	-	-	133,816		
Diluted EPS	<u>\$14,210,518</u>	<u>\$13,623,070</u>	<u>1,115,570,960</u>	<u>\$12.74</u>	<u>\$12.21</u>
Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	\$(7,267)	\$(7,267)	1,103,110,322	<u>\$(0.01)</u>	<u>\$(0.01)</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	12,326,822		
Stock option to employees	-	-	133,816		
Diluted EPS	<u>\$(7,267)</u>	<u>\$(7,267)</u>	<u>1,115,570,960</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>
	Amount (Numerator)			Earnings per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
<u>For the year ended December 31, 2010</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$32,312,751	\$30,961,437	1,088,689,895	<u>\$29.68</u>	<u>\$28.44</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	20,532,897		
Stock option to employees	-	-	445,854		
Diluted EPS	<u>\$32,312,751</u>	<u>\$30,961,437</u>	<u>1,109,668,646</u>	<u>\$29.12</u>	<u>\$27.90</u>
Consolidated net loss attributable to minority interests					
Basic EPS					
Net loss	\$(24,834)	\$(24,834)	1,088,689,895	<u>\$(0.02)</u>	<u>\$(0.02)</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	20,532,897		
Stock option to employees	-	-	445,854		
Diluted EPS	<u>\$(24,834)</u>	<u>\$(24,834)</u>	<u>1,109,668,646</u>	<u>\$(0.02)</u>	<u>\$(0.02)</u>

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

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

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

For the year ended December 31,			
2011		2010	
Amount	% of net sales	Amount	% of net sales
ALi	\$95,693 0.11	\$-	-

For the years ended December 31, 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 year ended December 31,	
Transactions		2011	2010
King Yuan	IC testing and experimental services	\$4,651,285	\$5,799,560

**c. Rental Income**

Rental Income		Other Receivables	
For the year ended December 31,		As of December 31,	
2011	2010	2011	2010
Airoha	\$- \$9,147	\$-	\$-
JMicron	8,969 6,703	327	-
Total	\$8,969 \$15,850	\$327	\$-

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

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

	As of December 31,			
	2011		2010	
	Amount	%	Amount	%
ALi	\$23,567	0.32	\$-	-

**b. Payables from related parties**

	As of December 31,			
	2011		2010	
	Amount	%	Amount	%
King Yuan	\$958,936	10.63	\$1,029,160	12.22

**c. Remunerations paid to major managers**

	For the year ended December 31,	
	2011	2010
Salaries, reward, compensation, special allowance and bonus	\$128,721 (Note)	\$291,494

Note: The appropriation of the 2011 earnings is not shown since the actual amount will not be finalized until the shareholders' meeting in 2012.

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

**6. Assets Pledged As Collateral****(1) As of December 31, 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	3,165	Danske Bank	Credit guarantee
Restricted deposits-noncurrent	71	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	600	Citibank	Tariff execution deposits
Total	\$13,783		

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(2) As of December 31, 2010**

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

**7. Commitments and Contingencies****(1) Lawsuit:**

- a. Rambus Inc. ("Rambus") brought a Complaint against 26 companies on December 1, 2010 in the U.S. International Trade Commission, alleging patent infringement against MTK 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. Specifically, Rambus alleged MTK's DVD and DTV chips infringe two of the abovementioned patents (Patens No. 6,591,353 and 7,287,109).

In addition, Rambus brought a Complaint against MTK on December 1, 2010 in the United States Northern District of California, alleging patent infringement against MTK's 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.

U.S. International Trade Commission issued an Initial Determination on March 2, 2012, and confirmed that MTK did not infringe the patents.

MTK and Rambus entered into a settlement and patent license agreement to settle all pending patent litigations and to dismiss all proceeding pending against each other including the above referenced litigations on March 5, 2012. In accordance with the agreement, it grants MTK the option to use Rambus' patented innovations in a broad range of products offered by MTK.

- b. Freescale Semiconductor, Inc. ("Freescale") filed a Complaint with the U.S. International Trade Commission against MTK 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 also filed a Complaint in the United States District Court for Western District of Texas against MTK and one other Respondent 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 for damages and to prevent certain products from being sold in the future.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

MTK filed a Complaint in the United States District Court for Northern District of California against Freescale on November 3, 2011 alleging infringement of United States Patent No. 6,738,845, 6,088,753, 6,311,244, and 6,889,331. MTK is alleging against the patent infringement of Freescale's multimedia application processors and micro-controller products, and asking for damages and to prevent certain products from being sold in the future.

Additionally, Freescale filed a Complaint in the U.S. International Trade Commission against MTK and thirteen other Respondents on November 30, 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.

- c. LSI Corporation ("LSI") and Agere Systems Inc. ("Agere") filed a Complaint with the U.S. International Trade Commission against ten Respondents on March 12, 2012 alleging infringement respectively of United States Patents No. 5,870,087, 6,452,958, 6,707,867, and 6,982,663, and asking to prevent certain products from being sold in the future. Specifically, LSI and Agere assert that the DVD/Blu-Ray Player and DTV chips of MTK and its subsidiaries MediaTek USA Inc. and MediaTek Wireless, Inc. (USA), infringe the foregoing patents. In addition, LSI and Agere assert that the Wi-Fi chips of the subsidiaries Ralink Technology Corp. and Ralink Technology Corp. (USA) also infringe some of the aforementioned patents.
- d. Lantiq Deutschland GMBH ("Lantiq") filed a Complaint alleging patent infringement against TrendChip Technologies Corp.'s customer, Billion Electric Co. Ltd. ("Billion") in 2010 in Germany. Trendchip Technologies Corp. was later merged into Ralink Technology Corporation ("Ralink"), which is now wholly-owned by MTK. Lantiq's patent infringement allegation is related to the Ralink's DSL products and, therefore, Ralink will assist Billion to deal with above issue. In addition, Ralink filed a patent nullity suit against Lantiq in Federal Patent Court of Germany to invalidate the alleging patent. Ralink also filed a Complaint in Wisconsin, USA against Lantiq on November 8, 2010 alleging patent infringement of United States Patent No. 5,394,116. Lantiq and Lantiq North America, Inc. later filed a Complaint in the United States District Court for the Northern District of California against Ralink and Ralink Technology Corp. (USA) in January, 2011 alleging patent infringement of United States Patents No. 6,351,799 and 7,061,904. Lantiq alleged the patent infringement by networking and computing IC products sold, offered for sales and imported by Ralink and asked the court to declare non-infringement and invalidity of the United States Patent No. 5,394,116. The Wisconsin case was transferred to United States District Court for the Northern District of California in March 2011. The operation of Ralink would not be materially affected by those patent litigations.

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

MOSAID Technologies Inc. filed a Complaint in the United States District Court for the Eastern District of Texas against Ralink and other Defendants in March 2011 alleging patent infringement of United States Patents No. 5,131,006, 5,151,920, 5,422,887, 5,706,428, 6,563,786, and 6,992,972. The above mentioned Complaint would not affect Ralink's operation significantly.

Azure Networks, LLC and Tri-County Excelsior Foundation filed a Complaint in the United States District Court for the Eastern District of Texas against Ralink and Ralink Technology Corporation (USA), alone with several other Defendants in March 2011 alleging patent infringement of United States Patent No. 7,756,129. The above mentioned Complaint would not affect Ralink and Ralink Technology Corporation (USA)'s operation significantly.

The Company will handle these cases carefully.

**(2) Operating Lease:**

- a. MTK 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
2012.01.01~2012.12.31	\$30,371
2013.01.01~2013.12.31	30,371
2014.01.01~2014.12.31	30,371
2015.01.01~2015.12.31	30,371
2016.01.01~2016.12.31	30,371
2017.01.01~2027.12.31	214,048
Total	<u>\$365,903</u>

- b. The 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
2012.01.01~2012.12.31	\$111,056
2013.01.01~2013.12.31	78,870
2014.01.01~2014.12.31	65,037
2015.01.01~2015.12.31	66,794
2016.01.01~2016.12.31	14,180
2017.01.01~2020.12.31	35,228
Total	<u>\$371,165</u>

**8. Significant Casualty Loss**

None

**9. Significant Subsequent Events**

None



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

	As of December 31,			
	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
<u>Assets</u>				
Cash and cash equivalents	\$85,821,438	\$85,821,438	\$85,927,357	\$85,927,357
Financial assets designated as at fair value through profit or loss	\$3,356,687	\$3,356,687	\$2,743,492	\$2,743,492
Receivables (including related parties)	\$7,383,884	\$7,383,884	\$7,164,346	\$7,164,346
Other receivables	\$3,027,004	\$3,027,004	\$1,174,831	\$1,174,831
Available-for-sale financial assets	\$5,356,022	\$5,356,022	\$7,309,467	\$7,309,467
Held-to-maturity financial assets	\$876,548	\$869,175	\$-	\$-
Financial assets carried at cost	\$2,203,872	\$-	\$1,083,608	\$-
Bond portfolios with no active market	\$1,000,000	\$1,059,128	\$1,000,000	\$1,078,925
Investments accounted for using the equity method				
-with market value	\$1,422,697	\$1,919,787	\$1,450,049	\$2,830,003
-without market value	\$411,967	\$-	\$208,462	\$-
Refundable deposits	\$265,431	\$265,431	\$261,488	\$261,488
Restricted assets	\$13,783	\$13,783	\$30,387	\$30,387
<u>Liabilities</u>				
Short-term loans	\$4,089,150	\$4,089,150	\$-	\$-
Payables (including related parties)	\$9,021,903	\$9,021,903	\$8,419,004	\$8,419,004
Accrued expenses	\$15,714,455	\$15,714,455	\$15,668,939	\$15,668,939
Other payables	\$151,121	\$151,121	\$16,488	\$16,488
Long-term accounts payable (including current portion)	\$165,743	\$165,743	\$-	\$-
Deposits received	\$6,176	\$6,176	\$973	\$973
<u>Derivative</u>				
<u>Assets</u>				
Held-for-trading financial assets	\$66	\$66	\$46,271	\$46,271

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

- (a) The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:
- (i) The fair values of the Company's short-term financial instruments approximate their carrying values at the reporting date due to their short maturities. This method was applied to cash and cash equivalents, receivables, other receivables, short-term loans, payables, accrued expenses, other payables and long-term accounts payable (including current portion).
  - (ii) The fair values of the Company's refundable deposits, deposits received and restricted assets approximate their carrying value because the Company predicts the future cash inflows or outflows will be of similar amounts to the carrying values.
  - (iii) The fair values of held-for-trading financial assets and available-for-sale financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
  - (iv) Financial assets carried at cost represent holdings of equity securities of non-public companies and have no material influence or derivatives that are linked to and must be settled by delivery of those securities. As these equity securities are not traded in open market, the fair value is not available.
  - (v) The Fair values of held-to-maturity financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques. The discount rates used in the valuation techniques were estimated by the rate of return of similar financial assets.
  - (vi) The bond portfolios with no active market have no quoted price from active market but have fixed or determinable payments. Fair values are estimated using the discounted cash flow method.
  - (vii) The fair 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.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

- (b) Gains (loss) recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$(48,038) thousand and NT\$104,995 thousand for the years ended December 31, 2011 and 2010, respectively.
- (c) As of December 31, 2011 and 2010, financial assets exposed to fair value risk from fixed interest rate were NT\$75,320,431 thousand and NT\$60,905,429 thousand, respectively, and financial liabilities were NT\$4,254,893 thousand and nil, respectively. As of December 31, 2011 and 2010, financial assets exposed to cash flow risk from variable interest rate were NT\$4,955,777 thousand and NT\$5,801,157 thousand, respectively.
- (d) Interest income recognized from financial assets that are not at fair value through profit or loss amounted to NT\$947,698 thousand and NT\$558,844 thousand for the years ended December 31, 2011 and 2010, respectively. Interest expenses recognized from financial liabilities that are not at fair value through profit or loss amounted to NT\$9,378 thousand and nil for the years ended December 31, 2011 and 2010, respectively. The Company recognized unrealized gains of NT\$125,960 thousand and NT\$80,791 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2011 and 2010, respectively, and the amounts that were recycled from equity to losses were NT\$7,890 thousand and nil for the years ended December 31, 2011 and 2010, respectively. The Company also recognized unrealized losses of NT\$273,266 thousand and NT\$70,356 thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for under the equity method for the years ended December 31, 2011 and 2010, respectively.
- (e) For the years ended December 31, 2011 and 2010, the Company did not have impairment loss on financial assets.

b.

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

The Company held certain non-derivative financial instruments, including cash and cash equivalents, short-term loans, held-for-trading financial assets and 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, 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.

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

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\$140 thousand and NT\$450 thousand as of December 31, 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 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 values of accounts receivable are properly evaluated and reflect the credit risk the Company 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 contracts.

**MEDIATEK INC.****NOTES TO 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) Business combinations**

In order to enhance the operating performance and competitiveness, MTK issued new shares to exchange 100% shares of Ralink Technology Corp. ("Ralink"). The record date of shares exchange was set on October 1, 2011. After the shares exchange, Ralink became 100%-owned by MTK. The business combination was resolved by shareholders' general meetings of both companies on June 15, 2011. An exchange ratio, which has taken into account both companies' profitability, market prices, technology and future development, has been set as 3.156 shares in exchange for one share of MTK. The business combination has been approved by the government. In accordance with the R.O.C. SFAS No. 25, "Business Combinations - Accounting Treatment under Purchased Method", the Company discloses the following information:

**a. Background of the acquired company:**

Ralink Technology Corp. was incorporated in 2001 and is a world leader in 802.11x technology. Ralink's 802.11n Wi-Fi solutions are embedded in hundreds of products across all major Wi-Fi market segments including personal computers, broadband gateways, digital televisions, Blu-Ray players, web cameras, and IPTV set-top-boxes.

**b. The acquisition date, the percentage of ownership acquired and the adoption of the purchase method of accounting for the business combination:**

The acquisition date was set on October 1, 2011. MTK issued new shares to exchange 100% shares of Ralink Technology Corp. The acquisition was accounted for in accordance with the R.O.C. SFAS No. 25, "Business Combinations - Accounting Treatment under Purchased Method". The acquisition information is as follows:

Item	Amount
Issuance of new shares due to the business combination	\$555,336
Add: Additional paid-in capital	12,259,039
Acquisition cost	12,814,375
Less: Fair value of the identifiable net assets of Ralink Technology Corp.	(6,266,138)
Goodwill	\$6,548,237

**c. Acquisition cost and the type, number of shares and amount of stock issued as a result of the acquisition:**

Totally 55,533,588 new shares (NT\$12,814,375 thousand in the amount) of MTK were issued to acquire all Ralink's shares.

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

- d. Contingent payments, options or commitments included in the acquisition agreement and the proposed accounting treatment: None
- e. Significant asset disposal decisions resulting from the business acquisition: None
- f. The income and expenses of Ralink for the period from October 1, 2011 to December 31, 2011 have been included in the Company's income statement. Pro-forma information which assumes that the Company had merged Ralink since January 1, 2010 is disclosed as follows:

	For the year ended December 31,	
	2011	2010
Net sales	\$93,314,450	\$120,882,885
Net income attributable to the parent	\$13,465,638	\$31,874,615
Basic earnings per share (in NTD)	\$11.76	\$27.86

**(3) Other Information**

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

	As of December 31,					
	2011			2010		
	Foreign Currency (thousand)	Exchange rate	NTD (thousand)	Foreign Currency (thousand)	Exchange rate	NTD (thousand)
<u>Financial assets</u>						
Monetary item						
USD	\$1,812,357	\$30.29	\$54,572,301	\$1,467,766	\$29.08	\$42,682,648
Non-monetary item						
USD	\$202,736	\$30.29	\$6,140,882	\$106,059	\$29.08	\$3,084,191
CNY	\$179,889	\$4.81	\$865,782	\$88,000	\$4.41	\$388,322
<u>Investments accounted for using the equity method</u>						
USD	\$6,691	\$30.29	\$202,668	\$627	\$29.08	\$18,237
<u>Financial liabilities</u>						
Monetary item						
USD	\$508,035	\$30.29	\$15,388,386	\$336,736	\$29.08	\$9,792,265
JPY	\$-	\$-	\$-	\$500,000	\$0.37	\$186,700

- b. Certain accounts in the financial statements of the Company as of December 31, 2010 have been reclassified to conform to the presentation of the current period.

**MEDIATEK INC.****NOTES TO 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 year ended December 31, 2011 are as follows: (For MTK's shares owned by the subsidiary, please refer to the Note 4.(20) to the consolidated financial statements.)

No. (Note 1)	Company Name	Counter Party	Relationship (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	\$37,851	Based on contract	0.03%
				Sales revenues	\$553,763		0.64%
		MediaTek Investment Corp.	1	Rent revenues	\$34		0.00%
		MediaTek Capital Corp.	1	Rent revenues	\$34		0.00%
		Hsu-Ta Investment Limited	1	Rent revenues	\$34		0.00%
		Hsu-Chia Investment Limited	1	Rent revenues	\$34		0.00%
		Hsu-Kang Investment Limited	1	Rent revenues	\$34		0.00%
		Rolltech Technology, Co. Ltd.	1	Other receivables	\$168		0.00%
			1	Rent revenues	\$480		0.00%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$11,276		0.01%
		Ralink Technology Corp.	3	Other payables	\$163,029		0.11%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$68,440	Based on contract	0.05%
			3	Research and development expenses	\$934,048		1.08%
		MediaTek Denmark ApS	3	Payables to related parties	\$10,801		0.01%
			3	Research and development expenses	\$203,611		0.23%

(To be continued)



**MEDIATEK INC.****NOTES TO 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 (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MTK Wireless Limited (UK)	3	Payables to related parties	\$26,707	Based on contract	0.02%
			3	Research and development expenses	\$359,639		0.41%
		MediaTek USA Inc.	3	Payables to related parties	\$1,110		0.00%
			3	Research and development expenses	\$1,095,797		1.26%
		MediaTek Japan Inc.	3	Payables to related parties	\$21,855		0.01%
			3	Research and development expenses	\$199,263		0.23%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$19,306		0.01%
			3	Research and development expenses	\$258,723		0.30%
		MediaTek Korea Inc.	3	Payables to related parties	\$18,305		0.01%
			3	Research and development expenses	\$167,918		0.19%
		MediaTek Wireless L.L.C. (Dubai)	3	Accrued expenses	\$1,028		0.00%
			3	Selling expenses	\$10,465		0.01%
		MediaTek (ShenZhen) Inc.	3	Prepayment	\$1,765		0.00%
			3	Research and development expenses	\$1,295,900		1.49%
		MediaTek (Hefei) Inc.	3	Prepayment	\$4,050		0.00%
			3	Research and development expenses	\$645,725		0.74%

(To be continued)

**MEDIATEK INC.****NOTES TO 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 (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek (Beijing) Inc.	3	Prepayment	\$15,660	Based on contract	0.01%
			3	Research and development expenses	\$1,506,742		1.73%
		Hesine Technologies, Inc.	3	Prepayments	\$36,199		0.02%
			3	Research and development expenses	\$67,645		0.08%
		MediaTek (Suzhou) Inc.	3	Prepayments	\$72,747		0.05%
			3	Research and development expenses	\$13,737		0.02%
		MediaTek (Chengdu) Inc.	3	Prepayment	\$3,529		0.00%
			3	Research and development expenses	\$140,289		0.16%
		MediaTek (Wuhan) Inc.	3	Prepayments	\$5,612		0.00%
			3	Research and development expenses	\$37,308		0.04%
		MediaTek (Shanghai) Inc.	3	Prepayments	\$8,393		0.01%
			3	Research and development expenses	\$53,339		0.06%
		Rollech Technology, Co. Ltd.	3	Selling Expenses	\$1,945		0.00%
3	Shadow Investment Limited	MediaTek (Nanjing) Inc.	3	Prepayments	\$36,348		0.02%
		MediaTek (Suzhou) Inc.	3	Prepayments	\$36,348		0.02%
	Ralink Technology Corporation (USA)	Ralink Technology (Singapore) Corp.	3	Payables to related parties	\$23,278		0.02%
		Pte. Ltd.	3	Research and development expenses	\$23,264		0.03%

**MEDIATEK INC.****NOTES TO 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 year ended December 31, 2010 are as follows:

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

(To be continued)

**MEDIATEK INC.****NOTES TO 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 (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek Korea Inc.	3	Payables to related parties	\$11,420	Based on contract	0.01%
			3	Research and development expenses	\$156,625		0.14%
		MediaTek (ShenZhen) Inc.	3	Payables to related parties	\$87,218		0.06%
			3	Research and development expenses	\$1,021,748		0.90%
		MediaTek (Hefei) Inc.	3	Payables to related parties	\$19,624		0.01%
			3	Research and development expenses	\$455,311		0.40%
		MediaTek (Beijing) Inc.	3	Payables to related parties	\$140,541		0.10%
			3	Research and development expenses	\$1,335,660		1.18%
3	MediaTek Investment Corp.	MediaTek Capital Corp.	3	Financial assets carried at cost - noncurrent	\$122,535		0.09%

**MEDIATEK INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

Note 1: MTK and subsidiaries are coded as follows:

1. MTK 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 CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

**11. Operating Segment Information**

## (1) General information

The major sales of the Company 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 is aggregated into a single segment.

## (2) Geographical information

## a. Sales to other than consolidated entities

	For the year ended December 31,	
	2011	2010
Taiwan	\$8,293,372	\$10,213,340
Asia	73,075,397	96,029,430
Other	5,488,725	7,279,188
Total	<u>\$86,857,494</u>	<u>\$113,521,958</u>

Sales are presented by billed regions.

## b. Non-current assets

	As of December 31,	
	2011	2010
Taiwan	\$22,662,060	\$15,475,033
Asia	3,186,171	1,726,898
Other	163,858	224,118
Total	<u>\$26,012,089</u>	<u>\$17,426,049</u>

## (3) Major customers

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

Customers	For the year ended December 31,			
	2011		2010	
	Amounts	%	Amounts	%
A	\$14,446,871	16.63	\$32,116,381	28.29
B	6,739,876	7.76	15,345,455	13.52
Total	<u>\$21,186,747</u>	<u>24.39</u>	<u>\$47,461,836</u>	<u>41.81</u>

**12. The Authorization of Financial Statements**

The consolidated financial statements were approved by the board of directors and authorized for issue on March 21, 2012.

**MEDIATEK INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****13. IFRSs Adoption Information**

The Financial Supervisory Commission (“FSC”) requires companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market to prepare their financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as recognized by the FSC (collectively referred to as “IFRSs”), and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, starting 2013. Under Rule No. 0990004943 issued by the FSC on February 2, 2010, the Company makes the following pre-disclosures on the adoption of IFRSs:

**(1) The main contents of the plan to adopt IFRSs and the current status:**

The Company has set up a project team and made a plan to adopt IFRSs. Leading the implementation of this plan is MTK’s Chief Financial Officer, Mr. David Ku. The main contents of the plan, estimated completion schedule and status of execution as of December 31, 2011, were as follows:

<b>Contents of Plan</b>	<b>Responsible Department</b>	<b>Status of Execution</b>
1. Establish a project team	Finance and Accounting	Completed
2. Make a plan to adopt IFRSs	Finance and Accounting	Completed
3. Identify differences between the existing accounting policies and IFRSs	Finance and Accounting	Completed
4. Identify consolidated entities under IFRSs	Finance and Accounting	Completed
5. Select voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards” and assess the impact of these exemptions	Finance and Accounting	Completed
6. Assess the adjustments required for IT system	Finance and Accounting and Information Technology	Completed
7. Assess the adjustments required for internal controls	Finance and Accounting and Internal Auditor	Completed
8. Finalize the accounting policies under IFRSs	Finance and Accounting	Completed
9. Finalize the selection of voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards	Finance and Accounting	Completed

(To be continued)

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

(Continued)

<b>Contents of Plan</b>	<b>Responsible Department</b>	<b>Status of Execution</b>
10.Prepare opening IFRS statement of financial position	Finance and Accounting	In progress
11.Prepare IFRSs comparative information for 2012	Finance and Accounting	In progress
12.Finalize adjustments to the internal control (including financial statements process and the associated IT system)	Finance and Accounting and Internal Auditor	In progress

- (2) Material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers are described in the table below.

The Company assesses the material differences in accounting policies based on the IFRSs as recognized by the FSC and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers expected to become effective in 2013. However these assessments may be changed as the FSC may recognize different versions of IFRSs or amend the Guidelines Governing the Preparation of Financial Reports by Securities Issuers in the future. Furthermore, the Company has decided the accounting policies to be adopted under IFRSs based on the current circumstances, should circumstances change in the future, the accounting policies to be adopted may change accordingly. The material differences in accounting policies described in the table below may not result in any adjustment on the date of transition to IFRSs, due to the voluntary exemptions selected under IFRS 1 “First-time Adoption of International Financial Reporting Standards”.

<b>Accounting Issues</b>	<b>Description of differences</b>
Financial assets measured at cost	Under the requirements of the existing Guidelines Governing the Preparation of Financial Reports by Securities Issuer, equity investments in unlisted entities or entities traded on Emerging Stock market should be measured at cost. However under the requirements of IAS 39, only investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured could be measured at cost. The fair value of investments in equity instruments that do not have a quoted market price in an active market is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

(To be continued)



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

(Continued)

<b>Accounting Issues</b>	<b>Description of differences</b>
Investments accounted for under the equity method	ROC GAAP does not require an associate's financial statements to be prepared using accounting policies that conform with those of the investor. Under the requirements of IAS 28, if an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method.
	Under the requirements of ROC GAAP, if an investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, and consequently the investment percentage, and therefore the equity in net assets for the investment that an investor company has invested have changed, the resulting difference shall be accounted for as an equity transaction. However under IFRSs, if the investment percentage has decreased under the transaction described above, it should be accounted for as a disposal of interests in associate; if the investment percentage has increased, then it is accounted for as an acquisition of the investment in an associate.
Employee benefits	Under the requirements of ROC GAAP, minimum pension liability is to be recognized for the excess of the accumulated benefit obligation over the pension plan assets. There is no such requirement under IAS 19.
	Under the requirements of ROC GAAP, the unrecognized transitional net assets (or net benefit obligation) should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. There is no such requirement under IAS 19.
Income taxes	Under the requirements of ROC GAAP, deferred tax assets are recognized in full, however, if it is more than 50% probable that the economic benefits of a deferred tax asset become unrealizable, a valuation allowance account should be established to reduce the carrying amount of the deferred tax asset. However under the requirements of IAS 12 "Income Taxes", a deferred tax asset shall be recognized to the extent that it is probable that it would be utilized.
	Under the requirements of ROC GAAP, a deferred tax asset or liability should be classified as current or noncurrent according to the classification of its related asset or liability. If a deferred tax asset or liability is not related to an asset or liability for financial reporting, it should be classified as current or noncurrent according to the expected reversal date of the temporary difference. However under the requirements of IAS 1 "Presentation of Financial Statements", deferred tax assets or liabilities are classified as noncurrent.