

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

MEDIATEK INC.

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**AS OF DECEMBER 31, 2011 AND 2010
AND FOR THE YEARS THEN ENDED**

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

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

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

The Company has prepared consolidated financial statements as of December 31, 2011 and 2010 and for the years then ended. We have expressed an unqualified opinion on those consolidated financial statements.

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.

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
Current assets				Current liabilities			
Cash and cash equivalents	2, 4(1)	\$ 27,137,268	\$ 43,169,400	Accounts payable		\$ 6,696,357	\$ 5,944,114
Held-for-trading financial assets-current	2, 4(2)	-	46,271	Payables to related parties	5	119,190	378,408
Financial assets designated as at fair value through profit or loss-current	2, 4(3)	393,510	122,100	Income tax payable	2, 4(20)	470,032	940,351
Available-for-sale financial assets-current	2, 4(4)	1,627,536	2,236,473	Accrued expenses	2, 4(15)	12,856,882	14,503,360
Bond portfolios with no active market-current	2, 4(8)	1,000,000	-	Other current liabilities		598,081	393,068
Accounts receivable, net	2, 4(5)	3,200,385	3,970,346	Total current liabilities		20,740,542	22,159,301
Receivables from related parties, net	5	61,418	45,165				
Other receivables	4(6)	2,156,836	985,513	Other liabilities			
Inventories, net	2, 4(7), 5	6,278,630	6,442,692	Accrued pension liabilities	2, 4(11)	190,538	107,227
Prepayments		305,418	1,981,284	Deposits received		5,969	876
Other current assets		265,275	492,113	Deferred income tax liabilities-noncurrent	2, 4(20)	821,539	659,967
Deferred income tax assets-current	2, 4(20)	72,475	71,887	Total other liabilities		1,018,046	768,070
Restricted assets-current	6	9,947	9,917	Total liabilities		21,758,588	22,927,371
Total current assets		42,508,698	59,573,161				
Funds and investments	2, 4(8)			Shareholders' equity			
Financial assets designated as at fair value through profit or loss-noncurrent		-	879,477	Capital	4(12)		
Available-for-sale financial assets-noncurrent		1,592,572	1,489,399	Common stock		11,475,108	10,999,317
Bond portfolios with no active market-noncurrent		-	1,000,000	Capital collected in advance		83	365
Investments accounted for using the equity method		79,575,986	56,166,531	Capital reserve			
Total funds and investments		81,168,558	59,535,407	Additional paid-in capital in excess of par	4(14)	23,161,573	11,051,733
Property, plant and equipment	2, 4(9), 5			Treasury stock transaction	4(14)	941,301	785,420
Land		888,722	888,722	Donated assets	4(14)	1,260	1,260
Buildings and facilities		5,768,329	5,609,034	Long-term investment transaction	4(8), 4(14)	225,366	207,315
Machinery and equipment		98,833	99,449	Employee stock option	2, 4(8), 4(15)	276,382	213,676
Computer and telecommunication equipment		798,950	643,376	Total capital reserve		24,605,882	12,259,404
Testing equipment		2,014,374	1,905,310	Retained earnings			
Miscellaneous equipment		158,006	157,549	Legal reserve	4(13)	21,710,122	18,613,978
Total cost		9,727,214	9,303,440	Special reserve	4(16)	4,198,121	355,131
Less : Accumulated depreciation		(3,325,826)	(2,758,795)	Undistributed earnings	4(16)	56,554,982	73,739,007
Add : Construction in progress		54,736	116,079	Other adjustments			
Prepayments for equipment		46,995	83,522	Cumulative translation adjustments	2, 4(8)	(2,253,504)	(4,380,730)
Property, plant and equipment, net		6,503,119	6,744,246	Unrealized gain (loss) on financial instruments	2, 4(8)	43,192	182,608
Intangible assets	2, 4(10)			Treasury stock	2, 4(17)	(55,970)	(55,970)
Patents		121,990	265,526	Total shareholders' equity		116,278,016	111,713,110
Software		126,410	221,684				
Goodwill		6,817,211	6,817,211				
IPs and others		649,016	1,318,669				
Total intangible assets		7,714,627	8,623,090				
Other assets							
Refundable deposits		141,602	164,577				
Total other assets		141,602	164,577				
Total assets		\$ 138,036,604	\$ 134,640,481	Total liabilities and shareholders' equity		\$ 138,036,604	\$ 134,640,481

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.

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
Gross sales		\$ 57,285,540	\$ 79,274,483
Less : Sales returns		(26,338)	(670)
Sales discounts		(3,416,836)	(7,285,383)
Net sales	2, 4(18), 5	53,842,366	71,988,430
Cost of goods sold	4(19), 5	(31,773,236)	(32,726,157)
Gross profits		<u>22,069,130</u>	<u>39,262,273</u>
Operating expenses	2, 4(19)		
Selling expenses		(2,065,159)	(2,645,089)
General and administrative expenses		(1,715,355)	(2,362,311)
Research and development expenses		(13,448,835)	(16,987,827)
Total operating expenses		<u>(17,229,349)</u>	<u>(21,995,227)</u>
Operating income		<u>4,839,781</u>	<u>17,267,046</u>
Non-operating income and gains			
Interest income		397,139	347,417
Gain on equity investments, net	2, 4(8)	8,662,095	14,445,432
Foreign exchange gain, net	2	19,498	92,380
Reversal of bad debts		87,757	-
Others		90,939	86,351
Total non-operating income and gains		<u>9,257,428</u>	<u>14,971,580</u>
Non-operating expenses and losses			
Interest expenses		(4,524)	-
Loss on disposal of property, plant and equipment	2	(14,847)	(27,465)
Loss on disposal of investments	4(8)	(7,890)	-
Valuation loss on financial assets	2, 4(2)	(58,295)	(17,482)
Others		(53,105)	-
Total non-operating expenses and losses		<u>(138,661)</u>	<u>(44,947)</u>
Income from continuing operations before income tax		13,958,548	32,193,679
Income tax expense	2, 4(20)	(335,478)	(1,232,242)
Net income		<u>\$ 13,623,070</u>	<u>\$ 30,961,437</u>
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(21)	Before tax After tax	Before tax After tax
Net income		<u>\$ 12.65</u> <u>\$ 12.35</u>	<u>\$ 29.57</u> <u>\$ 28.44</u>
Pro-forma data: (Assuming that the Company's shares owned by its subsidiary were not treated as treasury stock)			
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(21)		
Net income		<u>\$ 12.71</u> <u>\$ 12.40</u>	<u>\$ 29.55</u> <u>\$ 28.42</u>
Diluted Earnings Per Share (in New Taiwan Dollars)	2, 4(21)		
Net income		<u>\$ 12.51</u> <u>\$ 12.21</u>	<u>\$ 29.01</u> <u>\$ 27.90</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC.

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
	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
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)
Stock dividends	21,802	-	-	-	-	(21,802)	-	-	-	-
Bonus to employees - in stock	74,855	-	3,593,106	-	-	-	-	-	-	3,667,961
Net income for the year ended December 31, 2010	-	-	-	-	-	30,961,437	-	-	-	30,961,437
Employee stock option distributed to subsidiaries' employees	-	-	91,476	-	-	-	-	-	-	91,476
Issuance of stock from exercising employee stock options	1,471	365	66,877	-	-	-	-	-	-	68,713
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	202,226	-	-	-	-	-	-	202,226
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	10,435	-	10,435
Adjustment arising from changes in the percentage of ownership in investees	-	-	37,893	-	-	-	-	-	-	37,893
Cumulative translation adjustments	-	-	-	-	-	-	(3,853,426)	-	-	(3,853,426)
Balance as of December 31, 2010	10,999,317	365	12,259,404	18,613,978	355,131	73,739,007	(4,380,730)	182,608	(55,970)	111,713,110
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)
Net income for the year ended December 31, 2011	-	-	-	-	-	13,623,070	-	-	-	13,623,070
Issuance of new shares due to combination	555,336	-	12,259,039	-	-	-	-	-	-	12,814,375
Treasury stock acquired	-	-	-	-	-	-	-	-	(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
Issuance of stock from exercising employee stock options	455	(282)	3,321	-	-	-	-	-	-	3,494
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	155,881	-	-	-	-	-	-	155,881
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	(139,416)	-	(139,416)
Adjustment arising from changes in the percentage of ownership in investees	-	-	844	-	-	-	-	-	-	844
Cumulative translation adjustments	-	-	-	-	-	-	2,127,226	-	-	2,127,226
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

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.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011 and 2010

(Amounts in thousands of New Taiwan Dollars)

Description	2011	2010
Cash flows from operating activities :		
Net income	\$ 13,623,070	\$ 30,961,437
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	678,986	691,378
Amortization	1,027,349	1,406,083
Bad debt (reversal) provision	(87,757)	129,666
Amortization of financial assets discount or premium	(85)	296
Cash dividends from equity investees	166,503	123,710
(Gain) loss on (recovery) decline in market value and obsolescence of inventories	(588,362)	969,798
Net loss on disposal of property, plant and equipment	14,847	27,465
Net loss on disposal of intangible assets (included in other losses)	74	-
Net gain on equity investments	(8,662,095)	(14,445,432)
Adjustment of valuation on financial assets and liabilities	69,128	(53,306)
Loss on disposal of investments	7,890	-
Deferred income tax	160,984	543,032
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	585,210	(978,500)
Accounts receivable	(126,761)	(1,874,645)
Receivables from related parties	(16,253)	15,416
Other receivables	(186,844)	407,673
Inventories	752,424	(2,342,737)
Prepayments	1,675,866	(1,827,506)
Other current assets	226,838	(190,152)
Accounts payable	752,243	(1,156,899)
Payables to related parties	(259,218)	(49,168)
Income tax payable	(470,319)	93,123
Accrued expenses	(3,360,721)	(781,777)
Other current liabilities	205,013	91,115
Accrued pension liabilities	83,311	19,812
Net cash provided by operating activities	7,985,564	15,643,178
Cash flows from investing activities :		
Increase in restricted deposits	(30)	(3,000)
Increase in available-for-sale financial assets	(1,190,681)	(563,917)
Purchase of property, plant and equipment	(454,463)	(1,573,425)
Proceeds from disposal of property, plant and equipment	-	894
Proceeds from disposal of available-for-sale financial assets	1,822,490	621,000
Increase in intangible assets	(117,203)	(642,855)
Decrease in refundable deposits	22,975	76,744
Net cash provided by (used in) investing activities	83,088	(2,084,559)
Cash flows from financing activities :		
Proceeds from exercise of employee stock options	3,494	68,713
Increase in deposits received	5,093	-
Cash dividends	(21,999,457)	(28,343,090)
Treasury stock acquired	(2,109,914)	-
Net cash used in financing activities	(24,100,784)	(28,274,377)
Net decrease in cash and cash equivalents	(16,032,132)	(14,715,758)
Cash and cash equivalents at the beginning of the year	43,169,400	57,885,158
Cash and cash equivalents at the end of the year	\$ 27,137,268	\$ 43,169,400
Supplemental disclosures of cash flow information :		
Income tax paid during the year	\$ 644,813	\$ 596,087
Interest paid during the year	\$ 4,524	\$ -
Non-cash activities :		
Stock dividends and employees' bonuses capitalized(including additional paid-in capital)	\$ -	\$ 3,689,763
Change in unrealized (loss) gain on financial instruments	\$ (139,416)	\$ 10,435
Cumulative translation adjustments	\$ 2,127,226	\$ (3,853,426)
Adjustments arising from changes in percentage of ownership in investees	\$ 844	\$ 37,893
Adjustments of cash dividends distributed to subsidiaries holding the Company's stock	\$ 155,881	\$ 202,226
Shares issued to acquire a subsidiary	\$ 12,814,375	\$ -

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 FINANCIAL STATEMENTS

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

1. Organization and Operation

Since its incorporation on May 28, 1997 at the Hsinchu Science-based Industrial Park, MediaTek Inc.'s (the "Company") main areas of focus includes R&D, production, 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 the Company were 3,205 and 2,829, respectively.

2. Summary of Significant Accounting Policies

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

Cash Equivalents

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

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

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

Financial Assets and Financial Liabilities

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

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

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

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

b. Bond portfolios with no active market

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

c. Financial assets carried at cost

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

d. Held-to-maturity financial assets

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

e. Available-for-sale financial assets

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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.

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

shall discontinue the use of the equity method from the date that it ceases to have significant influence over an investee and shall account for the investment in accordance with the R.O.C. SFAS No. 34, "Accounting for Financial Instruments" from that date. The carrying amount of the investment at the date that the Company ceases to have significant influence over the investee shall be regarded as its cost on initial measurement as a financial asset.

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

Property, Plant and Equipment

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

Intangible Assets

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

Software (design software)	3 Years
Patents, IPs and others	3 to 5 Years

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

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

Asset Impairment

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

MEDIATEK INC.

NOTES TO 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., the Company makes a monthly contribution equal to 2% of the wages and salaries paid during the period to a pension fund maintained with the Central Trust of China. The fund is administered by the Employees' Retirement Fund Committee and is deposited in the committee's name. Therefore, the pension fund is not included in the financial statements of the Company.
- B. The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Law can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of the employer monthly contribution to the pension fund should be at least 6% of the employee's monthly wages.
- C. The Company also has a defined benefit pension plan which is accounted for in accordance with the R.O.C. SFAS No. 18, "Accounting for Pensions". Pension assets or liabilities are 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 expensed in the period based on the actual contributions made to employees' individual pension accounts.

MEDIATEK INC.

NOTES TO 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. Income taxes of 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 recoverability of deferred income tax assets recognized.

Employee Stock Option

The Company used the intrinsic value method to recognize compensation cost for its employee stock options issued between 2004 and 2007 in accordance with Accounting Research and Development Foundation interpretation No. 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 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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- B. In accordance with the R.O.C. SFAS No. 30, "Accounting for Treasury Stock", the pro-forma earnings per share were computed on the assumption that the Company's shares owned by its subsidiary were not treated as treasury stock.

Treasury Stock

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

Derivative Financial Instruments-Held for Trading

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

Operating Segments Information

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

- A. engages in business activities from which it may earn revenues and incur expenses;

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

- 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.

The Company discloses its operating segments information in the Company's consolidated financial statements.

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
Savings and checking accounts	\$3,537,268	\$5,002,100
Time deposits	23,600,000	38,167,300
Total	<u>\$27,137,268</u>	<u>\$43,169,400</u>

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

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

	As of December 31,	
	2011	2010
Held-for-trading financial assets-Current		
Forward exchange contracts	<u>\$-</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 FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

As of December 31, 2011, forward exchange contracts were all settled. Outstanding forward exchange contracts as of December 31, 2010 were as follows:

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\$35,438 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	290,000	-
Total	<u>\$393,510</u>	<u>\$122,100</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	\$1,571,100	\$1,923,944
Bonds	-	312,529
Depository receipts	56,436	-
Total	<u>\$1,627,536</u>	<u>\$2,236,473</u>

(5) Accounts Receivable-Net

	As of December 31,	
	2011	2010
Accounts receivable	\$3,318,180	\$4,175,898
Less: Allowance for doubtful accounts	(117,795)	(205,552)
Net	<u>\$3,200,385</u>	<u>\$3,970,346</u>

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

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\$1,588,941 thousand and NT\$604,462 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 derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International					
Bank	-	31,601	-	31,601	123,830
BNP Paribas	-	20,857	-	20,857	65,000
		<u>52,458</u>	<u>-</u>	<u>52,458</u>	<u>188,830</u>

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	-	20,477	-	20,477	95,310
DBS Bank	-	309	-	309	20,000
		<u>20,786</u>	<u>-</u>	<u>20,786</u>	<u>115,310</u>

(6) Other Receivables

	As of December 31,	
	2011	2010
Interest receivable	\$70,101	\$66,630
VAT refundable	458,737	287,594
Others	1,627,998	631,289
Total	<u>\$2,156,836</u>	<u>\$985,513</u>

As of December 31, 2011 and 2010, receivables from banks due to factoring agreement were NT\$1,588,941 thousand and NT\$604,462 thousand, respectively. Please refer to Note 4(5).

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

	As of December 31,	
	2011	2010
Work in process	\$4,876,561	\$5,501,034
Finished goods	4,041,226	4,169,177
Subtotal	8,917,787	9,670,211
Less: Allowance for loss on decline in market value and obsolescence	(2,639,157)	(3,227,519)
Net	<u>\$6,278,630</u>	<u>\$6,442,692</u>

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\$588,362 thousand. Write-down of inventories to net realizable value in the amount of NT\$969,798 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.

(8) Funds and Investments

a.	As of December 31, 2011				
Investee Company	Type	Share/unit	Amount	Ownership	
<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	-	
Subtotal			1,592,572		
<u>Financial assets carried at cost-noncurrent</u>					
Yuantonix, Inc.	Common share	300,000	-	3.75%	
<u>Bond portfolios with no active market-noncurrent</u>					
Chinatrust Financial Holding Co. Ltd.	Series B Preferred stock	25,000,000	1,000,000	-	
Less : Current portion			(1,000,000)		
Subtotal			-		
(To be Continued)					

(To be Continued)

MEDIATEK INC.**NOTES TO 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
<u>Investments accounted for using the equity method</u>				
MediaTek Investment Corp.	Common share	4,073,539,273	54,592,840	100.00%
Hsu-Ta Investment Limited	Capital	-	3,726,464	100.00%
Hsu-Chia Investment Limited	Capital	-	3,451,920	100.00%
Hsu-Kang Investment Limited	Capital	-	3,464,810	100.00%
Ralink Technology Corp.	Common share	175,264,005	12,920,344	100.00%
ALi Corporation	Common share	64,098,383	1,422,648	21.09%
Subtotal			79,579,026	
Add : Unrealized (gain) loss on disposal of long-term equity investments			(3,040)	
Subtotal			79,575,986	
Total			\$81,168,558	

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

(To be Continued)

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

(Continued)

	As of December 31, 2010			
Investee Company	Type	Share/unit	Amount	Ownership
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Series B			
	Preferred stock	25,000,000	1,000,000	-
<u>Investments accounted for using the equity method</u>				
MediaTek Investment Corp.	Common share	2,454,820,056	34,217,063	100.00%
Hsu-Ta Investment Limited	Capital	-	3,680,932	100.00%
Hsu-Chia Investment Limited	Capital	-	3,426,734	100.00%
Hsu-Kang Investment Limited	Capital	-	3,422,142	100.00%
Hsu-Chung Investment Corp.	Common share	322,433,336	4,986,352	100.00%
Hsu-Xin Investment Corp.	Common share	322,433,343	4,986,352	100.00%
ALi Corporation	Common share	64,098,383	1,449,996	21.09%
Subtotal			56,169,571	
Add : Unrealized (gain) loss on disposal of long-term equity investments			(3,040)	
Subtotal			56,166,531	
Total			\$59,535,407	

- 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\$8,662,095 thousand and NT\$14,445,432 thousand, respectively, based on the audited financial statements of the investee companies.
- c. For the years ended December 31, 2011 and 2010, the Company recognized an unrealized loss of NT\$273,266 thousand and NT\$70,356 thousand, respectively, in shareholders' equity for the changes in fair value of available-for-sale financial assets held by its investee companies accounted for under the equity method.
- d. The Company issued employee stock options to subsidiaries' employees for the years ended December 31, 2011 and 2010, and recorded an increase in capital reserve in the aggregate amount of NT\$88,803 thousand and NT\$91,476 thousand, respectively. Please refer to note 4(15).
- e. For the years ended December 31, 2011 and 2010, under the equity method, the Company recognized changes in investees' capital reserve by NT\$844 thousand and NT\$37,893 thousand, respectively.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- f. In September 2010, the Company invested in Taishin 1.5 Years TWD CP90 Structured Investment and other financial assets which were classified as financial assets designated as at fair value through profit or loss in the aggregate amount of NT\$870,000 thousand.
- g. During 2011, the Company sold 1,600,000 units of Cathay No. 1 Real Estate Investment Trust which was classified as available-for-sale financial assets at the price of NT\$21,653 thousand and recognized an investment disposal gain of NT\$5,845 thousand.
- h. During 2011, the Company redeemed Cathay Real Estate Investment Trust -Tun Nan C which was classified as available-for-sale financial assets in the amount of NT\$100,000 thousand. In 2010, the Company redeemed Chinatrust 2006-1 Collateralized Loan Obligation-E which was classified as available-for-sale financial assets in the amount of NT\$296,000 thousand.
- i. Hsu-Chung Investment Corp. and Hsu-Xin Investment Corp. were merged into MediaTek Investment Corp. on January 1, 2011.
- j. In 2011, the Company issued 55,533,588 new shares to exchange 100% shares of Ralink Technology Corp. and the record date of shares exchange was set on October 1, 2011. Ralink Technology Corp. was delisted from TWSE on October 1, 2011.
- k. In December 2005, the Company acquired series B preferred stocks ("Preferred B") of Chinatrust Financial Holding Company by NT\$1,000,000 thousand. Terms and conditions of the stock are listed as follows:
 - (a) Duration : 7 years
 - (b) Par value : \$10 per share
 - (c) Issuing price : \$40 per share
 - (d) Dividends:
Dividend is at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.
 - (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.
- l. Funds and investments mentioned above were not pledged as of December 31, 2011 and 2010.

(9) 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.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(10) Intangible Assets**

	For the year ended December 31, 2011		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$2,436,050	\$7,307,142	\$9,743,192
Increase - separately acquired	116,613	590	117,203
Decrease - elimination and others	(2,047,122)	(3,665,713)	(5,712,835)
Balance at end of period	505,541	3,642,019	4,147,560
Accumulated amortization			
Balance at beginning of period	(2,214,366)	(5,722,947)	(7,937,313)
Increase - amortization	(213,862)	(813,487)	(1,027,349)
Decrease - elimination and others	2,049,097	3,665,421	5,714,518
Balance at end of period	(379,131)	(2,871,013)	(3,250,144)
Net	\$126,410	\$771,006	\$897,416

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

(11) Accrued Pension Liabilities

The Company's pension fund contributed to a fiduciary account in Bank of Taiwan amounted to NT\$49,558 thousand and NT\$47,038 thousand as of December 31, 2011 and 2010, respectively. The pension expenses under the Labor Pension Act amounted to NT\$257,512 thousand and NT\$177,446 thousand for the years ended December 31, 2011 and 2010, respectively.

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

- a. 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	11,604	8,260
Expected return on plan assets	(935)	(1,023)
Amortization and deferral	18,476	11,035
Net pension cost	<u>\$32,135</u>	<u>\$20,406</u>

- b. 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	(213,579)	(205,873)
Accumulated benefit obligation	(213,579)	(205,873)
Effect of projected future salary increase	(241,578)	(374,304)
Projected benefit obligation	(455,157)	(580,177)
Fair value of plan assets	49,558	47,038
Funded status of pension plan	(405,599)	(533,139)
Unrecognized net transitional obligation	530	618
Unrecognized loss	268,241	425,766
Others	(53,710)	(472)
Accrued pension liabilities	<u>\$(190,538)</u>	<u>\$(107,227)</u>

- c. The vested benefit was nil as of December 31, 2011 and 2010.

- d. 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%

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

(12) Common Stock

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

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

Based on the resolution of shareholders' general meeting on June 15, 2011, the Company resolved to issue new shares to exchange 100% shares of Ralink Technology Corp. The Company 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.

On October 28, 2011, the Company 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, the Company 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 the Company 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.

(13) Legal Reserve

According to the R.O.C. Company Law, 10% of the Company's net income after tax shall be appropriated to legal reserve prior to any distribution. Where such legal reserve amounts to the total authorized capital, this provision shall not apply. The company 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. The company 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.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(14) 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 the Company incurs no loss, it may distribute its capital reserve, in whole or in part, by issuing new shares or by cash. The Company shall not use capital reserve to make up its loss unless legal reserve is insufficient for making up such losses.

- a. The Company had paid cash dividends in the amount of NT\$155,881 thousand and NT\$202,226 thousand to the subsidiary who owned the Company's common shares for the years ended December 31, 2011 and 2010, respectively. Since the Company's shares held by the subsidiary are treated as treasury stocks, the cash dividends paid to the Company's subsidiary are accounted for as an adjustment to capital reserve; under the category of treasury stock transactions.
- b. For the year ended December 31, 2010, based on the resolution of shareholders' general meeting, the Company resolved to issue 7,485,481 new shares at par value of NT\$10 for the capitalization of employees' bonus of NT\$3,667,961 thousand. The issuance resulted in an increase in additional paid-in capital in the amount of NT\$3,593,106 thousand. Please refer to Note 4(12).

(15) Employee Stock Options

- a. In December 2007, July 2009, May 2010, and August 2011, the Company was authorized by the Financial Supervisory Commission, Executive Yuan, to issue employee stock options with a total number of 5,000,000 units, 3,000,000 units, 3,500,000 units and 3,500,000 units, each option eligible to subscribe for one common share. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company's shareholding with voting rights, directly or indirectly, is more than fifty percent. The options are valid for ten years and exercisable at certain percentage subsequent to the second anniversary of the granted date. Under the terms of the plan, the options are granted at an exercise price equal to the closing price of the Company's common share listed on the TWSE on the grant date.

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

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

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2008.03.31	1,134,119	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.

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:

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

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

Employee Stock Option	For the year ended December 31,			
	2011		2010	
	Options	Weighted-average Exercise Price	Options	Weighted-average Exercise Price
	(Unit)	per Share (NTD)	(Unit)	per Share (NTD)
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 FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

The information regarding the Company's outstanding stock options as of 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	2,038,515	6.17	280	-	-
		<u>5,198,793</u>		<u>\$360</u>	<u>992,366</u>	

- b. The Company issued new shares to exchange 100% shares of Ralink Technology Corp. on October 1, 2011. According to the share-swap agreement, the Company 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 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:

	<u>Employee Stock Option</u>
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:

	<u>For the years ended December 31, 2011</u>	
<u>Employee Stock Option</u>	<u>Options (Unit)</u>	<u>Weighted-average Exercise Price per Share (NTD)</u>
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	<u>144,735</u>	16.26
Exercisable at end of period	<u>144,735</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$305.73</u>	

Other information is disclosed as follows:

	Range of Exercise Price	<u>Outstanding Stock Options</u>			<u>Exercisable Stock Options</u>	
		Options	Weighted- average Expected Remaining Years	Weighted- average Exercise Price per Share (NTD)	Options	Weighted- average Exercise Price per Share (NTD)
Authorized issue date	(NTD)	(Unit)			(Unit)	
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
		<u>144,735</u>		\$16.26	<u>144,735</u>	

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

(16) Earnings Distribution and Dividends Distribution Policy

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

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

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

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

During the 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 the Company's Articles of Incorporation. Estimated amount of employee bonuses and remunerations paid to directors and supervisors were charged to current income. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, the Company shall recognize the change as an adjustment to income of next year.

MEDIATEK INC.**NOTES TO 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 shareholders' 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.

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

a. Changes in treasury stock during the 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	-

(b) According to the Securities and Exchange Law of R.O.C., the total shares of treasury stock shall not exceed 10% of the Company's issued stock, and the total purchase amount shall not exceed the sum of retained earnings, additional paid-in capital in excess of par and realized additional paid-in capital. As such, the maximum number of shares of treasury stock that the Company 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. The Company's shares owned by the subsidiary are accounted for as treasury stock. Movement schedule of the Company's treasury stock was as follows:

Owner	January 1, 2011		Additions		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

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

	For the year ended December 31,	
	2011	2010
Revenues from sales of multimedia and cell phone chipsets	\$56,304,042	\$78,180,984
Other operating revenue	981,498	1,093,499
Subtotal	57,285,540	79,274,483
Less: Sales returns	(26,338)	(670)
Sales discounts	(3,416,836)	(7,285,383)
Net Operating Revenue	\$53,842,366	\$71,988,430

(19) 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	\$212,146	\$9,032,206	\$9,244,352	\$170,479	\$12,775,491	\$12,945,970
Insurance	10,630	320,790	331,420	6,895	225,098	231,993
Pension	10,601	332,272	342,873	5,977	191,875	197,852
Other expenses	4,288	156,252	160,540	4,473	163,343	167,816
Total	\$237,665	\$9,841,520	\$10,079,185	\$187,824	\$13,355,807	\$13,543,631
Depreciation	\$4,944	\$674,042	\$678,986	\$2,327	\$689,051	\$691,378
Amortization	\$777	\$1,026,572	\$1,027,349	\$935	\$1,405,148	\$1,406,083

(20) 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	\$59,998	\$733,526
10% surtax on undistributed earnings	202,285	458,854
Investment tax credits	(202,285)	(596,190)
Deferred income tax effects		
Investment tax credits	2,144,566	404,118
Valuation allowance	(2,286,930)	24,617
Others	303,348	114,297
Others	114,496	93,020
Income tax expense from continuing operations	\$335,478	\$1,232,242

MEDIATEK INC.**NOTES TO 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	\$2,639,157	\$448,657	\$3,227,519	\$548,678
Allowance for doubtful debt in excess				
of deductible limit	83,999	14,280	161,814	27,509
Unrealized technology license fee	1,520,254	258,443	1,307,624	222,296
Unrealized foreign exchange loss	19,812	3,368	33,502	5,695
Unrealized loss on asset impairment	12,126	2,061	12,126	2,061
Investment tax credits		6,760,767		8,905,333
Deferred income tax assets		7,487,576		9,711,572
Valuation allowance for deferred				
income tax assets		(7,309,499)		(9,596,430)
Net deferred income tax assets		178,077		115,142
Deferred income tax liabilities				
Unrealized gain on valuation of				
financial assets	-	-	(46,271)	(7,866)
Unrealized amortization of intangible				
assets	(5,453,769)	(927,141)	(4,090,327)	(695,356)
Deferred income tax liabilities		(927,141)		(703,222)
Net deferred income tax assets and				
liabilities		\$ (749,064)		\$ (588,080)

	As of December 31,	
	2011	2010
Deferred income tax assets-current	\$3,015,917	\$2,948,744
Valuation allowance for deferred income tax		
assets-current	(2,943,442)	(2,868,991)
Net deferred income tax assets-current	72,475	79,753
Deferred income tax liabilities-current	-	(7,866)
Net deferred income tax assets and		
liabilities-current	\$72,475	\$71,887

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

	As of December 31,	
	2011	2010
Deferred income tax assets-noncurrent	\$4,471,659	\$6,762,828
Valuation allowance for deferred income tax assets-noncurrent	(4,366,057)	(6,727,439)
Net deferred income tax assets-noncurrent	105,602	35,389
Deferred income tax liabilities-noncurrent	(927,141)	(695,356)
Net deferred income tax assets and liabilities-noncurrent	<u><u>\$ (821,539)</u></u>	<u><u>\$ (659,967)</u></u>

- c. Pursuant to Article 9-2 of the “Statute for Upgrading Industries”, the Company is qualified as a technical service industry and is therefore entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. The Company has elected the tax exemption periods from January 1, 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.
- d. The Company’s income tax returns for all the fiscal years up to 2008 have been assessed by the tax authorities.
- e. The Company’s available investment tax credits as of December 31, 2011 are as follows:

Total credit amount	Unused amount	Year expired
\$2,291,169	\$2,291,169	2012
4,469,598	4,469,598	2013
<u><u>\$6,760,767</u></u>	<u><u>\$6,760,767</u></u>	

f.

Integrated income tax information

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

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

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

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(21) Earnings Per Share**

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

	Amount (Numerator)			Earnings per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
<u>For the year ended December 31, 2011</u>					
Basic EPS					
Net income	\$13,958,548	\$13,623,070	1,103,110,322	<u>\$12.65</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	\$13,958,548	\$13,623,070	1,115,570,960	\$12.51	\$12.21

	<u>Amount (Numerator)</u>			<u>Earnings per share</u>	
	<u>Before tax</u>	<u>After tax</u>	<u>Shares (Denominator)</u>	<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2010</u>					
Basic EPS					
Net income	\$32,193,679	\$30,961,437	1,088,689,895	<u>\$29.57</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	\$32,193,679	\$30,961,437	1,109,668,646	\$29.01	\$27.90

The pro-forma earnings per share were computed as follows, assuming that the Company's shares owned by its subsidiary were not treated as treasury stock:

	<u>Amount (Numerator)</u>			<u>Earnings per share</u>	
			Shares		
	<u>Before tax</u>	<u>After tax</u>	<u>(Denominator)</u>	<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2011</u>					
Pro-forma EPS					
Net income	\$13,958,548	\$13,623,070	1,103,110,322		
The effect of the Company's shares owned by its subsidiary not treated as treasury stock	<u>155,881</u>	<u>155,881</u>	<u>7,794,085</u>		
Total	\$14,114,429	\$13,778,951	1,110,904,407	\$12.71	\$12.40

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

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

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

<u>Related parties</u>	<u>Relations</u>
King Yuan Electronics Co., Ltd. ("King Yuan")	The chairman of the Company and the chairman of King Yuan are close relatives
ALi Corporation ("ALi")	Equity investee
JMicron Technology Corporation ("JMicon")	The Company's chairman doubles as JMicon's chairman
Airoha Technology, Inc. ("Airoha")	Equity investee
MediaTek Singapore Pte. Ltd. ("MSL")	Affiliated company
MTK Wireless Limited-UK ("MUK")	Affiliated company
MediaTek Wireless, Inc.-USA ("MWS")	Affiliated company
Gaintech Co. Limited ("GCL")	Affiliated company
Core Tech Resources Inc. ("CTR")	Affiliated company
MediaTek (HK) Inc. ("MHK")	Affiliated company
Ralink Technology Corp. ("Ralink")	Affiliated company(Note)
MediaTek Investment Corp. ("MIC")	Affiliated company
MediaTek Capital Corp. ("MCC")	Affiliated company
Hsu-Ta Investment Limited ("Hsu-Ta")	Affiliated company
Hsu-Chia Investment Limited ("Hsu-Chia")	Affiliated company
Hsu-Kang Investment Limited ("Hsu-Kang")	Affiliated company
RollTech Technology, Co. Ltd. ("RollTech")	Affiliated company
Directors, supervisors and key managers	The Company's major managers

Note: Information disclosed herein includes only those transactions with Ralink occurred after October 1, 2011, the day Ralink became a subsidiary of the Company.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(2) Major transactions with related parties****a. Sales**

	For the year ended December 31,			
	2011		2010	
	Amount	% of net sales	Amount	% of net sales
MSL	\$553,763	1.03	\$712,295	0.99
ALi	95,693	0.18	-	-
Total	\$649,456	1.21	\$712,295	0.99

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 MSL and ALi were royalty revenues, which were charged based on an agreed percentage of the Company's net sales.

b. IC testing, experimental services and manufacturing technology services

	Transactions	For the year ended December 31,	
		2011	2010
King Yuan	IC testing and experimental services	\$1,217,537	\$1,650,353

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	-
RollTech	480	-	168	-
MIC	34	34	-	-
MCC	34	34	-	-
Hsu-Ta	34	34	-	-
Hsu-Chia	34	34	-	-
Hsu-Kang	34	34	-	-
Total	\$9,619	\$16,020	\$495	\$-

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 FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- d. The lease guarantees provided by the Company for MUK and MWS, bank financing guarantees provided by the Company for GCL, CTR and MHK and IP purchase guarantees provided by the Company for Ralink are shown as follows:

	As of December 31, 2011		As of December 31, 2010	
	Endorsement limit	Actual amount	Endorsement limit	Actual amount
MUK	\$26,123	\$26,123	\$25,082	\$25,082
MWS	76,629	76,629	91,301	91,301
GCL	15,000,000	2,877,550	-	-
CTR	2,000,000	-	-	-
MHK	7,000,000	-	-	-
Ralink	67,925	67,925	-	-
Total	\$24,170,677	\$3,048,227	\$116,383	\$116,383

- e. Significant fixed asset transaction

	Transactions	For the year ended December 31,	
		2011	2010
Ralink	Purchase of fixed asset	\$1,400	\$-

(3) Receivables and payables resulted from the above transactions

- a. Receivables from related parties

	As of December 31,			
	2011		2010	
	Amount	%	Amount	%
MSL	\$37,851	1.16	\$45,165	1.12
ALi	23,567	0.72	-	-
Total	\$61,418	1.88	\$45,165	1.12

- b. Payables to related parties

	As of December 31,			
	2011		2010	
	Amount	%	Amount	%
King Yuan	\$119,190	1.75	\$378,408	5.99

- c. Remunerations paid to major managers

	For the year ended December 31,	
	2011	2010
Salaries, reward, compensation, special allowance and bonus	\$65,752 (Note)	\$224,104

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.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****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
Total	<u>\$9,947</u>		

(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
Total	<u>\$9,917</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 the Company and other Respondents' products for infringement of United States Patents No. 6,470,405, 6,591,353, 7,287,109, 7,602,857, 7,602,858 and 7,715,494. Specifically, Rambus alleged Company'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 the Company on December 1, 2010 in the United States Northern District of California, alleging patent infringement against the Company'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 the Company did not infringe the patents.

The Company 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 the Company the option to use Rambus' patented innovations in a broad range of products offered by the Company.

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

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

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

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

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

Additionally, Freescape filed a Complaint in the U.S. International Trade Commission against the Company and thirteen other Respondents on November 30, 2011 alleging infringement of United States Patent No. 5,467,455. Freescape 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 the Company 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 Ralink Technology Corp. and Ralink Technology Corp. (USA) also infringe some of the aforementioned patents.

The Company will handle these cases carefully.

(2) Operating Lease:

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

Lease Period	Amount
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><u>\$365,903</u></u>

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

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

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

10. Others

(1) Financial Instruments

a. Fair value of financial instruments

	As of December 31,			
	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
Assets				
Cash and cash equivalents	\$27,137,268	\$27,137,268	\$43,169,400	\$43,169,400
Financial assets designated as at fair value through profit or loss	\$393,510	\$393,510	\$1,001,577	\$1,001,577
Receivables (including related parties)	\$3,261,803	\$3,261,803	\$4,015,511	\$4,015,511
Other receivables	\$2,156,836	\$2,156,836	\$985,513	\$985,513
Available-for-sale financial assets	\$3,220,108	\$3,220,108	\$3,725,872	\$3,725,872
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	\$1,422,648	\$1,919,747	\$1,449,996	\$2,829,944
-without market value	\$78,153,338	\$-	\$54,716,535	\$-
Refundable deposits	\$141,602	\$141,602	\$164,577	\$164,577
Restricted assets	\$9,947	\$9,947	\$9,917	\$9,917
Liabilities				
Payables (including related parties)	\$6,815,547	\$6,815,547	\$6,322,522	\$6,322,522
Accrued expenses	\$12,856,882	\$12,856,882	\$14,503,360	\$14,503,360
Deposits received	\$5,969	\$5,969	\$876	\$876
<u>Derivative</u>				
Assets				
Held-for-trading financial assets	\$-	\$-	\$46,271	\$46,271

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- (iii) The fair values of held-for-trading financial assets and available-for-sale financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
 - (iv) The bond portfolios with no active market have no quoted price from active market but have fixed or determinable payments. Fair values are estimated using the discounted cash flow method.
 - (v) The fair values of the Company's investments accounted for under the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.
 - (vi) The fair values of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
- (b) (Loss) gain recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$(23,367) thousand and NT\$67,847 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\$23,703,660 thousand and NT\$38,692,278 thousand, respectively, and financial assets exposed to cash flow risk from variable interest rate were NT\$299,797 thousand and NT\$899,044 thousand, respectively.
- (d) Interest income recognized from financial assets that are not at fair value through profit or loss amounted to NT\$390,100 thousand and NT\$347,417 thousand for the years ended December 31, 2011 and 2010, respectively. Interest expense recognized from financial liabilities that are not at fair value through profit or loss amounted to NT\$4,524 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. Please refer to Note 4.(8) to the financial statements for details.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

(b) Information of financial risks

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

Liquidity risk

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

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

MEDIATEK INC.**NOTES TO 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, the Company 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 the Company. 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 the Company. 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. The Company 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 the Company were issued to acquire all Ralink's shares.

MEDIATEK INC.**NOTES TO 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	\$53,842,366	\$71,988,430
Net Income	\$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)
Financial assets						
Monetary item						
USD	\$252,855	\$30.29	\$7,658,970	\$246,266	\$29.08	\$7,161,413
Non-monetary item						
USD	\$-	\$-	\$-	\$9,000	\$29.08	\$261,720
Financial liabilities						
Monetary item						
USD	\$243,966	\$30.29	\$7,389,724	\$227,399	\$29.08	\$6,612,764
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.

11. Operating Segment Information

The Company has provided the operating segments disclosure in the consolidated financial statements.

12. The Authorization of Financial Statements

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

13. IFRSs Adoption Information

The Company has provided the IFRSs adoption disclosure in the consolidated financial statements.