

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

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

WITH

REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE THREE MONTHS THEN ENDED

MARCH 31, 2012 AND 2011

English Translation of a Report Originally Issued in Chinese

Review Report of Independent Accountants

To the Board of Directors and Shareholders
of MediaTek Inc.

We have reviewed the accompanying consolidated balance sheets of MediaTek Inc. and its subsidiaries as of March 31, 2012 and 2011, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the requirements of the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan, Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the R.O.C.

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
April 27, 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 review such financial statements are those generally accepted and applied in the R.O.C.

MEDIATEK INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
As of March 31, 2012 and 2011

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	2012	2011	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2012	2011
Current assets				Current liabilities			
Cash and cash equivalents	3(1)	\$ 86,447,666	\$ 86,520,364	Short-term loans	3(17)	\$ 7,471,090	\$ -
Held-for-trading financial assets-current	3(2)	2,014	12,514	Held-for-trading financial liabilities-current	3(2)	498	364
Financial assets designated as at fair value through profit or loss-current	3(3)	454,162	1,298,035	Accounts payable		7,247,691	6,190,406
Available-for-sale financial assets-current	3(4)	2,616,326	5,613,270	Payables to related parties	4	955,943	923,425
Held-to-maturity financial assets-current	3(5)	265,770	-	Income tax payable		658,934	1,138,456
Bond portfolios with no active market-current	3(13)	1,000,000	-	Accrued expenses	3(23)	12,817,189	14,593,713
Accounts receivable, net	1, 2, 3(6)	7,347,957	6,960,223	Payables to contractors and equipment suppliers		157,324	10,404
Receivables from related parties, net	4	23,567	76,911	Other payables		79,097	-
Other receivables	3(7)	2,765,351	1,608,494	Current portion of long-term payables	3(18)	20,671	-
Inventories, net	3(8)	9,853,452	9,228,138	Other current liabilities		1,707,622	670,475
Prepayments		1,005,117	2,394,538	Deferred income tax liabilities-current		4,930	-
Other current assets		445,159	480,538	Total current liabilities		<u>31,120,989</u>	<u>23,527,243</u>
Deferred income tax assets-current		198,306	390,595				
Restricted assets-current	5	20,129	13,272	Long-term liabilities			
Total current assets		<u>112,444,976</u>	<u>114,596,892</u>	Long-term payables	3(18)	137,314	-
Funds and investments				Other liabilities			
Financial assets designated as at fair value through profit or loss-noncurrent	3(9)	2,002,052	1,903,100	Accrued pension liabilities		191,992	115,058
Available-for-sale financial assets-noncurrent	3(10)	3,007,738	1,814,671	Deposits received		6,173	974
Held-to-maturity financial assets-noncurrent	3(11)	807,636	-	Deferred income tax liabilities-noncurrent		857,862	652,529
Financial assets carried at cost-noncurrent	3(12)	2,239,447	1,334,151	Other liabilities-others		51,276	15,183
Bond portfolios with no active market-noncurrent	3(13)	-	1,000,000	Total other liabilities		<u>1,107,303</u>	<u>783,744</u>
Investments accounted for using the equity method	3(14)	1,889,424	1,745,500	Total liabilities		<u>32,365,606</u>	<u>24,310,987</u>
Total funds and investments		<u>9,946,297</u>	<u>7,797,422</u>				
Property, plant and equipment	3(15)			Shareholders' equity			
Land		1,055,184	888,722	Equity attributable to shareholders of the parent			
Buildings and facilities		6,250,841	5,795,997	Capital			
Machinery and equipment		166,925	207,777	Common stock	3(19)	11,475,108	10,999,682
Computer and telecommunication equipment		1,985,369	1,557,992	Capital collected in advance		643	90
Testing equipment		2,848,155	2,524,548	Capital reserve			
Miscellaneous equipment		1,123,831	712,174	Additional paid-in capital in excess of par	3(21)	23,161,573	11,055,025
Total cost		13,430,305	11,687,210	Treasury stock transaction	3(21)	941,301	785,420
Less : Accumulated depreciation		(5,200,990)	(4,055,293)	Donated assets	3(21)	1,260	1,260
Add : Construction in progress		2,373,453	95,038	Long-term investment transaction	3(21)	225,720	207,315
Prepayments for equipment		75,715	125,158	Employee stock option	3(21), 3(22)	265,548	236,307
Property, plant and equipment, net		<u>10,678,483</u>	<u>7,852,113</u>	Total capital reserve		<u>24,595,402</u>	<u>12,285,327</u>
Intangible assets	3(16)			Retained earnings			
Trademarks		24,018	-	Legal reserve	3(20)	21,710,122	18,613,978
Patents		214,952	230,796	Special reserve	3(23)	4,198,121	355,131
Software		268,300	273,867	Undistributed earnings	3(23)	59,054,912	77,048,769
Goodwill		13,428,387	6,863,129	Other adjustments			
IPs and others		2,591,924	1,857,748	Cumulative translation adjustments		(3,522,954)	(3,876,239)
Total intangible assets		<u>16,527,581</u>	<u>9,225,540</u>	Unrealized gain (loss) on financial instruments		263,974	97,186
Other assets				Treasury stock	3(24)	<u>(55,970)</u>	<u>(55,970)</u>
Refundable deposits		246,398	263,970	Total shareholders' equity attributable to parent company		117,719,358	115,467,954
Deferred charges		42,759	42,227	Minority interests		48,157	-
Deferred income tax assets-noncurrent		242,119	-	Total shareholders' equity		<u>117,767,515</u>	<u>115,467,954</u>
Restricted assets-noncurrent	5	682	777				
Other assets		3,826	-				
Total other assets		<u>535,784</u>	<u>306,974</u>				
Total assets		<u>\$ 150,133,121</u>	<u>\$ 139,778,941</u>	Total liabilities and shareholders' equity		<u>\$ 150,133,121</u>	<u>\$ 139,778,941</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

For the three months ended March 31, 2012 and 2011

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

Description	Notes	2012	2011
Gross sales		\$ 21,478,231	\$ 20,999,416
Less : Sales returns		(2,662)	(6,622)
Sales discounts		(1,860,280)	(1,125,707)
Net sales	3(25)	19,615,289	19,867,087
Cost of goods sold	4	(11,360,372)	(10,687,009)
Gross profits		8,254,917	9,180,078
Operating expenses			
Selling expenses		(587,390)	(502,642)
General and administrative expenses		(740,242)	(697,335)
Research and development expenses		(4,980,900)	(4,915,222)
Total operating expenses		(6,308,532)	(6,115,199)
Operating income		1,946,385	3,064,879
Non-operating income and gains			
Interest income		401,581	160,055
Gain on equity investments, net	3(14)	60,194	22,041
Gain on disposal of investments		3,123	74,174
Foreign exchange gain, net		11,989	3,751
Reversal of bad debts		10,153	-
Valuation gain on financial assets	3(2)	46,937	-
Others		145,474	104,172
Total non-operating income and gains		679,451	364,193
Non-operating expenses and losses			
Interest expenses		(21,099)	-
Loss on disposal of property, plant and equipment		(107)	(3,883)
Valuation loss on financial assets	3(2)	-	(31,004)
Valuation loss on financial liabilities	3(2)	(498)	(364)
Others		(3,257)	(87,176)
Total non-operating expenses and losses		(24,961)	(122,427)
Income from continuing operations before income tax		2,600,875	3,306,645
Income tax expense		(102,752)	(1,191)
Consolidated net income		<u>\$ 2,498,123</u>	<u>\$ 3,305,454</u>
Income Attributable to :			
Shareholders of the parent		\$ 2,499,930	\$ 3,309,762
Minority interests		(1,807)	(4,308)
Consolidated net income		<u>\$ 2,498,123</u>	<u>\$ 3,305,454</u>
Basic Earnings Per Share (in New Taiwan Dollars)	3(26)	Before tax After tax	Before tax After tax
Consolidated net income		\$ 2.28 \$ 2.19	\$ 3.03 \$ 3.03
Net income attributable to minority interests		- -	- -
Net income attributable to the parent		<u>\$ 2.28</u> <u>\$ 2.19</u>	<u>\$ 3.03</u> <u>\$ 3.03</u>
Diluted Earnings Per Share (in New Taiwan Dollars)	3(26)	Before tax After tax	Before tax After tax
Consolidated net income		\$ 2.27 \$ 2.18	\$ 3.00 \$ 3.00
Net income attributable to minority interests		- -	- -
Net income attributable to the parent		<u>\$ 2.27</u> <u>\$ 2.18</u>	<u>\$ 3.00</u> <u>\$ 3.00</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

English Translation of Financial Statements Originally Issued in Chinese
MEDIATEK INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2012 and 2011
(Amounts in thousands of New Taiwan Dollars)

Description	2012	2011
Cash flows from operating activities :		
Consolidated net income	\$ 2,498,123	\$ 3,305,454
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	306,869	287,579
Amortization	532,108	390,166
Bad debt (reversal) provision	(10,153)	46,090
Reversal of sales returns and discounts	(60,434)	-
Employee stock options distributed	(10,834)	22,649
Amortization of financial assets discount or premium	640	563
Gain on recovery in market value and obsolescence of inventories	(481,286)	(463,287)
Net gain on equity investments	(60,194)	(22,041)
Net loss on disposal of property, plant and equipment	107	3,883
Gain on disposal of investment	(3,123)	(74,174)
Adjustment of valuation on financial assets and liabilities	(38,551)	28,192
Deferred income tax	52,373	(45,752)
Employees' bonuses	287,830	401,376
Changes in operating assets and liabilities:		
Financial assets designated as at fair value through profit or loss	886,675	(435,587)
Accounts receivable	285,079	(788,556)
Receivables from related parties	-	(76,911)
Other receivables	47,931	536,247
Inventories	11,232	606,661
Prepayments	(315,130)	(224,578)
Other current assets	(162,574)	12,750
Accounts payable	(774,283)	(1,199,438)
Payables to related parties	(2,993)	(105,735)
Income taxes payable	(22,069)	69,506
Accrued expenses	(3,185,096)	(1,476,602)
Other payables	4,837	-
Current portion of long-term payables	2,590	-
Other current liabilities	955,215	57,600
Long-term payables	(10,348)	-
Accrued pension liabilities	1,454	7,831
Other liabilities-others	1,925	15,183
Net cash provided by operating activities	737,920	879,069
Cash flows from investing activities :		
(Decrease) increase in restricted assets	(7,028)	16,338
Increase in available-for-sale financial assets	(81,733)	(200,117)
Proceeds from disposal of available-for-sale financial assets	-	79,652
Increase in held-to-maturity financial assets	(217,644)	-
Increase in financial assets carried at cost	(81,087)	(202,067)
Proceeds from disposal of financial assets carried at cost	497	-
Increase in investments accounted for using the equity method	-	(64,720)
Proceeds from capital reduction of investments accounted for using the equity method	1,477	-
Purchase of property, plant and equipment	(1,160,010)	(326,824)
Proceeds from disposal of property, plant and equipment	75	9,241
Decrease (increase) in refundable deposits	19,033	(2,482)
Increase in intangible assets and deferred assets	(912,738)	(40,601)
Net cash used in investing activities	(2,439,158)	(731,580)
Cash flows from financing activities :		
Increase in short-term loans	3,506,600	-
(Decrease) increase in deposits received	(3)	1
Proceeds from exercise of employee stock options	914	3,364
Net cash provided by financing activities	3,507,511	3,365
Effect of exchange rate	(1,180,045)	442,153
Net increase in cash and cash equivalents	626,228	593,007
Cash and cash equivalents at the beginning of the year	85,821,438	85,927,357
Cash and cash equivalents at the end of the year	\$ 86,447,666	\$ 86,520,364
Supplemental disclosures of cash flow information :		
Interest paid during the year	\$ 5,382	\$ -
Income tax paid during the year	\$ 82,013	\$ 107,526
Activities partially affected cash flows :		
Purchase of property, plant and equipment	\$ 1,240,473	\$ 320,740
Add: (increase) decrease in payables to contractors and equipment suppliers	(80,463)	6,084
Cash paid for the purchase of property, plant and equipment	\$ 1,160,010	\$ 326,824
Non-cash activities :		
Change in unrealized (loss) gain on financial instruments	\$ 220,782	\$ (85,422)

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

1. Summary of Significant Accounting Policies

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

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

General Descriptions of the Consolidated Entities

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

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

Company	Main Business	Percentage of Ownership As of March 31,		Note
		2012	2011	
MediaTek Investment Corp.	General investing	100.00%	100.00%	-
Hsu-Ta Investment Limited	General investing	100.00%	100.00%	-
Hsu-Chia Investment Limited	General investing	100.00%	100.00%	-
Hsu-Kang Investment Limited	General investing	100.00%	100.00%	-
Core Tech Resources Inc.	General investing	100.00%	100.00%	-
MediaTek Capital Corp.	General investing	100.00%	100.00%	-
RollTech Technology, Co. Ltd.	Software development	100.00%	100.00%	-
E-vehicle Semiconductor Technology Co. Ltd.	Research, manufacturing and sales	68.97%	-	1
Gaintech Co. Limited	General investing	100.00%	100.00%	-
MediaTek (HK) Inc.	General investing	100.00%	100.00%	-
MediaTek (Hefei) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Beijing) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Shenzhen) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Chengdu) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Wuhan) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Shanghai) Inc.	Technology services	100.00%	100.00%	-
MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100.00%	100.00%	-
MTK Wireless Limited (UK)	Research	100.00%	100.00%	-
MediaTek Wireless Limited (Ireland)	Research	100.00%	100.00%	-
MediaTek Denmark ApS	Research	100.00%	100.00%	-
MTK Wireless L.L.C. (Dubai)	Technology services	100.00%	100.00%	-
MediaTek USA Inc.	Research	100.00%	100.00%	2
MediaTek Wireless, Inc. (USA)	Research	100.00%	100.00%	-
MediaTek Japan Inc.	Technology services	100.00%	100.00%	-
MediaTek India Technology Pvt. Ltd.	Research	100.00%	100.00%	-
MediaTek Korea Inc.	Technology services	100.00%	100.00%	-
Vogins Technology Co., Ltd.	General investing	79.51%	79.51%	-
Vogins Technology (Shanghai) Co., Ltd.	Software development	100.00%	100.00%	-
Hesine Technologies International Worldwide Inc.	General investing	100.00%	100.00%	-
Hesine Technologies, Inc.	Technology services	100.00%	-	3
Gold Rich International (Samoa) Limited	General investing	100.00%	-	4
Smarthead Limited	General investing	100.00%	-	5

(To be continued)

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

(Continued)

Company	Main Business	Percentage of Ownership As of March 31,		Note
		2012	2011	
Gold Rich International (HK) Limited	General investing	100.00%	-	6
Lepower Limited	General investing	71.09%	-	7
Lepower (HK) Limited	General investing	100.00%	-	8
Lepower Technologies (Beijing) Inc.	Research, manufacturing and sales	100.00%	-	9
Ralink Technology Corp.	Research, manufacturing and sales	100.00%	-	10
Ralink Technology (Singapore) Corp. Pte. Ltd.	General investing	100.00%	-	10
T-Rich Technology (Cayman) Corp.	General investing	100.00%	-	10
T-Rich Technology Corp.	Research, manufacturing and sales	100.00%	-	10
Ralink Technology (Samoa) Corp.	General investing	100.00%	-	10
Ralink Technology Corporation (USA)	Research	100.00%	-	2&10
Shadow Investment Limited	General investing	100.00%	-	10
MediaTek (Suzhou) Inc.	Technology services	100.00%	-	10
MediaTek (Nanjing) Inc.	Technology services	100.00%	-	10

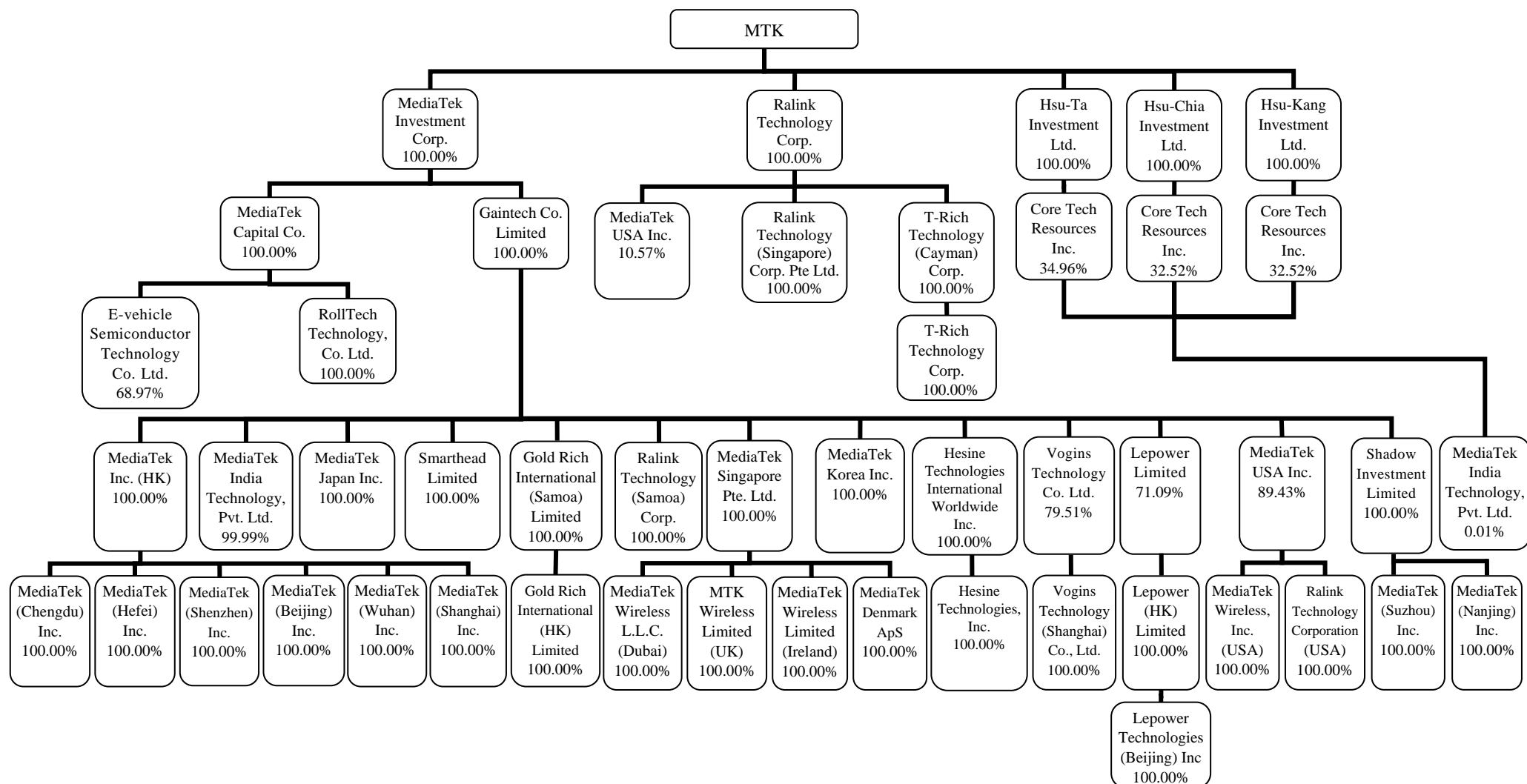
1. MediaTek Capital Corp. acquired E-vehicle Semiconductor Technology Co. Ltd. in May 2011.
2. MediaTek USA Inc. issued new shares to acquire all shares of Ralink Technology Corporation's subsidiary - Ralink Technology Corporation (USA) in October 2011.
3. Hesine Technologies International Worldwide Inc. invested in Hesine Technologies, Inc. in July 2011.
4. Gaintech Co. Limited established Gold Rich International (Samoa) Limited in May 2011.
5. Gaintech Co. Limited established Smarthead Limited in June 2011.
6. Gold Rich International (Samoa) Limited established Gold Rich International (HK) Limited in May 2011.
7. Gaintech Co. Limited established Lepower Limited in July 2011.
8. Lepower Limited established Lepower (HK) Limited in July 2011.
9. Lepower (HK) Limited established Lepower Technologies (Beijing) Inc. in February 2012.
10. MTK issued new shares to exchange 100% shares of Ralink Technology Corp. in October 2011 and acquired all its subsidiaries: T-Rich Technology (Cayman) Corp., T-Rich Technology Corp., Ralink Technology (Singapore) Corp. Pte. Ltd, Ralink Technology Corporation (USA), Ralink Technology (Samoa) Corp., Shadow Investment Limited, MediaTek (Suzhou) Inc., and MediaTek (Nanjing) Inc. The record date of shares exchange was set on October 1, 2011, and accordingly Ralink Technology Corp. and its subsidiaries were included in MTK's 2011 consolidated financial statement. After the acquisition, the Company conducted a group reorganization by attaching Ralink Technology (Samoa) Corp., Shadow Investment Limited, MediaTek (Suzhou) Inc. and MediaTek (Nanjing) Inc. to Gaintech Co. Limited as its subsidiaries.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The following diagram presented information regarding the relationships and ownership percentages among MTK and subsidiaries as of March 31, 2012.



MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Principles of Consolidation

- A. The consolidated financial statements were prepared in accordance with SFAS No. 7. The transactions between the consolidated entities were appropriately eliminated in the consolidated financial statements.
- B. Investees in which MTK and subsidiaries hold more than 50% of voting rights, including those that are exercisable or convertible, are accounted for under the equity method and shall be consolidated, since MTK and subsidiaries are considered to possess control. An entity shall also be consolidated if any of the following circumstances exists:
- a. The total amount of voting rights held by the investee exceeds 50% due to agreement with other investors;
 - b. As permitted by law, or by contract agreements, MTK controls an entity's finances, operations and personnel affairs;
 - c. MTK has authority to appoint or discharge more than half members of board of directors (or equivalents), by whom the investee is controlled;
 - d. MTK leads and controls more than half of the members of the board of directors (or equivalents), by whom the investee is controlled;
 - e. Other indications of control possession.
- C. If the acquisition cost is greater or less than the proportionate book value of the investee, it is accounted for in accordance with the R.O.C. SFAS No. 25 "Business Combinations - Accounting Treatment under Purchased Method". Effective from January 1, 2006, pursuant to the newly revised SFAS No. 25, investment premiums, representing goodwill, are no longer amortized, and are assessed for impairment at least on an annual basis; while investment discounts continue to be amortized over the remaining period. In some cases, the fair value will exceed the investment cost. That excess generated after December 31, 2005 shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired noncurrent assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.
- D. MTK together with its subsidiaries above mentioned are hereinafter referred to collectively as the "Company". Minority interests in the above mentioned subsidiaries are presented as a separate component of shareholders' equity.

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

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

Operating Segments Information

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

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

2. 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 three months ended March 31, 2011.
- (2) Effective January 1, 2011, the Company adopted R.O.C. SFAS No. 41, "Operating Segments", to present operating segment information. The newly issued R.O.C. SFAS No. 41 replaced R.O.C. SFAS No. 20, "Segment Reporting".

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

	As of March 31,	
	2012	2011
Petty cash	\$1,190	\$1,675
Savings and checking accounts	12,213,363	15,523,509
Time deposits	73,133,113	70,364,378
Cash equivalents-bonds-Repo	1,100,000	630,802
Total	<u>\$86,447,666</u>	<u>\$86,520,364</u>

a. As of March 31, 2012 and 2011, the Company was committed to selling the bonds-Repo back to the brokers in April, 2012 and 2011, respectively.

b. Cash and cash equivalents were not pledged as of March 31, 2012 and 2011.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(2) Held-for-trading Financial Assets and Liabilities-Current**

a.	As of March 31,	
	2012	2011
Held-for-trading financial assets-Current		
Forward exchange contracts	\$2,014	\$12,514

b.	As of March 31,	
	2012	2011
Held-for-trading financial liabilities-Current		
Forward exchange contracts	\$498	\$364

The Company entered into derivative contracts during the three months ended March 31, 2012 and 2011 to manage exposures to foreign exchange rate changes. The derivative contracts entered into by the Company did not meet the criteria of hedge accounting prescribed by SFAS No. 34. Therefore, they were recorded as the held-for-trading financial assets and liabilities-current. Please refer to Note 9 to the financial statements for the disclosure of relative risk information.

Outstanding forward exchange contracts as of March 31, 2012 and 2011 were as follows:

(a) As of March 31, 2012:**Held-for-trading financial assets:**

Financial instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	April 2012	65,000

Held-for-trading financial liabilities:

Financial instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	April 2012	25,000

(b) As of March 31, 2011:**Held-for-trading financial assets:**

Financial instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	April-May 2011	85,000

Held-for-trading financial liabilities:

Financial instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Buy USD	April-May 2011	10,000

For the three months ended March 31, 2012 and 2011, gain (loss) arising from the forward exchange contracts were NT\$9,338 thousand and NT\$(37,297) thousand, respectively.

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

	As of March 31,	
	2012	2011
Convertible bonds	\$-	\$125,070
Credit-linked deposits	266,339	-
Interest rate-linked deposits	187,823	1,172,965
Total	<u>\$454,162</u>	<u>\$1,298,035</u>

Convertible bonds, credit-linked deposits and interest rate-linked deposits are hybrid financial instruments. Since it is impractical to measure the fair value of the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire hybrid instruments were designated as financial instruments at fair value through profit or loss. Please refer to Note 9 to the financial statements for the disclosures of relative risk information.

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

	As of March 31,	
	2012	2011
Mutual funds	\$2,375,253	\$4,547,917
Bonds	194,648	1,065,353
Depository receipts	46,425	-
Total	<u>\$2,616,326</u>	<u>\$5,613,270</u>

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

	As of March 31,	
	2012	2011
Structured deposits	<u>\$265,770</u>	<u>\$-</u>

(6) Accounts Receivable-Net

	As of March 31,	
	2012	2010
Accounts receivable	\$7,840,597	\$7,297,252
Less: Allowance for sales returns and discounts	(257,697)	-
Allowance for doubtful accounts	(234,943)	(337,029)
Net	<u>\$7,347,957</u>	<u>\$6,960,223</u>

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 March 31, 2012 and 2011. Receivables from banks due to factoring agreement were NT\$1,925,154 thousand and NT\$969,910 thousand, respectively.

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

As of March 31, 2012 and 2011, accounts receivable derecognized were as follows:

As of March 31, 2012:

The Factor (Transferee)	Interest rate	Accounts receivable derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International					
Bank	-	40,997	-	40,997	119,755
HSBC Bank	-	24,196	-	24,196	50,500
		<u>65,193</u>	<u>-</u>	<u>65,193</u>	<u>170,255</u>

As of March 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	-	27,487	-	27,487	110,310
DBS Bank	-	5,483	-	5,483	20,000
		<u>32,970</u>	<u>-</u>	<u>32,970</u>	<u>130,310</u>

(7) Other Receivables

	As of March 31,	
	2012	2011
Interest receivable	\$351,627	\$138,336
VAT refundable	416,813	431,227
Others	1,996,911	1,038,931
Total	<u>\$2,765,351</u>	<u>\$1,608,494</u>

As of March 31, 2012 and 2011, receivables from banks due to factoring agreement were NT\$1,925,154 thousand and NT\$969,910 thousand, respectively. Please refer to Note 3(6).

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

	As of March 31,	
	2012	2011
Materials	\$194	\$176
Work in process	7,466,734	6,500,797
Finished goods	5,428,135	6,607,055
Subtotal	12,895,063	13,108,028
Less: Allowance for loss on decline in market value and obsolescence	(3,041,611)	(3,879,890)
Net	<u>\$9,853,452</u>	<u>\$9,228,138</u>

a. As of March 31, 2012 and 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 were included in cost of goods sold in the amount of NT\$481,286 thousand and NT\$463,287 thousand.

b. Inventories were not pledged as of March 31, 2012 and 2011.

(9) Financial Assets Designated as at Fair Value through Profit or Loss-Noncurrent

	As of March 31,	
	2012	2011
Bonds	\$119,195	\$251,799
Interest rate-linked deposits	875,824	878,054
Credit-linked deposits	774,202	773,247
Exchange rate-linked deposits	232,831	-
Total	<u>\$2,002,052</u>	<u>\$1,903,100</u>

For the three months ended March 31, 2012, the Company invested in Acer USD 2-Year Credit Linked Note credit-linked deposit and other financial assets which were classified as financial assets designated as at fair value through profit or loss in the aggregate amount of NT\$265,770 thousand. For the three months ended March 31, 2011, the Company invested in 4Y Floating Rate Note with Cap & Floor interest rate-linked deposit and other financial assets which were classified as financial assets designated as at fair value through profit or loss in the aggregate amount of NT\$529,524 thousand.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(10) Available-for-sale Financial Assets-Noncurrent**

	As of March 31,	
	2012	2011
Mutual funds	\$2,237,474	\$1,403,800
Bonds	770,264	310,874
Securities	-	99,997
Total	<u>\$3,007,738</u>	<u>\$1,814,671</u>

For the three months ended March 31, 2012, the Company invested in Tencent Holding Ltd. bond and other financial assets which were classified as available-for-sale financial assets in the aggregate amount of NT\$77,184 thousand. For the three months ended March 31, 2011, the Company invested in SHKP(CAP) CPN bond and other financial assets which were classified as available-for-sale financial assets in the aggregate amount of NT\$181,181 thousand.

For the three months ended March 31, 2011, the Company sold Pixart Imaging Inc. which was classified as available-for-sale financial assets at the price of NT\$79,652 thousand and recognized an investment disposal gain of NT\$74,174 thousand.

(11) Held-to-maturity Financial Assets-Noncurrent

	As of March 31,	
	2012	2011
Bonds	\$246,566	\$-
Interest rate-linked deposits	561,070	-
Total	<u>\$807,636</u>	<u>\$-</u>

(12) Financial Assets Carried at Cost-Noncurrent

	As of March 31,	
	2012	2011
Non-publicly traded stocks	\$1,334,474	\$891,929
Capitals	904,973	442,222
Total	<u>\$2,239,447</u>	<u>\$1,334,151</u>

(13) Bond Portfolios with no Active Market

	As of March 31,	
	2012	2011
Series B preferred stock	\$1,000,000	\$1,000,000
Less: Current portion	(1,000,000)	-
Total	<u>\$-</u>	<u>\$1,000,000</u>

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

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.

(14) Investments Accounted for Using the Equity Method

a.

Investee Company	Type	As of March 31, 2012		
		Share/unit	Amount	Ownership
ALi Corporation	Common share	64,099,738	\$1,467,064	21.09%
Airoha Technology, Inc.	Common share	13,391,734	220,482	38.99%
Others			201,878	
Total			<u>\$1,889,424</u>	

Investee Company	Type	As of March 31, 2011		
		Share/unit	Amount	Ownership
ALi Corporation	Common share	64,099,738	\$1,476,237	21.09%
Airoha Technology, Inc.	Common share	13,391,734	191,572	39.04%
Others			77,691	
Total			<u>\$1,745,500</u>	

- b. For the three months ended March 31, 2012 and 2011, the Company recognized an investment gain accounted for under the equity method in the amount of NT\$60,194 thousand and NT\$22,041 thousand, respectively.
- c. For the three months ended March 31, 2011, the Company invested in CMC Capital Investments, L.P. which was classified as investments accounted for using the equity method in the amount of NT\$64,720 thousand.

(15) Property, Plant and Equipment

- a. No interest was capitalized for the three months ended March 31, 2012 and 2011.
- b. Property, plant and equipment were not pledged as of March 31, 2012 and 2011.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(16)Intangible Assets**

	For the three months ended March 31, 2012			
	Trademarks	Software (Design software)	Patents, IPs and Others	Total
Original cost				
Balance at beginning of period	\$32,300	\$892,000	\$6,670,723	\$7,595,023
Increase - separately acquired	-	46,034	858,259	904,293
Elimination and others	684	(1,609)	4,912	3,987
Balance at end of period	32,984	936,425	7,533,894	8,503,303
Accumulated amortization				
Balance at beginning of period	(4,852)	(612,576)	(4,255,323)	(4,872,751)
Increase - amortization	(4,114)	(55,549)	(471,695)	(531,358)
Balance at end of period	(8,966)	(668,125)	(4,727,018)	(5,404,109)
Net	\$24,018	\$268,300	\$2,806,876	\$3,099,194

	For the three months ended March 31, 2011		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$2,712,581	\$9,034,111	\$11,746,692
Increase - separately acquired	41,137	9,583	50,720
Elimination and others	(5,436)	(1,913)	(7,349)
Balance at end of period	2,748,282	9,041,781	11,790,063
Accumulated amortization			
Balance at beginning of period	(2,379,528)	(6,657,958)	(9,037,486)
Increase - amortization	(94,887)	(295,279)	(390,166)
Balance at end of period	(2,474,415)	(6,953,237)	(9,427,652)
Net	\$273,867	\$2,088,544	\$2,362,411

(17)Short-Term Loans

	As of March 31,	
	2012	2011
Unsecured bank loans	\$7,471,090	\$-

The interest rate of the short-term loans as of March 31, 2012 was between 0.95% and 1.50%.

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

Item	Period	As of March 31,		Installment Payment
		2012	2011	
Royalty payables	January 2011- December 2016	\$157,985	\$-	Repayable in 24 quarterly installments.
Less: Current portion		(20,671)	-	
Net		<u>\$137,314</u>	<u>\$-</u>	

a. The royalty payables was for Ralink Technology Corporation's use of patent.

b. The Company did not provide collateral for the above payables.

(19)Common Stock

As of January 1, 2011, the authorized and issued common shares of MTK amounted to NT\$12,000,000 thousand and NT\$10,999,317 thousand, divided into 1,200,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,099,931,683 shares, respectively, each share at par value of NT\$10. In addition, capital collected in advance in the amount of NT\$365 thousand, divided into 36,501 shares, were issued and registered during the year of 2011.

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

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

In 2011, MTK issued 17,339 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.

During the first quarter of 2012, MTK issued 55,950 new shares at par value of NT\$10 for the employee stock options exercised. As of March 31, 2012, those new shares (NT\$560 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance.

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

As of March 31, 2012, the authorized and issued common shares of MTK amounted to NT\$12,000,000 thousand and NT\$11,475,108 thousand, divided into 1,200,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,147,510,834 shares, respectively, each share at par value of NT\$10. Capital collected in advance was NT\$643 thousand.

(20)Legal Reserve

According to the amendment of R.O.C. Company Law, effective on January 4, 2012, 10% of MTK's net income after tax shall be appropriated to legal reserve prior to any distribution. Where such legal reserve amounts to the total authorized capital, this provision shall not apply. Where a company incurs no loss, it may distribute its legal reserve by issuing new shares to its original shareholders' in proportion to the number of shares being held by each of them or by cash. Where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.

(21)Capital Reserve

	As of March 31,	
	2012	2011
Additional paid-in capital	\$23,161,573	\$11,055,025
Treasury stock transaction	941,301	785,420
Donated assets	1,260	1,260
Long-term investment transaction	225,720	207,315
Employee stock option	265,548	236,307
Total	<u>\$24,595,402</u>	<u>\$12,285,327</u>

According to R.O.C. Company Law, capital reserve cannot be used for distributing cash. However, according to the amendment of R.O.C. Company Law, effective on January 4, 2012, the capital reserve generated from excess of the issuance price over the par value of capital stock (including the stock issued for mergers and the reserve from treasury stock transactions) and donations can be used to distribute cash. MTK shall not use capital reserve to make up its loss unless legal reserve is insufficient for making up such losses. Capital reserve can be used to distribute stock dividends. However, each distribution is subject to a legal limitation.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(22)Employee Stock Options**

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

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

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2008.03.31	1,134,119	468,345	468,345	\$374.7
2008.08.28	1,640,285	788,430	788,430	358.9
2009.08.18	1,382,630	772,071	772,071	460.6
2010.08.27	1,605,757	1,044,144	1,044,144	429.8
2010.11.04	65,839	17,714	17,714	397.0
2011.08.24	2,109,871	1,990,580	1,990,580	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 three months ended March 31, 2012 and 2011, compensation costs recognized were NT\$(10,834) thousand and NT\$22,649 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

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

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

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

	For the three months ended March 31,			
	2012		2011	
Employee Stock Option	Options (Unit)	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Outstanding at beginning of period	5,198,793	\$360	4,327,687	\$416
Granted	-	-	-	-
Exercised	-	-	(9,062)	371
Forfeited (Expired)	(117,509)	360	(506,594)	414
Outstanding at end of period	<u>5,081,284</u>	360	<u>3,812,031</u>	416
Exercisable at end of period	<u>1,171,246</u>		<u>462,013</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$-</u>		<u>\$-</u>	

The information regarding MTK's outstanding stock options as of March 31, 2012 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	1,256,775	2.76	\$365	936,213	\$367
Stock option plan of 2009	460.6	772,071	3.88	461	235,033	461
Stock option plan of 2010	397~429.8	1,061,858	4.92	429	-	-
Stock option plan of 2011	280.0	<u>1,990,580</u>	5.92	280	-	-
		<u>5,081,284</u>		\$360	<u>1,171,246</u>	

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

b.MTK issued new shares to exchange 100% shares of Ralink Technology Corp. on October 1, 2011. According to the share-swap agreement, MTK also issued its own stock options to replace Ralink's stock options. The original terms of Ralink's options remain except for the changes: 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	1,895	1,895	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	25,329	25,329	15.7
2007.12.30	17,000	944	299	-	-	15.7
2007.12.31	1,000,000	277,490	87,895	50,596	50,596	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.

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

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

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

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

Employee Stock Option	For the three months ended March 31, 2012	
	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Outstanding at beginning of period	144,735	\$16.26
Granted	-	-
Exercised	(54,753)	16.34
Forfeited (Expired)	-	-
Outstanding at end of period	89,982	16.21
Exercisable at end of period	89,982	
Weighted-average fair value of options granted during the period (in NTD)	\$-	

Other information is disclosed as follows:

Authorized issue date	Range of Exercise Price (NTD)	Outstanding Stock Options			Exercisable Stock Options	
		Options (Unit)	Weighted- average Expected Remaining Years	Weighted- average Exercise Price per Share (NTD)	Options (Unit)	Weighted- average Exercise Price per Share (NTD)
2006.01.17	\$14.30	3,641	-	\$14.30	3,641	\$14.30
2007.01.29	15.70	35,745	0.19	15.70	35,745	15.70
2007.10.30	16.70	50,596	0.33	16.70	50,596	16.70
		89,982		\$16.21	89,982	

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(23) Earnings Distribution and Dividends Distribution Policy

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

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

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

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

During the three months ended March 31, 2012 and 2011, the amounts of the employee' bonuses were estimated to be NT\$287,830 thousand and NT\$401,376 thousand, respectively. During the three months ended March 31, 2012 and 2011, the amounts of remunerations to directors and supervisors were estimated to be NT\$4,453 thousand and NT\$7,247 thousand, respectively. Employee bonuses were estimated based on a specific rate of net income for the three months ended March 31, 2012 and 2011 (excluding the impact of employees' bonuses) while remunerations to directors and supervisors were estimated based on MTK's Articles of Incorporation. Estimated amount of employee bonuses and remunerations paid to directors and supervisors were charged to current income. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, MTK shall recognize the change as an adjustment to income of next year.

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

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

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

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

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

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

The difference would be considered as changes in accounting estimate after resolved by the 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.

(24) Treasury Stock

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

Owner	January 1, 2012		Additions		Disposal			March 31, 2012		
	Shares	Amount	Shares	Amount	Shares	Amount	Price	Shares	Amount	Market Value
MediaTek Capital Corp.	7,794,085	\$55,970	-	\$-	-	\$-	\$-	7,794,085	\$55,970	\$2,201,829

Owner	January 1, 2011		Additions		Disposal			March 31, 2011		
	Shares	Amount	Shares	Amount	Shares	Amount	Price	Shares	Amount	Market Value
MediaTek Capital Corp.	7,794,085	\$55,970	-	\$-	-	\$-	\$-	7,794,085	\$55,970	\$2,634,401

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(25) Net Operating Revenue**

	For the three months ended March 31,	
	2012	2011
Revenues from sales of multimedia and cell phone chipsets	\$21,361,499	\$20,858,813
Other operating revenue	116,732	140,603
Subtotal	21,478,231	20,999,416
Less: Sales returns	(2,662)	(6,622)
Sales discounts	(1,860,280)	(1,125,707)
Net Sales	<u>\$19,615,289</u>	<u>\$19,867,087</u>

(26) Earnings Per Share

MTK'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 three months ended March 31, 2012</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$2,602,682	\$2,499,930	1,139,771,155	<u>\$2.28</u>	<u>\$2.19</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	7,086,984		
Stock option to employees	-	-	213,874		
Diluted EPS	<u>\$2,602,682</u>	<u>\$2,499,930</u>	<u>1,147,072,013</u>	<u>\$2.27</u>	<u>\$2.18</u>
Consolidated net income attributable to minority interests					
Basic EPS					
Net income	\$(1,807)	\$(1,807)	1,139,771,155	<u>\$-</u>	<u>\$-</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	7,086,984		
Stock option to employees	-	-	213,874		
Diluted EPS	<u>\$(1,807)</u>	<u>\$(1,807)</u>	<u>1,147,072,013</u>	<u>\$-</u>	<u>\$-</u>

(To be continued)

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

(Continued)

	Amount (Numerator)			Earnings per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
<u>For the three months ended March 31, 2011</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$3,310,953	\$3,309,762	1,092,179,723	<u>\$3.03</u>	<u>\$3.03</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	12,617,373		
Stock option to employees	-	-	8,815		
Diluted EPS	<u>\$3,310,953</u>	<u>\$3,309,762</u>	<u>1,104,805,911</u>	<u>\$3.00</u>	<u>\$3.00</u>
Consolidated net income attributable to minority interests					
Basic EPS					
Net income	\$(4,308)	\$(4,308)	1,092,179,723	<u>\$-</u>	<u>\$-</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	12,617,373		
Stock option to employees	-	-	8,815		
Diluted EPS	<u>\$(4,308)</u>	<u>\$(4,308)</u>	<u>1,104,805,911</u>	<u>\$-</u>	<u>\$-</u>

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

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

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED 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 three months ended March 31,			
	2012		2011	
	% of net		% of net	
	Amount	sales	Amount	sales
ALi	\$-	-	\$73,248	0.37

For the three months ended March 31, 2012 and 2011, the trade credit terms for related parties and third-party customers were both 45 to 60 days. Third-party customers may prepay their accounts in advance. The Company's sales to ALi were royalty revenues, which were charged based on an agreed percentage of the Company's net sales.

b. IC testing, experimental services and manufacturing technology services

	Transactions	For the three months ended March 31,	
		2012	2011
King Yuan	IC testing and experimental services	\$1,099,082	\$951,920

c. Rental Income

	Rental Income		Other Receivables	
	For the three months ended March 31,		As of March 31,	
	2012	2011	2012	2011
	Amount	%	Amount	%
JMicron	\$2,190	\$2,287	\$2,585	\$248

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

(3) Receivables and payables resulted from the above transactions**a. Receivables from related parties**

	As of March 31,			
	2012		2011	
	Amount	%	Amount	%
	Amount	%	Amount	%
ALi	\$23,567	0.32	\$76,911	0.19

b. Payables from related parties

	As of March 31,			
	2012		2011	
	Amount	%	Amount	%
	Amount	%	Amount	%
King Yuan	\$955,943	11.65	\$923,425	12.98

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****5. Assets Pledged As Collateral**

(1) As of March 31, 2012:

	Amount	Party to which assets was pledged	Purpose of pledge
Restricted deposits-current	\$6,917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,030	Customs Office	Tariff execution deposits
Restricted deposits-current	3,182	Danske Bank	Credit guarantee
Restricted deposits-current	7,000	Taiwan Cooperative Bank	Pledged for L/C
Restricted deposits-noncurrent	73	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	609	Citibank	Tariff execution deposits
Total	<u>\$20,811</u>		

(2) As of March 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	3,355	Danske Bank	Credit guarantee
Restricted deposits-current	3,000	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	83	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	694	Citibank	Tariff execution deposits
Total	<u>\$14,049</u>		

6. Commitments and Contingencies

(1) Lawsuit:

- a. Rambus Inc. ("Rambus") brought a Complaint against 26 companies on December 1, 2010 in the U.S. International Trade Commission, alleging patent infringement against MTK and other Respondents' products for infringement of United States Patents No. 6,470,405, 6,591,353, 7,287,109, 7,602,857, 7,602,858 and 7,715,494. Specifically, Rambus alleged MTK's DVD and DTV chips infringe two of the abovementioned patents (Patens No. 6,591,353 and 7,287,109).

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

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

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

Additionally, Freescale filed a Complaint in the U.S. International Trade Commission against MTK and thirteen other Respondents on November 30, 2011 alleging infringement of United States Patent No. 5,467,455. Freescale is alleging against the patent infringement of DTV chips and asking to prevent certain products from being sold in the future.

- c. LSI Corporation ("LSI") and Agere Systems Inc. ("Agere") filed a Complaint with the U.S. International Trade Commission against ten Respondents on March 12, 2012 alleging infringement respectively of United States Patents No. 5,870,087, 6,452,958, 6,707,867, and 6,982,663, and asking to prevent certain products from being sold in the future. Specifically, LSI and Agere assert that the DVD/Blu-Ray Player and DTV chips of MTK and its subsidiaries MediaTek USA Inc. and MediaTek Wireless, Inc. (USA), infringe the foregoing patents. In addition, LSI and Agere assert that the Wi-Fi chips of the subsidiaries Ralink Technology Corp. and Ralink Technology Corp. (USA) also infringe some of the aforementioned patents.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- d. Lantiq Deutschland GMBH (“Lantiq”) filed a Complaint alleging patent infringement against TrendChip Technologies Corp.’s customer, Billion Electric Co. Ltd. (“Billion”) in 2010 in Germany. Trendchip Technologies Corp. was later merged into Ralink Technology Corporation (“Ralink”), which is now wholly-owned by MTK. Lantiq’s patent infringement allegation is related to the Ralink’s DSL products and, therefore, Ralink will assist Billion to deal with above issue. In addition, Ralink filed a patent nullity suit against Lantiq in Federal Patent Court of Germany to invalidate the alleging patent. Ralink also filed a Complaint in Wisconsin, USA against Lantiq on November 8, 2010 alleging patent infringement of United States Patent No. 5,394,116. Lantiq and Lantiq North America, Inc. later filed a Complaint in the United States District Court for the Northern District of California against Ralink and Ralink Technology Corp. (USA) in January, 2011 alleging patent infringement of United States Patents No. 6,351,799 and 7,061,904. Lantiq alleged the patent infringement by networking and computing IC products sold, offered for sales and imported by Ralink and asked the court to declare non-infringement and invalidity of the United States Patent No. 5,394,116. The Wisconsin case was transferred to United States District Court for the Northern District of California in March 2011. These two cases have been consolidated per the court’s order. The operation of Ralink would not be materially affected by those patent litigations.
- e. MOSAID Technologies Inc. filed a Complaint in the United States District Court for the Eastern District of Texas against Ralink and other Defendants in March 2011 alleging patent infringement of United States Patents No. 5,131,006, 5,151,920, 5,422,887, 5,706,428, 6,563,786, and 6,992,972. The operation of Ralink would not be materially affected by those patent litigations.
- f. Azure Networks, LLC and Tri-County Excelsior Foundation filed a Complaint in the United States District Court for the Eastern District of Taxes against Ralink and Ralink Technology Corporation (USA), alone with several other Defendants in March 2011 alleging patent infringement of United States Patent No. 7,756,129. The operation of Ralink and Ralink Technology Corporation (USA) would not be materially affected by those patent litigations.

The Company will handle these cases carefully.

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

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

Lease Period	Amount
2012.04.01~2013.03.31	\$30,371
2013.04.01~2014.03.31	30,371
2014.04.01~2015.03.31	30,371
2015.04.01~2016.03.31	30,371
2016.04.01~2017.03.31	30,371
2017.04.01~2027.12.31	206,455
Total	<u>\$358,310</u>

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

Lease Period	Amount
2012.04.01~2013.03.31	\$120,891
2013.04.01~2014.03.31	113,119
2014.04.01~2015.03.31	93,712
2015.04.01~2016.03.31	83,940
2016.04.01~2017.03.31	50,755
2017.04.01~2020.12.31	125,837
Total	<u>\$588,254</u>

7. Significant Casualty Loss

None

8. Significant Subsequent Events

The board of directors of MTK and the subsidiary Gaintech Co. Limited ("GCL") resolved on April 10, 2012 to acquire 100% shares of Coresonic AB by USD35,000 thousand. Coresonic AB will become a 100%-owned subsidiary of GCL.

Coresonic AB was founded in Sweden and has become a leader of DSP (Digital Signal Processor) technologies. Prior to the acquisition, the Company has been working closely with Coresonic AB. It is anticipated that the Coresonic acquisition will help the Company increase both our product development efficiency and effectiveness, thereby further cementing the Company's position as a leading provider of wireless communication and digital multimedia IC solutions. By leveraging Coresonic's technologies with our own, the Company will be able to strengthen our market competitiveness and higher value to our customers.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****9. Others****(1) Financial Instruments****a. Fair value of financial instruments**

	As of March 31,			
	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
<u>Assets</u>				
Cash and cash equivalents	\$86,447,666	\$86,447,666	\$86,520,364	\$86,520,364
Financial assets designated as at fair value through profit or loss	\$2,456,214	\$2,456,214	\$3,201,135	\$3,201,135
Receivables (including related parties)	\$7,371,524	\$7,371,524	\$7,037,134	\$7,037,134
Other receivables	\$2,765,351	\$2,765,351	\$1,608,494	\$1,608,494
Available-for-sale financial assets	\$5,624,064	\$5,624,064	\$7,427,941	\$7,427,941
Held-to-maturity financial assets	\$1,073,406	\$1,074,391	\$-	\$-
Financial assets carried at cost	\$2,239,447	\$-	\$1,334,151	\$-
Bond portfolios with no active market	\$1,000,000	\$1,062,330	\$1,000,000	\$1,083,133
Investments accounted for using the equity method				
-with market value	\$1,467,064	\$3,063,967	\$1,476,237	\$2,330,025
-without market value	\$422,360	\$-	\$269,263	\$-
Refundable deposits	\$246,398	\$246,398	\$263,970	\$263,970
Restricted assets	\$20,811	\$20,811	\$14,049	\$14,049
<u>Liabilities</u>				
Short-term loans	\$7,471,090	\$7,471,090	\$-	\$-
Payables (including related parties)	\$8,203,634	\$8,203,634	\$7,113,831	\$7,113,831
Accrued expenses	\$12,817,189	\$12,817,189	\$14,593,713	\$14,593,713
Payables to contractors and equipment suppliers	\$157,324	\$157,324	\$10,404	\$10,404
Other payables	\$79,097	\$79,097	\$-	\$-
Long-term accounts payable (including current portion)	\$157,985	\$157,985	\$-	\$-
Deposits received	\$6,173	\$6,173	\$974	\$974

(To be continued)

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

(Continued)

	As of March 31,			
	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
<u>Derivative</u>				
Assets				
Held-for-trading financial assets				
-foreign exchange contracts	\$2,014	\$2,014	\$12,514	\$12,514
Liabilities				
Held-for-trading financial liabilities				
-foreign exchange contracts	\$498	\$498	\$364	\$364

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

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

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (vi) The bond portfolios with no active market have no quoted price from active market but have fixed or determinable payments. Fair values are estimated using the discounted cash flow method.
- (vii) The fair values of investments accounted for under the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.
- (viii) The fair values of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
- (b) Gains recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$34,062 thousand and NT\$18,078 thousand for the three months ended March 31, 2012 and 2011, respectively.
- (c) As of March 31, 2012 and 2011, financial assets exposed to fair value risk from fixed interest rate were NT\$74,844,592 thousand and NT\$66,261,191 thousand, respectively, and financial liabilities exposed to fair value risk from fixed interest rate were NT\$7,629,075 thousand and nil, respectively. Financial assets exposed to cash flow risk from variable interest rate were NT\$3,735,917 thousand and NT\$9,065,887 thousand, respectively, and financial liabilities exposed to cash flow risk from variable interest rate were nil.
- (d) Interest income recognized from financial assets that were not at fair value through profit or loss amounted to NT\$391,795 thousand and NT\$188,770 thousand for the three months ended March 31, 2012 and 2011, respectively. Interest expense recognized from financial liabilities that were not at fair value through profit or loss amounted to NT\$21,099 thousand and nil for the three months ended March 31, 2012 and 2011, respectively. The Company recognized unrealized gain of NT\$151,077 thousand and NT\$6,529 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the three months ended March 31, 2012 and 2011, respectively, and the amounts that were recycled from equity to losses were nil for the three months ended March 31, 2012 and 2011. The Company also recognized an unrealized gain (loss) of NT\$69,705 thousand and NT\$(91,951) 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 three months ended March 31, 2012 and 2011, respectively.
- (e) For the three months ended March 31, 2012 and 2011, the Company did not have impairment loss on financial assets.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

b.

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

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

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

(b) Information of financial risks

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

Market risk

Market risk mainly includes currency risk. It comes from purchase or sale activities which are not denominated in the Company's functional currency. The Company reviews its assets and liabilities denominated in foreign currency and enters into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Had the USD moved against NTD by increasing 1 cent, the fair value of the forward exchange contracts would decrease by NT\$900 thousand and NT\$750 thousand as of March 31, 2012 and 2011, 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, corporate bonds, government bonds and financial debentures will be exposed to fluctuations from other market factors as well as movement in interest rates.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Credit risk

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

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

Liquidity risk

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

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

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

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

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

(2) Business combinations

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

a. Background of the acquired company:

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

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

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

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

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

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

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

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

	For the three months ended March 31, 2011
Net sales	\$21,999,903
Net Income attribute to the parent	\$3,473,205
Basic earnings per share (in NTD)	\$3.03

(3) Other Information

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

As of March 31,						
2012			2011			
Foreign Currency (thousand)	Exchange rate	NTD (thousand)	Foreign Currency (thousand)	Exchange rate	NTD (thousand)	
<u>Financial assets</u>						
Monetary item						
USD	\$2,020,935	\$29.53	\$59,678,197	\$1,483,017	\$29.42	\$43,627,392
Non-monetary item						
USD	\$220,648	\$29.53	\$6,515,737	\$137,845	\$29.42	\$4,055,119
CNY	\$40,055	\$4.68	\$187,824	\$65,618	\$4.49	\$294,786
<u>Investments accounted for using the equity method</u>						
USD	\$6,784	\$29.53	\$200,317	\$2,641	\$29.42	\$77,691
<u>Financial liabilities</u>						
Monetary item						
USD	\$510,011	\$29.53	\$15,060,641	\$208,371	\$29.42	\$6,129,867
JPY	\$-	\$-	\$-	\$500,000	\$0.35	\$176,835

- b. Certain accounts in the financial statements of the Company as of March 31, 2011 have been reclassified to conform to the presentation of the current period.

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

- c. Inter-company relationships and significant inter-company transactions for the three months ended March 31, 2012 are as follows: (For MTK's shares owned by the subsidiary, please refer to the Note 3.(24) to the consolidated financial statements.)

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Receivables from related parties	\$40,165	Based on contract	0.03%
			1	Sales revenues	\$101,330		0.52%
		Rolltech Technology, Co. Ltd.	1	Other receivables	\$168		0.00%
			1	Rent revenues	\$480		0.00%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$10,993		0.01%
		Ralink Technology Corp.	3	Other payables	\$158,938		0.11%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$28,998	Based on contract	0.02%
			3	Research and development expenses	\$133,495		0.68%
		MediaTek Denmark ApS	3	Payables to related parties	\$9,562		0.01%
			3	Research and development expenses	\$27,851		0.14%
		MTK Wireless Limited (UK)	3	Payables to related parties	\$24,613		0.02%
			3	Research and development expenses	\$88,140		0.45%
		MediaTek USA Inc.	3	Payables to related parties	\$152,996		0.10%
			3	Research and development expenses	\$393,172		2.00%
		MediaTek Japan Inc.	3	Payables to related parties	\$16,353		0.01%
			3	Research and development expenses	\$45,445		0.23%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$25,310		0.02%
			3	Research and development expenses	\$63,154		0.32%

(To be continued)

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

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek Korea Inc.	3	Payables to related parties	\$19,249	Based on contract	0.01%
			3	Research and development expenses	\$54,595		0.28%
		MediaTek Wireless L.L.C. (Dubai)	3	Accrued expenses	\$613		0.00%
			3	Selling expenses	\$1,845		0.01%
		MediaTek (Wuhan) Inc.	3	Prepayment	\$9,494		0.01%
			3	Research and development expenses	\$38,544		0.20%
		MediaTek (Shenzhen) Inc.	3	Prepayment	\$3,937		0.00%
			3	Research and development expenses	\$356,604		1.82%
		MediaTek (Hefei) Inc.	3	Prepayment	\$64,890		0.04%
			3	Research and development expenses	\$189,759		0.97%
		MediaTek (Beijing) Inc.	3	Prepayment	\$367,446		0.24%
			3	Research and development expenses	\$368,823		1.88%
		Hesine Technologies, Inc.	3	Prepayment	\$19,111		0.01%
			3	Research and development expenses	\$16,313		0.08%
		MediaTek (Nanjing) Inc.	3	Prepayment	\$35,495		0.02%
			3	Research and development expenses	\$11,441		0.06%

(To be continued)

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

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek (Suzhou) Inc.	3	Prepayment	\$54,336	Based on contract	0.04%
			3	Research and development expenses	\$16,601		0.08%
		MediaTek (Chengdu) Inc.	3	Prepayment	\$96,868		0.06%
			3	Research and development expenses	\$100,416		0.51%
		MediaTek (Shanghai) Inc.	3	Prepayment	\$12,154		0.01%
			3	Research and development expenses	\$41,885		0.21%
3	Shadow Investment Limited	MediaTek (Nanjing) Inc.	3	Prepayments	\$17,718	Based on contract	0.01%
			3	Research and development expenses	\$17,730		0.09%
		MediaTek (Suzhou) Inc.	3	Prepayment	\$17,718		0.01%
			3	Research and development expenses	\$17,730		0.09%

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

Inter-company relationships and significant inter-company transactions for the three months ended March 31, 2011 are as follows:

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Receivables from related parties	\$53,808	Based on contract	0.04%
				Sales revenues	\$129,203		0.65%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$10,951		0.01%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$698,534	Based on contract	0.50%
			3	Research and development expenses	\$367,567		1.85%
		MediaTek Denmark ApS	3	Payables to related parties	\$26,264		0.02%
			3	Research and development expenses	\$63,503		0.32%
		MTK Wireless Limited (UK)	3	Payables to related parties	\$86,977		0.06%
			3	Research and development expenses	\$102,869		0.52%
		MediaTek USA Inc.	3	Payables to related parties	\$1,328,260		0.95%
			3	Research and development expenses	\$241,009		1.21%
		MediaTek Japan Inc.	3	Payables to related parties	\$13,674		0.01%
			3	Research and development expenses	\$44,760		0.23%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$21,309		0.02%
			3	Research and development expenses	\$64,037		0.32%

(To be continued)

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

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek Korea Inc.	3	Payables to related parties	\$12,718	Based on contract	0.01%
			3	Research and development expenses	\$33,969		0.17%
		MediaTek (Shenzhen) Inc.	3	Payables to related parties	\$2,669		0.00%
			3	Research and development expenses	\$298,578		1.50%
		MediaTek (Hefei) Inc.	3	Prepayments	\$109,742		0.08%
			3	Research and development expenses	\$135,618		0.68%
		MediaTek (Beijing) Inc.	3	Prepayments	\$6,865		0.00%
			3	Research and development expenses	\$385,055		1.94%
3	Core Tech Resource Inc.	MediaTek USA Inc.	3	Other receivables	\$132,381		0.09%

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Note 1: MTK and subsidiaries are coded as follows:

1. MTK is coded “0”.
2. The subsidiaries are coded consecutively beginning from “1” in the order presented in the table above.

Note 2: Transactions are categorized as follows:

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

Note 3: The percentage with respect to the consolidated asset for transactions of balance sheet items is based on each item’s balance at period-end.

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

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****10. Operating Segment Information**

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

11. IFRSs Adoption Information

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

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

The Company has set up a project team and made a plan to adopt IFRSs. Leading the implementation of this plan is MTK’s Chief Financial Officer, Mr. David Ku. The main contents of the plan, estimated completion schedule and status of execution as of March 31, 2012, were as follows:

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

(To be continued)

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

(Continued)

Contents of Plan	Responsible Department	Status of Execution
7. Assess the adjustments required for internal controls	Finance and Accounting and Internal Auditor	Completed
8. Finalize the accounting policies under IFRSs	Finance and Accounting	Completed
9. Finalize the selection of voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards	Finance and Accounting	Completed
10.Prepare opening IFRS statement of financial position	Finance and Accounting	Completed
11.Prepare IFRSs comparative information for 2012	Finance and Accounting	In progress
12.Finalize adjustments to the internal control (including financial statements process and the associated IT system)	Finance and Accounting and Internal Auditor	In progress

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

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

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

Accounting Issues	Description of differences
Financial assets measured at cost	Under the requirements of the existing Guidelines Governing the Preparation of Financial Reports by Securities Issuer, equity investments in unlisted entities or entities traded on Emerging Stock market should be measured at cost. However under the requirements of IAS 39, only investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured could be measured at cost. The fair value of investments in equity instruments that do not have a quoted market price in an active market is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.
Investments accounted for under the equity method	ROC GAAP does not require an associate's financial statements to be prepared using accounting policies that conform with those of the investor. Under the requirements of IAS 28, if an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method.
	Under the requirements of ROC GAAP, if an investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, and consequently the investment percentage, and therefore the equity in net assets for the investment that an investor company has invested have changed, the resulting difference shall be accounted for as an equity transaction. However under IFRSs, if the investment percentage has decreased under the transaction described above, it should be accounted for as a disposal of interests in associate; if the investment percentage has increased, then it is accounted for as an acquisition of the investment in an associate.
Employee benefits	Under the requirements of ROC GAAP, minimum pension liability is to be recognized for the excess of the accumulated benefit obligation over the pension plan assets. There is no such requirement under IAS 19.
	Under the requirements of ROC GAAP, the unrecognized transitional net assets (or net benefit obligation) should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. There is no such requirement under IAS 19.

(To be continued)

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

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

(Continued)

Accounting Issues	Description of differences
Income taxes	Under the requirements of ROC GAAP, deferred tax assets are recognized in full, however, if it is more than 50% probable that the economic benefits of a deferred tax asset become unrealizable, a valuation allowance account should be established to reduce the carrying amount of the deferred tax asset. However under the requirements of IAS 12 “Income Taxes”, a deferred tax asset shall be recognized to the extent that it is probable that it would be utilized.
	Under the requirements of ROC GAAP, a deferred tax asset or liability should be classified as current or noncurrent according to the classification of its related asset or liability. If a deferred tax asset or liability is not related to an asset or liability for financial reporting, it should be classified as current or noncurrent according to the expected reversal date of the temporary difference. However under the requirements of IAS 1 “Presentation of Financial Statements”, deferred tax assets or liabilities are classified as noncurrent.
	Under the requirements of ROC GAAP, the current and noncurrent deferred tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount. However under the requirements of IAS 12, an entity shall offset current tax assets and current tax liabilities if, and only if, the entity has a legally enforceable right to set off the recognized amounts; and an entity shall offset deferred tax assets and current tax liabilities if the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

- (3) The preliminary assessment on the monetary impacts of the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers is as follows :

- a. Reconciliation of the balance sheet as of January 1, 2012:

	ROC GAAP	Adjustments	IFRSs	Note
Financial assets carried at cost-noncurrent	\$2,203,872	\$(186,259)	\$2,017,613	(a)
Investments accounted for using the equity method	1,834,664	146,319	1,980,983	(a) & (b)
Deferred income tax assets-noncurrent	-	269,382	269,382	(c) & (d)
Prepaid pension costs	3,826	(3,826)	-	(c)
Other assets	143,698,746	(220,940)	143,477,806	(d)
Total assets	147,741,108	4,676	147,745,784	

(To be continued)

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

(Continued)

	ROC GAAP	Adjustments	IFRSs	Note
Accrued pension liabilities	190,538	254,541	445,079	(c)
Deferred income tax liabilities-noncurrent	590,934	4,520	595,454	(c) & (d)
Other liabilities	30,631,309	-	30,631,309	
Total liabilities	31,412,781	259,061	31,671,842	
Capital	11,475,191	-	11,475,191	
Capital reserve	24,605,882	(117,473)	24,488,409	(a), (b) & (d)
Retained earnings	82,463,225	(136,729)	82,326,496	(a), (b), (c) & (d)
Cumulative translation adjustments	(2,253,504)	(183)	(2,253,687)	(a)
Unrealized gain (loss) on financial instruments	43,192	-	43,192	
Treasury stock	(55,970)	-	(55,970)	
Minority interests	50,311	-	50,311	
Shareholders' equity	116,328,327	(254,385)	116,073,942	

- (a) Under the requirement of IFRSs, NT\$186,259 thousand of financial assets carried at cost-noncurrent which had significant influence were reclassified to investments accounted for using the equity method in the amount of NT\$147,883 thousand. Therefore, capital reserve, cumulative translation adjustments and retained earnings were increased (decreased) by NT\$2,514 thousand, NT\$(183) thousand and NT\$(40,707) thousand, respectively.
- (b) Investments accounted for using the equity method, capital reserve and retained earnings were (decreased) increased by NT\$(1,564) thousand, NT\$205 thousand and NT\$(1,769) thousand for conforming to group accounting policies.
- (c) Under the requirement of ROC GAAP, the Company shall use actuarial assumption to measure the defined benefit obligation and record relative pension cost and accrued pension liabilities. After the adoption of IFRSs, the Company shall use actuarial assumption under the requirement of IAS 19 "Employee Benefits". Due to remeasurement of defined benefit obligation, cumulative actuarial gains and losses adjusted to zero at the date of transition under the requirement of IFRS 1, and recognizing all unrealized transitional net benefit obligation, accrued pension liabilities were increased by NT\$254,541 thousand, prepaid pension cost decreased by NT\$3,826 thousand, deferred income tax assets-noncurrent increased by NT\$43,272 thousand, deferred income tax liabilities-noncurrent decreased by NT\$650 thousand and retained earnings decreased by NT\$214,445 thousand, respectively.
- (d) The remaining adjustments were reclassified to conform to the presentation under the requirement of IFRSs and did not affect shareholders' equity.

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

b. Reconciliation of the balance sheet as of March 31, 2012:

	ROC GAAP	Adjustments	IFRSs	Note
Financial assets carried at cost-noncurrent	\$2,239,447	\$(186,259)	\$2,053,188	(a)
Investments accounted for using the equity method	1,889,424	146,156	2,035,580	(a) & (b)
Deferred income tax assets-noncurrent	242,119	246,249	488,368	(c), (d) & (e)
Prepaid pension costs	3,826	(3,826)	-	(c)
Other assets	145,758,305	(198,306)	145,559,999	(e)
Total assets	150,133,121	4,014	150,137,135	
Accrued expenses	12,817,189	26,366	12,843,555	(d)
Accrued pension liabilities	191,992	255,650	447,642	(c)
Deferred income tax liabilities-noncurrent	857,862	4,280	862,142	(c) & (e)
Other liabilities	18,498,563	(4,930)	18,493,633	(e)
Total liabilities	32,365,606	281,366	32,646,972	
Capital	11,475,751	-	11,475,751	
Capital reserve	24,595,402	(117,473)	24,477,929	(a), (b) & (e)
Retained earnings	84,963,155	(159,696)	84,803,459	(a), (b), (c), (d) & (e)
Cumulative translation adjustments	(3,522,954)	(183)	(3,523,137)	(a)
Unrealized gain (loss) on financial instruments	263,974	-	263,974	
Treasury stock	(55,970)	-	(55,970)	
Minority interests	48,157	-	48,157	
Shareholders' equity	117,767,515	(277,352)	117,490,163	

(a) Under the requirement of IFRSs, NT\$186,259 thousand of financial assets carried at cost-noncurrent which had significant influence were reclassified to investments accounted for using the equity method in the amount of NT\$147,901 thousand. Therefore, capital reverse, cumulative translation adjustments and retained earnings were increased (decreased) by NT\$2,514 thousand, NT\$(183) thousand and NT\$(40,689) thousand, respectively.

(b) Investments accounted for using the equity method, capital reserve and retained earnings were (decreased) increased by NT\$(1,745) thousand, NT\$205 thousand and NT\$(1,950) thousand for conforming to group accounting policies.

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

- (c) Under the requirement of ROC GAAP, the Company shall use actuarial assumption to measure the defined benefit obligation and record relative pension cost and accrued pension liabilities. After the adoption of IFRSs, the Company shall use actuarial assumption under the requirement of IAS 19 “Employee Benefits”. Due to remeasurement of defined benefit obligation, cumulative actuarial gains and losses adjusted to zero at the date of transition under the requirement of IFRS 1, and recognizing all unrealized transitional net benefit obligation, accrued pension liabilities were increased by NT\$255,650 thousand, prepaid pension cost decreased by NT\$3,826 thousand, deferred income tax assets-noncurrent increased by NT\$43,461 thousand, deferred income tax liabilities-noncurrent decreased by NT\$650 thousand and retained earnings decreased by NT\$215,365 thousand, respectively.
- (d) Under the requirement of IAS 19 “Employee Benefits”, the Company shall recognize unused accumulating compensated absences. Therefore, accrued expenses, deferred income tax assets and retained earnings were increased (decreased) by NT\$26,366 thousand, NT\$4,482 thousand and NT\$(21,884) thousand, respectively.
- (e) The remaining adjustments were reclassified to conform to the presentation under the requirement of IFRSs and did not affect shareholders’ equity.
- c. Reconciliation of the income statement for the three months ended March 31, 2012:

	ROC GAAP	Adjustments	IFRSs	Note
Net sales	\$19,615,289	\$-	\$19,615,289	
Cost of goods sold	(11,360,372)	(847)	(11,361,219)	(a)
Gross profits	8,254,917	(847)	8,254,070	
Operating expenses	(6,308,532)	(26,628)	(6,335,160)	(a) & (b)
Operating income	1,946,385	(27,475)	1,918,910	
Non-operating income/ gains or expenses/losses	654,490	(163)	654,327	(c)
Income before income tax	2,600,875	(27,638)	2,573,237	
Income tax expense	(102,752)	4,671	(98,081)	(a) & (b)
Net income	2,498,123	(22,967)	2,475,156	

- (a) Under the requirement of IAS 19 “Employee Benefits”, the Company shall recognize unused accumulating compensated absences. Therefore, cost of goods sold, operating expenses and income tax expense were increased (decreased) by NT\$847 thousand, NT\$25,519 thousand and NT\$(4,482) thousand, respectively.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (b) The Company shall use actuarial assumption under the requirement of IAS 19 “Employee Benefits” to measure the defined benefit obligation. Therefore, operating expenses and income tax expenses were increased (decreased) by NT\$1,109 thousand and NT\$(189) thousand, respectively.
- (c) Adjustment of gain on equity investments was decreased by NT\$163 thousand for conforming to group accounting policies.
- d. According to the requirements under IFRS 1, “First-time Adoption of International Financial Reporting Standards”, the Company prepares its first IFRS financial statements based on the effective IFRS standards and makes adjustments retrospectively, except for the optional exemptions and mandatory exemptions under IFRS 1. The optional exemptions selected by the Company is as follows:
 - (a) IFRS 3 “Business Combinations” has not been applied to acquisitions of subsidiaries and of interests in associates that occurred before January 1, 2012. Applying this exemption would result in the carrying amount of assets acquired and liabilities assumed in the business combination in accordance with previous GAAP to be their deemed costs in accordance with IFRSs as at the date of acquisition. Subsequent to the date of acquisition, the assets and liabilities would be measured in accordance with IFRSs. The carrying amount of goodwill in the opening IFRS Balance Sheet is its carrying amount in accordance with previous GAAP at December 31, 2011, after testing for impairments and adjusting for recognition or de-recognition of intangibles under IFRS 1.
 - (b) The Company has recognized all cumulative actuarial gains and losses directly to retained earnings as of January 1, 2012.
 - (c) The Company has elected to disclose amounts required by paragraph 120A (p) of IAS19 prospectively from January 1, 2012.
 - (d) IFRS 2 has not been applied to equity instruments in share-based payment transactions that vested before January 1, 2012.
 - (e) The Company has applied the transitional provision in IFRIC 4 and has assessed all arrangements whether include lease transaction as of January 1, 2012.
 - (f) Under the requirement of IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities”, changes in the liabilities of existing decommissioning, restoration and similar liabilities shall be added to, or deducted from, the cost of the related asset in the current period. The adjusted depreciable amount of the asset is depreciated over its useful life. The Company need not to comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRSs.