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 SIX MONTHS THEN ENDED
JUNE 30, 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 June 30, 2012 and 2011, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

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

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

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
August 3, 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.

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
As of June 30, 2012 and 2011
(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	2012	2011
Current assets			
Cash and cash equivalents	2, 4(1)	$ 95,060,711	$ 89,326,102
Held-for-trading financial assets-current	2, 4(2)	1,573	2,868
Financial assets designated as at fair value through profit or loss-current	2, 4(3)	974,743	1,649,756
Available-for-sale financial assets-current	2, 4(4)	3,456,757	3,995,457
Held-to-maturity financial assets-current	2, 4(5)	328,429	-
Bond portfolios with no active market-current	2, 4(13)	1,000,000	-
Accounts receivable, net	2, 4(6)	7,659,372	7,832,873
Other receivables	4(7)	2,725,458	1,245,868
Inventories, net	2, 4(8)	11,073,642	9,713,513
Prepayments		1,066,595	2,320,189
Other current assets		771,067	529,077
Deferred income tax assets-current	2, 4(28)	175,393	139,046
Restricted assets-current	6	20,043	13,308
Total current assets		124,313,783	116,768,057
Funds and investments			
Financial assets designated as at fair value through profit or loss-noncurrent	2, 4(9)	1,438,781	1,630,929
Available-for-sale financial assets-noncurrent	2, 4(10)	3,042,014	2,361,539
Held-to-maturity financial assets-noncurrent	2, 4(11)	817,755	240,487
Financial assets carried at cost-noncurrent	2, 4(12)	2,730,310	1,417,973
Bond portfolios with no active market-noncurrent	2, 4(13)	-	1,000,000
Investments accounted for using the equity method	2, 4(14)	574,165	1,900,199
Total funds and investments		8,603,025	8,551,127
Property, plant and equipment	2, 4(15)		
Land		1,273,869	888,722
Buildings and facilities		6,818,924	5,828,190
Machinery and equipment		169,195	160,945
Computer and telecommunication equipment		2,049,257	1,655,361
Testing equipment		2,902,649	2,510,107
Miscellaneous equipment		1,164,997	860,915
Total cost		14,378,891	11,904,240
Less : Accumulated depreciation		(5,501,690)	(4,252,855)
Add : Construction in progress		1,482,750	1,367,834
Prepayments for equipment		51,197	107,657
Property, plant and equipment, net		10,411,148	9,126,876
Intangible assets	2, 4(16)		
Trademarks		21,080	-
Patents		184,460	194,535
Software		239,549	244,272
Goodwill		14,393,879	6,863,129
IPs and others		2,402,142	1,602,769
Total intangible assets		17,241,110	8,904,705
Other assets			
Refundable deposits		242,167	265,826
Deferred charges	2	35,854	37,421
Deferred income tax assets-noncurrent	2, 4(28)	248,459	-
Restricted assets-noncurrent	6	633	757
Other assets		3,826	-
Total other assets		530,939	304,004
Total assets		$ 161,100,005	$ 143,654,769

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2012	2011
Current liabilities			
Short-term loans	4(18)	$ 12,199,200	$ -
Held-for-trading financial liabilities-current	2, 4(2)	3,981	869
Accounts payable		9,105,279	6,850,039
Payables to related parties	5	1,175,218	1,073,353
Income tax payable	2, 4(28)	640,629	674,767
Accrued expenses	2, 4(24)	13,399,956	15,741,854
Payables to contractors and equipment suppliers		71,948	9,293
Other payables	4(24)	10,402,540	21,999,466
Current portion of long-term payables	4(19)	23,920	-
Other current liabilities		951,031	615,850
Deferred income tax liabilities-current	2, 4(28)	5,160	-
Total current liabilities		47,978,862	46,965,491
Long-term liabilities			
Long-term payables	4(19)	131,560	-
Other liabilities			
Accrued pension liabilities	2, 4(17)	194,021	123,967
Deposits received	5	9,806	6,065
Deferred income tax liabilities-noncurrent	2, 4(28)	1,040,983	612,739
Other liabilities-others		69,338	14,865
Total other liabilities		1,314,148	757,636
Total liabilities		49,424,570	47,723,127
Shareholders' equity			
Equity attributable to shareholders of the parent			
Capital	4(20)		
Common stock		11,475,751	10,999,772
Capital collected in advance		193	-
Capital reserve			
Additional paid-in capital in excess of par	4(22)	23,161,974	11,055,025
Treasury stock transaction	4(22)	941,301	785,420
Donated assets	4(22)	1,260	1,260
Long-term investment transaction	4(22)	139,081	207,315
Employee stock option	2, 4(22), 4(23)	293,517	254,022
Total capital reserve		24,537,133	12,303,042
Retained earnings			
Legal reserve	4(21), 4(24)	23,072,429	21,710,122
Special reserve	4(24)	2,210,312	4,198,121
Undistributed earnings	4(24)	52,709,726	51,435,963
Other adjustments			
Cumulative translation adjustments	2	(2,944,633)	(4,718,100)
Unrealized gain (loss) on financial instruments	2	630,856	23,213
Treasury stock	2, 4(25)	(55,970)	(55,970)
Total shareholders' equity attributable to parent company		111,635,797	95,896,163
Minority interests		39,638	35,479
Total shareholders' equity		111,675,435	95,931,642
Total liabilities and shareholders' equity		$ 161,100,005	$ 143,654,769

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 INCOME

For the six months ended June 30, 2012 and 2011

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

Description	Notes	2012	2011
Gross sales		$ 47,379,047	$ 42,776,091
Less : Sales returns		(5,579)	(24,062)
Sales discounts		(4,318,246)	(1,903,052)
Net sales	2, 4(26), 5	43,055,222	40,848,977
Cost of goods sold	4(27), 5	(25,242,178)	(22,038,191)
Gross profits		17,813,044	18,810,786
Operating expenses	2, 4(27)		
Selling expenses		(1,343,218)	(1,060,618)
General and administrative expenses		(1,491,906)	(1,422,359)
Research and development expenses		(10,260,585)	(10,052,954)
Total operating expenses		(13,095,709)	(12,535,931)
Operating income		4,717,335	6,274,855
Non-operating income and gains			
Interest income		881,942	408,582
Gain on equity investments, net	2, 4(14)	114,555	49,041
Gain on disposal of investments	2, 4(10), 4(12), 4(14)	687,430	67,952
Foreign exchange gain, net	2	-	101,339
Valuation gain on financial assets	2, 4(2)	22,876	-
Others		263,888	180,702
Total non-operating income and gains		1,970,691	807,616
Non-operating expenses and losses			
Interest expenses		(51,541)	-
Loss on disposal of property, plant and equipment	2	(728)	(14,019)
Foreign exchange loss, net	2	(56,862)	-
Impairment loss	2, 4(4)	(84,998)	-
Valuation loss on financial assets	2, 4(2)	-	(14,984)
Valuation loss on financial liabilities	2, 4(2)	(3,981)	(869)
Others		(274)	(114,130)
Total non-operating expenses and losses		(198,384)	(144,002)
Income from continuing operations before income tax		6,489,642	6,938,469
Income tax expense	2, 4(28)	(644,024)	(304,518)
Consolidated net income		$ 5,845,618	$ 6,633,951
Income Attributable to :			
Shareholders of the parent		$ 5,857,366	$ 6,635,547
Minority interests		(11,748)	(1,596)
Consolidated net income		$ 5,845,618	$ 6,633,951

Description	Notes	2012 Before tax	2012 After tax	2011 Before tax	2011 After tax
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(29)	Before tax	After tax	Before tax	After tax
Consolidated net income		$ 5.69	$ 5.13	$ 6.35	$ 6.08
Net income attributable to minority interests		0.01	0.01	-	-
Net income attributable to the parent		$ 5.70	$ 5.14	$ 6.35	$ 6.08
Diluted Earnings Per Share (in New Taiwan Dollars)	2, 4(29)				
Consolidated net income		$ 5.65	$ 5.09	$ 6.27	$ 5.99
Net income attributable to minority interests		0.01	0.01	-	-
Net income attributable to the parent		$ 5.66	$ 5.10	$ 6.27	$ 5.99

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 CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended June 30, 2012 and 2011

(Amounts in thousands of New Taiwan Dollars)

Description	Common stock		Capital reserve	Retained earnings			Cumulative translation adjustments	Unrealized gain (loss) on financial instruments	Treasury stock	Total shareholders' equity attributable to parent company	Minority interests	Total shareholders' equity
	Common stock	Capital collected in advance		Legal reserve	Special reserve	Undistributed earnings						
Balance as of January 1, 2011	$ 10,999,317	$ 365	$ 12,259,404	$ 18,613,978	$ 355,131	$ 73,739,007	$ (4,380,730)	$ 182,608	$ (55,970)	$ 111,713,110	$ 225	$ 111,713,335
Appropriation and distribution of 2010 earnings:												
Legal reserve	-	-	-	3,096,144	-	(3,096,144)	-	-	-	-	-	-
Special reserve	-	-	-	-	3,842,990	(3,842,990)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(21,999,457)	-	-	-	(21,999,457)	-	(21,999,457)
Net income attributable to parent company for the six months ended June 30, 2011	-	-	-	-	-	6,635,547	-	-	-	6,635,547	-	6,635,547
Employee stock option distributed to subsidiaries' employees	-	-	40,364	-	-	-	-	-	-	40,364	-	40,364
Issuance of stock from exercising employee stock options	455	(365)	3,274	-	-	-	-	-	-	3,364	-	3,364
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	(159,395)	-	(159,395)	-	(159,395)
Cumulative translation adjustments	-	-	-	-	-	-	(337,370)	-	-	(337,370)	-	(337,370)
Increase in minority interests	-	-	-	-	-	-	-	-	-	-	35,254	35,254
Balance as of June 30, 2011	$ 10,999,772	$ -	$ 12,303,042	$ 21,710,122	$ 4,198,121	$ 51,435,963	$ (4,718,100)	$ 23,213	$ (55,970)	$ 95,896,163	$ 35,479	$ 95,931,642
Balance as of January 1, 2012	$ 11,475,108	$ 83	$ 24,605,882	$ 21,710,122	$ 4,198,121	$ 56,554,982	$ (2,253,504)	$ 43,192	$ (55,970)	$ 116,278,016	$ 50,311	$ 116,328,327
Appropriation and distribution of 2011 earnings:												
Legal reserve	-	-	-	1,362,307	-	(1,362,307)	-	-	-	-	-	-
Special reserve	-	-	-	-	(1,987,809)	1,987,809	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(10,328,124)	-	-	-	(10,328,124)	-	(10,328,124)
Net income attributable to parent company for the six months ended June 30, 2012	-	-	-	-	-	5,857,366	-	-	-	5,857,366	-	5,857,366
Employee stock option distributed to subsidiaries' employees	-	-	17,135	-	-	-	-	-	-	17,135	-	17,135
Issuance of stock from exercising employee stock options	643	110	473	-	-	-	-	-	-	1,226	-	1,226
Disposal of equity investments accounted for using the equity method	-	-	(86,357)	-	-	-	-	-	-	(86,357)	-	(86,357)
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	587,664	-	587,664	-	587,664
Cumulative translation adjustments	-	-	-	-	-	-	(691,129)	-	-	(691,129)	-	(691,129)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	(10,673)	(10,673)
Balance as of June 30, 2012	$ 11,475,751	$ 193	$ 24,537,133	$ 23,072,429	$ 2,210,312	$ 52,709,726	$ (2,944,633)	$ 630,856	$ (55,970)	$ 111,635,797	$ 39,638	$ 111,675,435

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

Chairman : Ming-Kai Tsai　　President : Ching-Jiang Hsieh　　Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2012 and 2011

(Amounts in thousands of New Taiwan Dollars)

Description	2012	2011
Cash flows from operating activities :		
Consolidated net income	$ 5,845,618	$ 6,633,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	614,933	586,758
Amortization	1,060,495	742,839
Bad debt provision	8,102	54,527
Reversal of sales returns and discounts	(117,942)	-
Employee stock options distributed	17,135	40,364
Amortization of financial assets discount or premium	694	1,188
Gain on recovery in market value and obsolescence of inventories	(753,295)	(793,289)
Net gain on equity investments	(114,555)	(49,041)
Net loss on disposal of property, plant and equipment	728	14,019
Net loss on disposal of intangible assets (included in other losses)	-	74
Gain on disposal of investments	(687,430)	(67,952)
Adjustment of valuation on financial assets and liabilities	(34,390)	31,752
Loss on impairment of financial assets	84,998	-
Deferred income tax	252,297	166,007
Employees' bonuses	713,171	829,070
Changes in operating assets and liabilities:		
Financial assets designated as at fair value through profit or loss	951,165	(534,673)
Accounts receivable	(22,353)	(1,557,619)
Receivables from related parties	23,567	-
Other receivables	90,932	722,360
Inventories	(925,224)	462,360
Prepayments	(376,394)	(150,229)
Other current assets	(488,482)	(35,789)
Accounts payable	1,055,218	(539,805)
Payables to related parties	226,793	44,193
Income tax payable	(41,315)	(394,183)
Accrued expenses	(3,036,172)	(756,155)
Other payables	156	9
Current portion of long-term payables	5,708	-
Other current liabilities	173,290	2,975
Long-term payables	(16,102)	-
Accrued pension liabilities	3,483	16,740
Other liabilities-others	19,987	14,865
Net cash provided by operating activities	4,534,816	5,485,316
Cash flows from investing activities :		
(Increase) decrease in restricted assets	(6,893)	16,322
Increase in available-for-sale financial assets	(281,657)	(3,244,981)
Proceeds from disposal of available-for-sale financial assets	173,738	4,097,347
Increase in held-to-maturity financial assets	(328,153)	(240,487)
Proceeds from disposal of held-to-maturity financial assets	46,967	-
Increase in financial assets carried at cost	(666,927)	(303,571)
Proceeds from disposal of financial assets carried at cost	2,308	-
Proceeds from disposal of investments accounted for using the equity method	1,528,400	-
Increase in investments accounted for using the equity method	(1,495)	(192,660)
Net cash outflows from acquisition of subsidiaries	(938,022)	-
Proceeds from capital reduction of investments accounted for using the equity method	1,495	-
Purchase of property, plant and equipment	(1,277,429)	(1,922,636)
Proceeds from disposal of property, plant and equipment	53	9,203
Decrease (increase) in refundable deposits	23,264	(4,338)
Increase in intangible assets and deferred charges	(1,128,055)	(73,949)
Net cash used in investing activities	(2,852,406)	(1,859,750)
Cash flows from financing activities :		
Increase in short-term loans	8,162,700	-
Increase in deposits received	3,630	5,092
Proceeds from exercise of employee stock options	1,226	3,364
Change in minority interests	-	35,995
Net cash provide by financing activities	8,167,556	44,451
Effect of exchange rate	(610,693)	(271,272)
Net increase in cash and cash equivalents	9,239,273	3,398,745
Cash and cash equivalents at the beginning of the period	85,821,438	85,927,357
Cash and cash equivalents at the end of the period	$ 95,060,711	$ 89,326,102
Supplemental disclosures of cash flow information :		
Interest paid during the period	$ 46,473	$ -
Income tax paid during the period	$ 418,125	$ 679,393
Activities partially affected cash flows :		
Purchase of property, plant and equipment	$ 1,272,516	$ 1,915,441
Add: decrease in payables to contractors and equipment suppliers	4,913	7,195
Cash paid for the purchase of property, plant and equipment	$ 1,277,429	$ 1,922,636
Cash dividends to shareholders	$ 10,328,124	$ 21,999,457
Less: other payables at the end of the period	(10,328,124)	(21,999,457)
Cash paid for cash dividends to shareholders	$ -	$ -
Non-cash activities :		
Change in unrealized gain (loss) on financial instruments	$ 587,664	$ (159,395)
Adjustment of shareholders' equity from disposal of investments accounted for using the equity method	$ (86,357)	$ -
Available-for-sales financial assets reclassified from investments accounted for using the equity method	$ 560,270	$ -

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

Chairman : Ming-Kai Tsai President : Ching-Jiang Hsieh Chief Financial Officer : David Ku

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

1. Organization and Operation

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

As of June 30, 2012 and 2011, total numbers of employees of MTK and subsidiaries' were 6,929 and 5,663, respectively.

2. Summary of Significant Accounting Policies

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

General Descriptions of the Consolidated Entities

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

		Percentage of Ownership As of June 30,		
Company	Main Business	2012	2011	Note
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%	68.97%	1
Gaintech Co. Limited	General investing	100.00%	100.00%	-
MediaTek China Limited	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%	-

(To be continued)

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

(Continued)

Company	Main Business	Percentage of Ownership As of June 30, 2012	2011	Note
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%	100.00%	4
Smarthead Limited	General investing	100.00%	100.00%	5
Gold Rich International (HK) Limited	General investing	100.00%	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
MediaTek Sweden AB	Research	100.00%	-	11

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.

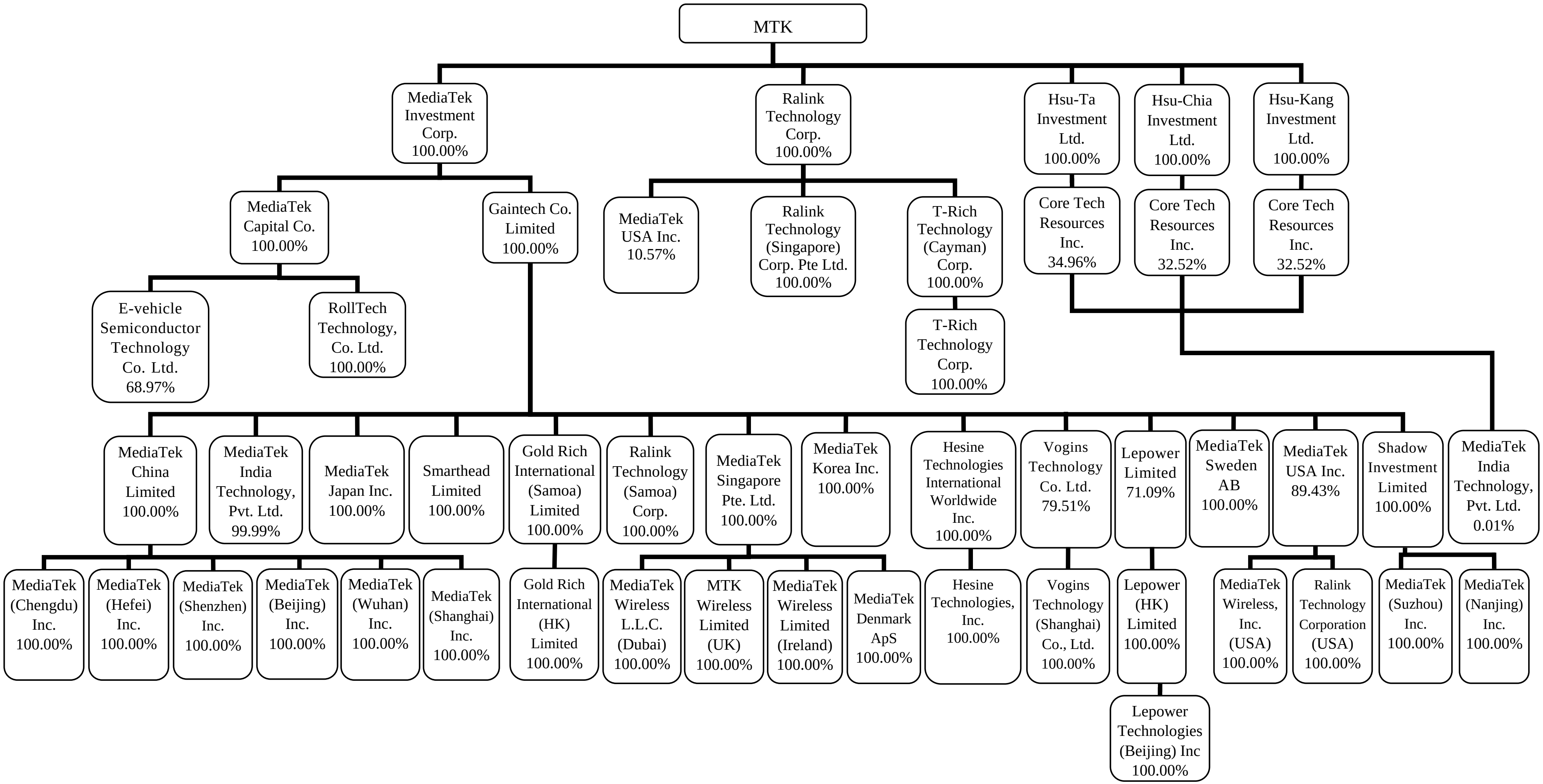
4. Gaintech Co. Limited established Gold Rich International (Samoa) Limited in May 2011.
5. Gaintech Co. Limited established Smarthead Limited in June 2011.
6. Gold Rich International (Samoa) Limited established Gold Rich International (HK) Limited in May 2011.
7. Gaintech Co. Limited established Lepower 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 statements. 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.
11. Gaintech Co. Limited acquired 100% shares of MediaTek Sweden AB in April 2012.

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 June 30, 2012:



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 using 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.

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

A. MTK maintains its accounting records in New Taiwan dollars ("NT Dollars" or "NT$"), the national currency of the R.O.C. Transactions denominated in foreign currencies are recorded in NT Dollars using the exchange rates in effect at the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising from the settlements of the monetary assets and liabilities, and on the retranslation of monetary assets and liabilities are included in earnings for the period. Exchange differences arising from the retranslation of non-monetary assets and liabilities carried at fair value are included in earnings for the period except for differences arising from the retranslation of non-monetary assets and liabilities of which gains and losses are recognized directly in equity. For such non-monetary assets and liabilities, any exchange component of that gain or loss is also recognized directly in equity. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in the statements of operations.

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

Cash Equivalents

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

Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

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

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

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

b. Bond portfolios with no active market

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

c. Financial assets carried at cost

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

d. Held-to-maturity financial assets

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

e. Available-for-sale financial assets

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

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

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

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

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.

Inventories

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

Investment Accounted for Using the Equity Method

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

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

B. Unrealized gains and losses arising from intercompany transactions are deferred and recognized when realized.

C. For equity investees in which the Company does not possess control, the Company recognizes its investee’s losses only to the extent of the Company’s long-term investment on that investee. However, if the Company intends to provide further financial support for the investee company, or the investee company’s losses are temporary and there exists sufficient evidence showing imminent return to profitable operations, then the Company shall continue to recognize investment losses in proportion to the stock ownership percentage. Such credit balance for the long-term investment shall first be offset by the advance (if any) the Company made to the investee company, the remaining shall be recorded under other liabilities. For equity investees in which the Company possesses control, the Company recognizes its investee’s total losses unless other investors are obligated to and have the ability to assume a portion of the loss. Once the investee company begins to generate profit, such profit is allocated to the Company until all the losses previously absorbed by the Company have been recovered.

D. The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of MTK, and the accounts of investees in which the Company’s ownership percentage is less than 50% but the Company has a controlling interest.

Property, Plant and Equipment

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

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

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

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

Intangible Assets

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

Trademarks	2 to 3	Years
Patents	2 to 7	Years
Software (design software)	2 to 5	Years
IPs and others (including the right to the use of the land)	2 to 50	Years

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

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

Deferred Assets

Including office decoration and electrical engineering, are amortized on a straight-line basis over 2 to 5 years.

Asset Impairment

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

Capital Expenditures vs. Operating Expenditures

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

Revenue Recognition

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

Employee Retirement Benefits

A. In accordance with the Labor Standards Law (the "Law") of the R.O.C., MTK and its domestic subsidiaries make monthly contribution equal to specific rates of the wages and salaries paid during the period to a pension fund maintained with the Central Trust of China. The fund is administered by the Employees' Retirement Fund Committee and is deposited in the committee's name. The pension fund is not included in the financial statements of the Company.

B. The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Law can choose to remain with the pension mechanism under the Law or to change for the Act. Under the Act, the rate of an employer monthly contribution to the pension fund should be at least 6% of the employee's monthly wages.

C. For employees under a defined benefit pension plan, MTK and its domestic subsidiaries account for the pension liabilities under the R.O.C. SFAS No. 18, "Accounting for Pensions". Pension assets or liabilities are recognized based on an actuarial report. The minimum pension liability was recorded for the excess of accumulated pension obligations over the fair value of plan assets. Net transition obligations from the plan assets are amortized using the straight-line method over the employees' expected average remaining service period. For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts.

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

Income Tax

A. In accordance with the R.O.C. SFAS No. 22, “Accounting for Income Taxes”, income tax is accounted for under the inter-period and intra-period income tax allocation method. Deferred income tax liabilities are recognized for taxable temporary differences; while deferred income tax assets are recognized for deductible temporary differences, tax losses and investment tax credits. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that it will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

B. Income tax credit is accounted for in accordance with the R.O.C. SFAS No. 12, “Accounting for Income Tax Credit”. Income tax credits resulting from the acquisition of equipment, research and development expenditures and employee training shall be recognized using the flow-through method.

C. MTK and its domestic subsidiaries’ income taxes (10%) on undistributed earnings are recorded as expenses in the year when the shareholders have resolved that the earnings shall be retained.

D. Income Basic Tax Act took effect on January 1, 2006. The alternative minimum tax ("AMT") imposed under the Income Basic Tax Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is lower than the minimum amount prescribed under the Income Basic Tax Act. The tax effect of such amounts was taken into consideration in determining the realization of deferred income tax assets.

Employee Stock Option

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

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

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

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

Employee Bonuses and Remunerations Paid to Directors and Supervisors

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

Earnings Per Share

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

Treasury Stock

A. The Company's shares owned by subsidiaries were accounted for as treasury stock in accordance with the R.O.C. SFAS No. 30, "Accounting for Treasury Stock". Cash dividends distributed to the Company's subsidiaries are deducted from investment income account and credited to capital reserves-treasury stock transaction.

B. Treasury stock transactions are accounted for under the cost method. The acquisition cost of shares is recorded under the caption of treasury stock, a contra shareholders' equity account.

C. When treasury stock is sold for more than its acquisition cost, the difference is credited to capital reserve-treasury stock transaction. If treasury stock is sold for less than its acquisition cost, the difference is charged to the same capital reserve account to the extent that the capital reserve account is reduced to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.

D. When treasury stock is retired, the treasury stock account is credited and all capital account balances related to the treasury shares, including additional paid in capital-share issuance in excess of par and paid in capital, is debited on a proportionate basis. Any difference, if on credit side, is recorded in capital reserve-treasury stock transaction; if on debit side, it is recorded against retained earnings.

Derivative Financial Instruments-Held for Trading

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

Operating Segments Information

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

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

B. whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and

C. for which discrete financial information is available.

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

3. Reasons and Effects for Change in Accounting Principles

(1) Effective January 1, 2011, the Company adopted the third revised R.O.C. SFAS No. 34, “Financial Instruments: Recognition and Measurement”. This change in accounting principles had no significant effect on net income and earnings per share for the six months ended June 30, 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”.

4. Contents of Significant Accounts

(1) Cash and Cash Equivalents

	As of June 30,	
	2012	2011
Petty cash	$1,378	$1,773
Savings and checking accounts	11,130,437	9,157,069
Time deposits	83,928,896	78,040,243
Cash equivalents-bonds-Repo	-	2,127,017
Total	$95,060,711	$89,326,102

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

b.Cash and cash equivalents were not pledged as of June 30, 2012 and 2011.

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

a.

	As of June 30,	
	2012	2011
Held-for-trading financial assets-Current		
Forward exchange contracts	$1,573	$2,868

b.

	As of June 30,	
	2012	2011
Held-for-trading financial liabilities-Current		
Forward exchange contracts	$3,981	$869

The Company entered into derivative contracts during the six months ended June 30, 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 10 to the financial statements for the disclosure of relative risk information.

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

Outstanding forward exchange contracts as of June 30, 2012 and 2011 were as follows:

(a) As of June 30, 2012:

Held-for-trading financial assets

Financial instruments	Type	Maturity	Contract amount (‘000)
Forward exchange contracts	Sell USD	July 2012	USD25,000

Held-for-trading financial liabilities

Financial instruments	Type	Maturity	Contract amount (‘000)
Forward exchange contracts	Sell USD	July 2012	USD7,000
Forward exchange contracts	Sell KRW	August 2012	KRW4,581,242

(b) As of June 30, 2011:

Held-for-trading financial assets

Financial instruments	Type	Maturity	Contract amount (’000)
Forward exchange contracts	Sell USD	July 2011	USD20,000

Held-for-trading financial liabilities

Financial Instruments	Type	Maturity	Contract amount (’000)
Forward exchange contracts	Sell USD	July 2011	USD20,000

For six months ended June 30, 2012 and 2011, losses arising from the forward exchange contracts were NT$17,966 thousand and NT$28,373 thousand, respectively.

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

	As of June 30,	
	2012	2011
Convertible bonds	$-	$109,459
Bonds	-	286,799
Credit-linked deposits	231,450	-
Exchange rate-linked deposits	385,928	-
Interest rate-linked deposits	357,365	1,253,498
Total	$974,743	$1,649,756

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

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

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

	As of June 30,	
	2012	2011
Funds	$2,526,624	$3,445,095
Bonds	78,450	492,944
Depositary receipts (Note)	32,292	57,418
Common shares	819,391	-
Total	$3,456,757	$3,995,457

Note: The Company recognized an impairment loss of NT$84,998 thousand due to a prolonged market value decline.

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

	As of June 30,	
	2012	2011
Bonds	$59,329	$-
Structured deposits	269,100	-
	$328,429	$-

(6) Accounts Receivable-Net

	As of June 30,	
	2012	2011
Accounts receivable	$8,113,577	$8,175,687
Less: Allowance for sales returns and discounts	(200,189)	-
Allowance for doubtful accounts	(254,016)	(342,814)
Net	$7,659,372	$7,832,873

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 June 30, 2012 and 2011. Receivables from banks due to factoring agreement were NT$1,926,369 thousand and NT$793,397 thousand, respectively.

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

As of June 30, 2012 and 2011, accounts receivable derecognized were as follows:

As of June 30, 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	-	40,685	-	40,685	136,515
BNP Paribas	-	23,739	-	23,739	80,000
HSBC	-	3	-	3	500
		64,427	-	64,427	217,015

As of June 30, 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	-	23,924	-	23,924	110,310
DBS Bank	-	3,622	-	3,622	20,000
		27,546	-	27,546	130,310

(7) Other Receivables

	As of June 30, 2012	As of June 30, 2011
Interest receivable	$452,507	$192,405
VAT refundable	299,916	208,663
Others	1,973,035	844,800
Total	$2,725,458	$1,245,868

As of June 30, 2012 and 2011, receivables from banks due to factoring agreement were NT$1,926,369 thousand and NT$793,397 thousand, respectively. Please refer to Note 4(6).

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

(8) Inventories-Net

	As of June 30,	
	2012	2011
Materials	$1,898	$-
Work in process	9,723,073	7,281,972
Finished goods	4,122,074	5,970,357
Subtotal	13,847,045	13,252,329
Less: Allowance for loss on decline in market value and obsolescence	(2,773,403)	(3,538,816)
Net	$11,073,642	$9,713,513

a. As of June 30, 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 was included in cost of goods sold in the amount of NT$753,295 thousand and NT$793,289 thousand for the six months ended June 30, 2012 and 2011, respectively.

b. Inventories were not pledged as of June 30, 2012 and 2011.

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

	As of June 30,	
	2012	2011
Bonds	$120,003	$272,429
Interest rate-linked deposits	529,616	857,981
Credit-linked deposits	550,464	500,519
Exchange rate-linked deposits	238,698	-
Total	$1,438,781	$1,630,929

For the six months ended June 30, 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$269,100 thousand. For the six months ended June 30, 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$518,436 thousand.

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

(10) Available-for-sale Financial Assets-Noncurrent

	As of June 30,	
	2012	2011
Funds	$2,306,658	$1,680,486
Bonds	735,356	581,049
Securities	-	100,004
Total	$3,042,014	$2,361,539

For the six months ended June 30, 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$90,545 thousand. For the six months ended June 30, 2011, the Company invested in Hutchison Port Holdings Singapore Trust CMN and other financial assets which were classified as available-for-sale financial assets in the aggregate amount of NT$760,162 thousand.

For the six months ended June 30, 2012, the Company sold National Australia Bank CPN and other financial assets which were classified as available-for-sale financial assets at the price of NT$135,463 thousand and recognized an investment disposal gain of NT$466 thousand. For the six months ended June 30, 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 June 30,	
	2012	2011
Bonds	$249,655	$240,487
Interest rate-linked deposits	568,100	-
Total	$817,755	$240,487

For the six months ended June 30, 2011, the Company invested in Beijing Enterprises Water Grou CPN bond which was classified as held-to-maturity financial asset. The investment cost amounted to NT$240,487 thousand.

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

(12) Financial Assets Carried at Cost-Noncurrent

	As of June 30,	
	2012	2011
Non-publicly traded stocks	$1,555,028	$879,276
Capitals	1,175,282	538,697
Total	$2,730,310	$1,417,973

For the six months ended June 30, 2012, the Company invested Softbank Princeville Investments L.P. and other financial assets which were classified as financial assets carried at cost. The investment cost amounted to NT$666,927 thousand. For the six months ended June 30, 2011, the Company invested Shanghai Walden Venture Capital Enterprise which was classified as financial assets carried at cost. The investment cost amounted to NT$303,571 thousand.

For the six months ended June 30, 2012, the Company sold Wi Harpper Inc Fund Vi Ltd. and other financial assets which were classified as financial assets carried at cost at the price of NT$2,308 thousand and recognized an investment disposal gain of NT$3,130 thousand.

In the first six months of 2012, the Company increased its investment in Shenzhen Goodix Technology Ltd. by NT$56,821 thousand and acquired the significant influence over the investee. Therefore, the Company reclassified the investment from financial assets carried at cost to investments accounted for using the equity method in the aggregate amount of NT$116,621 thousand. Please refer to Note 4(14).

(13) Bond Portfolios with No Active Market

	As of June 30,	
	2012	2011
Series B preferred stock	$1,000,000	$1,000,000
Less: Current portion	(1,000,000)	-
Total	$-	$1,000,000

(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.

	As of June 30, 2012			
Investee Company	Type	Share/unit	Amount	Ownership
Airoha Technology, Inc.	Common share	13,391,734	$224,280	38.92%
Shenzhen Goodix Technology Ltd.	Capital	-	116,621	23.74%
Others			233,264	
Total			$574,165	

	As of June 30, 2011			
Investee Company	Type	Share/unit	Amount	Ownership
ALi Corporation	Common share	64,099,738	$1,506,104	21.09%
Airoha Technology, Inc.	Common share	13,391,734	197,356	39.00%
Others			196,739	
Total			$1,900,199	

b. For the six months ended June 30, 2012 and 2011, the Company recognized an investment gain accounted for using the equity method in the amount of NT$114,555 thousand and NT$49,041 thousand, respectively.

c. For the six months ended June 30, 2012, the Company invested Shenzhen Goodix Technology Ltd. which was reclassified from financial assets carried at cost-noncurrent in the amount of NT$116,621 thousand. For the six months ended June 30, 2011, the Company invested CMC Capital Investments, L.P. which was classified as investments accounted for using the equity method in the amount of NT$192,660 thousand.

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

d. In May 2012, the Company sold 40,000,000 shares of ALi Corporation at the price of NT$1,528,400 thousand, resulting in an investment disposal gain of NT$684,785 thousand and a reduction of capital reserve of NT$86,357 thousand. As the Company had lost its significant influence over ALi Corporation, the Company reclassified the remaining shares to available-for-sale financial assets-current.

e. Investments mentioned above were not pledged as of June 30, 2012 and 2011.

(15) Property, Plant and Equipment

a. No interest was capitalized for the six months ended June 30, 2012 and 2011.

b. Property, plant and equipment were not pledged as of June 30, 2012 and 2011.

(16) Intangible Assets

	For the six months ended June 30, 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	-	70,487	1,079,787	1,150,274
Increase - through business combination	-	-	23,627	23,627
Elimination and others	685	3,221	6,613	10,519
Balance at end of period	32,985	965,708	7,780,750	8,779,443
Accumulated amortization				
Balance at beginning of period	(4,852)	(612,576)	(4,255,323)	(4,872,751)
Increase - amortization	(7,053)	(113,671)	(938,737)	(1,059,461)
Elimination and others	-	88	(88)	-
Balance at end of period	(11,905)	(726,159)	(5,194,148)	(5,932,212)
Net	$21,080	$239,549	$2,586,602	$2,847,231

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

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

(17) Accrued Pension Liabilities

a. The Company adopted a defined benefit pension plan, the relative information is disclosed as follows:

The Company's pension fund contributed to a fiduciary account in Bank of Taiwan amounted to NT$70,616 thousand and NT$47,718 thousand as of June 30, 2012 and 2011, respectively.

b. The Company adopted defined contribution pension plans and made periodical contributions to pension funds in accordance with related local statutory regulations and laws. Pension expenses aggregately amounted to NT$275,284 thousand and NT$230,446 thousand for the six months ended June 30, 2012 and 2011, respectively.

(18) Short-Term Loans

	As of June 30,	
	2012	2011
Unsecured bank loans	$12,199,200	$-

The interest rate of the unsecured loans as of June 30, 2012 was between 0.95%~1.27%.

(19) Long-Term Payables

		As of June 30,		
Item	Period	2012	2011	Installment Payment
Royalty payables	January 2011-December 2016	$155,480	$-	Repayable in 24 quarterly installments.
Less: Current portion		(23,920)	-	
Net		$131,560	$-	

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

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

(20) 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 and registered 17,339 new shares at par value of NT$10 for the employee stock options exercised.

Based on the resolution of shareholders' general meeting on June 13, 2012, MTK resolved to increase authorized shares of MTK amounted to NT$20,000,000 thousand, divided into 2,000,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options), each share at par value of NT$10.

For the six months ended June 30, 2012, MTK issued 75,331 new shares at par value of NT$10 for the employee stock options exercised. Among those new shares, 19,381 shares (NT$193 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance.

As of June 30, 2012, the authorized and issued common shares of MTK amounted to NT$12,000,000 thousand and NT$11,475,751 thousand, divided into 1,200,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,147,575,061 shares, respectively, each share at par value of NT$10. Capital collected in advance was NT$193 thousand. MTK has resolved to increase authorized shares to NT$20,000,000 thousand, divided into 2,000,000,000 shares, each share at par value of NT$10, according to the shareholders' general meeting. However, the government approval has not been successfully obtained.

(21) 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.

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

(22) Capital Reserve

	As of June 30,	
	2012	2011
Additional paid-in capital	$23,161,974	$11,055,025
Treasury stock transaction	941,301	785,420
Donated assets	1,260	1,260
Long-term investment transaction	139,081	207,315
Employee stock option	293,517	254,022
Total	$24,537,133	$12,303,042

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.

(23) 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	466,183	466,183	$374.7
2008.08.28	1,640,285	784,163	784,163	358.9
2009.08.18	1,382,630	766,211	766,211	460.6
2010.08.27	1,605,757	1,035,641	1,035,641	429.8
2010.11.04	65,839	17,714	17,714	397.0
2011.08.24	2,109,871	1,959,435	1,959,435	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.

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

The compensation cost was recognized under the fair value method and the Black-Scholes Option Pricing model was used to estimate the fair value of options granted. For the six months ended June 30, 2012 and 2011, compensation costs recognized were NT$17,135 thousand and NT$40,364 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

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

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

	For the six months ended June 30,			
	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	$359.6	4,327,687	$415.5
Granted	-	-	-	-
Exercised	-	-	(9,062)	371.3
Forfeited (Expired)	(169,446)	352.1	(840,283)	417.8
Outstanding at end of period	5,029,347	359.9	3,478,342	415.1
Exercisable at end of period	1,164,967		651,126	
Weighted-average fair value of options granted during the period (in NTD)	$-		$-	

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

The information regarding MTK's outstanding stock options as of June 30, 2012 is disclosed as follows:

		Outstanding Stock Options			Exercisable Stock Options	
	Range of Exercise Price (NTD)	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	1,250,346	2.51	$364.8	931,393	$366.8
Stock option plan of 2009	460.6	766,211	3.63	460.6	233,574	460.6
Stock option plan of 2010	397.0~429.8	1,053,355	4.67	429.3	-	-
Stock option plan of 2011	280.0	1,959,435	5.67	280.0	-	-
		5,029,347		$359.9	1,164,967	

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	-	-	$14.3
2006.09.30	599,500	9,763	3,092	1,646	1,646	14.3
2006.12.31	78,000	3,936	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	19,547	19,547	15.7
2007.12.30	17,000	944	299	-	-	15.7
2007.12.31	1,000,000	277,490	87,895	38,992	38,992	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.

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

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

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

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

	For the six months ended June 30, 2012	
Employee Stock Option	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Outstanding at beginning of period	144,735	$16.3
Granted	-	-
Exercised	(74,134)	16.3
Forfeited (Expired)	-	-
Outstanding at end of period	70,601	16.2
Exercisable at end of period	70,601	
Weighted-average fair value of options granted during the period (in NTD)	$-	

Other information is disclosed as follows:

		Outstanding Stock Options			Exercisable Stock Options	
Authorized issue date	Range of Exercise Price (NTD)	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	$14.3	1,646	-	$14.3	1,646	$14.3
2007.01.29	15.7	29,963	0.08	15.7	29,963	15.7
2007.10.30	16.7	38,992	0.17	16.7	38,992	16.7
		70,601		$16.2	70,601	

(24) 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; where such legal reserve amounts to the total authorized capital, this provision shall not apply.
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 six months ended June 30, 2012 and 2011, the amounts of the employee' bonuses were estimated to be NT$713,171 thousand and NT$829,070 thousand, respectively. During the six months ended June 30, 2012 and 2011, the amounts of remunerations to directors and supervisors were estimated to be NT$7,377 thousand and NT$15,159 thousand, respectively. Employee bonuses were estimated based on a specific rate of net income for the six months ended June 30, 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.

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

The appropriations of earnings for 2011 and 2010 were resolved by the board of directors' meeting on March 21, 2012 and March 16, 2011, while the appropriations of earnings for 2011 and 2010 were resolved by the shareholders' general meeting on June 13, 2012 and June 15, 2011. The amounts resolved in the shareholders' general meeting were consistent with those determined by the board of directors. 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	$10,328,124	$21,999,457

The difference between the resolution of the shareholders' general 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 shareholders' general 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 resolved 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.

(25) 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:

	January 1, 2012		Additions		Disposal			June 30, 2012		
Owner	Shares	Amount	Shares	Amount	Shares	Amount	Price	Shares	Amount	Market Value
MediaTek Capital Corp.	7,794,085	$55,970	-	$-	-	$-	$-	7,794,085	$55,970	$2,127,785

	January 1, 2011		Additions		Disposal			June 30, 2011		
Owner	Shares	Amount	Shares	Amount	Shares	Amount	Price	Shares	Amount	Market Value
MediaTek Capital Corp.	7,794,085	$55,970	-	$-	-	$-	$-	7,794,085	$55,970	$2,431,755

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

(26) Net Operating Revenue

	For the six months ended June 30,	
	2012	2011
Revenues from sales of multimedia and cell phone chipsets	$47,116,989	$42,505,578
Other operating revenue	262,058	270,513
Subtotal	47,379,047	42,776,091
Less: Sales returns	(5,579)	(24,062)
Sales discounts	(4,318,246)	(1,903,052)
Net Sales	$43,055,222	$40,848,977

(27) Personnel, Depreciation and Amortization Expenses

	For the six months ended June 30,					
	2012			2011		
	Recorded under cost of goods sold	Recorded under operating expense	Total	Recorded under cost of goods sold	Recorded under operating expense	Total
Personnel Expense						
Salaries & wages	$99,664	$6,280,527	$6,380,191	$107,765	$6,532,087	$6,639,852
Insurance	6,418	328,840	335,258	4,795	256,150	260,945
Pension	5,755	279,753	285,508	5,080	242,659	247,739
Other expenses	2,217	256,021	258,238	2,009	177,703	179,712
Total	$114,054	$7,145,141	$7,259,195	$119,649	$7,208,599	$7,328,248
Depreciation	$1,457	$613,476	$614,933	$3,180	$583,578	$586,758
Amortization	$226	$1,060,269	$1,060,495	$382	$742,457	$742,839

(28) Income Tax

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

	For the six months ended June 30,	
	2012	2011
Income tax payable	$210,277	$171,843
10% surtax on undistributed earnings	392,045	202,285
Investment tax credits	(392,045)	(211,916)
Deferred income tax effects		
Investment tax credits	1,059,685	122,678
Valuation allowance	(1,700,314)	14,276
Others	892,926	29,053
Others	181,450	(23,701)
Income tax expense from continuing operations	$644,024	$304,518

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

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

	As of June 30,			
	2012		2011	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets				
Recognition of unrealized allowance for inventory obsolescence	$2,482,629	$422,047	$3,147,496	$535,074
Allowance for doubtful debt in excess of deductible limit	295,996	50,319	135,569	23,047
Unrealized technology license fee	1,603,642	272,619	1,307,624	222,296
Unrealized foreign exchange loss	-	-	201,912	34,325
Unrealized loss on asset impairment	737,808	125,427	746,807	126,957
Loss carryforwards-domestic	135,385	23,015	-	-
-foreign		364,989		359,247
Investment tax credits-domestic		6,114,328		8,748,018
-foreign		300,525		210,571
Others		262,082		155,374
Deferred income tax assets		7,935,351		10,414,909
Valuation allowance for deferred income tax assets		(7,276,872)		(10,072,463)
Net deferred income tax assets		658,479		342,446
Deferred income tax liabilities				
Unrealized gain on valuation of financial assets	(455)	(78)	(1,999)	(340)
Unrealized foreign exchange gain	(18,771)	(3,191)	-	-
Unrealized amortization of intangible assets	(5,358,082)	(910,874)	(4,772,048)	(811,247)
Others		(366,627)		(4,552)
Deferred income tax liabilities		(1,280,770)		(816,139)
Net deferred income tax assets and liabilities		$(622,291)		$(473,693)

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

	As of June 30,	
	2012	2011
Deferred income tax assets-current	$2,884,691	$2,917,518
Valuation allowance for deferred income tax assets-current	(2,697,622)	(2,773,592)
Net deferred income tax assets-current	187,069	143,926
Deferred income tax liabilities-current	(16,836)	(4,880)
Net deferred income tax assets and liabilities-current	$170,233	$139,046

	As of June 30,	
	2012	2011
Deferred income tax assets-noncurrent	$5,050,660	$7,497,391
Valuation allowance for deferred income tax assets-noncurrent	(4,579,250)	(7,298,871)
Net deferred income tax assets-noncurrent	471,410	198,520
Deferred income tax liabilities-noncurrent	(1,263,934)	(811,259)
Net deferred income tax assets and liabilities-noncurrent	$(792,524)	$(612,739)

c. Pursuant to Article 9-2 of the “Statute for Upgrading Industries”, MTK and subsidiary - Ralink Technology Corp. are qualified as a technical service industry and is therefore entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. MTK has elected the tax exemption periods from January 1, 2009 through December 31, 2013, January 1, 2010 through December 31, 2014 and January 1, 2011 through December 31, 2015. The subsidiary, Ralink Technology Corp. has elected the tax exemption periods form March 1, 2007 through February 29, 2012.

d. The Company is not allowed to file consolidated income tax returns.

e. MTK’s income tax returns for all the fiscal years up to 2009 have been assessed by the tax authorities. For the 2009 return, the tax authorities have assessed additional taxes. The discrepancy between the MTK’s tax return filing and the result of tax authority’s assessment was mainly due to different interpretations by applying rules. Although MTK has vigorously filed several administrative appeals to tax authority and courts, MTK has paid the amount in full. The income tax returns for all the fiscal years up to 2009 of the subsidiary - Ralink Technology Corp. have been assessed by the tax authorities. The income tax returns for all the fiscal years up to 2010 of the subsidiary - T-Rich Technology Corp. have been assessed by the tax authorities.

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

f. According to R.O.C. Income Tax Act amendment, losses incurred in the operations of business can be carried forward for ten years. The loss carryforwards of subsidiaries - T-Rich Technology Corp. and E-vehicle Semiconductor Technology Co. Ltd. as of June 30, 2012 are as follows:

Total loss carryforward	Unused amount	Year expired
$556	$556	2019
58,021	58,021	2020
76,808	76,808	2021
$135,385	$135,385	

g. MTK and subsidiary - Ralink Technology Corp.'s available investment tax credits as of June 30, 2012 are as follows:

Total credit amount	Unused amount	Year expired
$2,107,541	$1,872,399	2012
4,280,344	4,241,929	2013
$6,387,885	$6,114,328	

h. Integrated income tax information

	As of June 30,	
	2012	2011
Balance of the imputation credit account (ICA)	$1,448,979	$1,962,902

	2011	2010
Expected (Actual) creditable ratio	2.56%	2.66%

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

(29) 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:

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

	Amount (Numerator)		Shares	Earnings per share	
	Before tax	After tax	(Denominator)	Before tax	After tax
For the six months ended June 30, 2012					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	$6,501,390	$5,857,366	1,139,780,448	$5.70	$5.14
Effect of dilutive potential common shares:					
Bonus to employees	-	-	8,980,683		
Stock option to employees	-	-	89,032		
Diluted EPS	$6,501,390	$5,857,366	1,148,850,163	$5.66	$5.10
Consolidated net income attributable to minority interests					
Basic EPS					
Net income	$(11,748)	$(11,748)	1,139,780,448	$(0.01)	$(0.01)
Effect of dilutive potential common shares:					
Bonus to employees	-	-	8,980,683		
Stock option to employees	-	-	89,032		
Diluted EPS	$(11,748)	$(11,748)	1,148,850,163	$(0.01)	$(0.01)

	Amount (Numerator)		Shares	Earnings per share	
	Before tax	After tax	(Denominator)	Before tax	After tax
For the six months ended June 30, 2011					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	$6,940,065	$6,635,547	1,092,181,452	$6.35	$6.08
Effect of dilutive potential common shares:					
Bonus to employees	-	-	15,239,946		
Stock option to employees	-	-	1,709		
Diluted EPS	$6,940,065	$6,635,547	1,107,423,107	$6.27	$5.99
Consolidated net income attributable to minority interests					
Basic EPS					
Net income	$(1,596)	$(1,596)	1,092,181,452	$-	$-
Effect of dilutive potential common shares:					
Bonus to employees	-	-	15,239,946		
Stock option to employees	-	-	1,709		
Diluted EPS	$(1,596)	$(1,596)	1,107,423,107	$-	$-

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

5. Related Party Transactions

(1) Related parties and relations

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

Note: Information disclosed herein includes only those transactions with ALi occurred before May 7, 2012, the day the Company sold part of shares of ALi and ceased using the equity method.

(2) Major transactions with related parties

a. Sales

	For the six months ended June 30,			
	2012		2011	
	Amount	% of net sales	Amount	% of net sales
ALi	$-	-	$73,248	0.18

For the six months ended June 30, 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

		For the six months ended June 30,	
	Transactions	2012	2011
King Yuan	IC testing and experimental services	$2,355,512	$2,191,109

c. Rental Income

	Rental Income		Other Receivables	
	For the six months ended June 30,		As of June 30,	
	2012	2011	2012	2011
JMicron	$4,379	$4,573	$766	$-

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

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

(3) Receivables and payables resulted from the above transactions

Payables from related parties

	As of June 30,			
	2012		2011	
	Amount	%	Amount	%
King Yuan	$1,175,218	11.43	$1,073,353	13.55

6. Assets Pledged As Collateral

(1) As of June 30, 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	3,067	Customs Office	Tariff execution deposits
Restricted deposits-current	3,059	Danske Bank	Credit guarantee
Restricted deposits-current	7,000	Taiwan Cooperative Bank	Pledged for L/C
Restricted deposits-noncurrent	67	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	566	Citibank	Tariff execution deposits
Total	$20,676		

(2) As of June 30, 2011

	Amount	Party to which assets was pledged	Purpose of pledge
Restricted deposits-current	$6,917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,030	Customs Office	Tariff execution deposits
Restricted deposits-current	3,361	Danske Bank	Credit guarantee
Restricted deposits-noncurrent	80	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	677	Citibank	Tariff execution deposits
Total	$14,065		

7. Commitments and Contingencies

(1) Lawsuit:

a. Rambus Inc.("Rambus") filed a complaint against 26 companies on December 1, 2010 in the U.S. International Trade Commission, alleging infringement of United States Patents Nos. 6,470,405, 6,591,353, 7,287,109, 7,602,857, 7,602,858 and 7,715,494. Specifically, Rambus alleged that MTK's DVD and DTV chips infringe two of the abovementioned patents (U.S. Patent Nos. 6,591,353 and 7,287,109).

In addition, Rambus filed a complaint against MTK and other defendants on December 1, 2010 in the United States District Court for the Northern District of California, alleging that MTK's DVD chips, DTV chips and CD-ROM chips infringe United States Patent Nos. 6,034,918, 6,038,195, 6,260,097, 6,304,937, 6,426,916, 6,584,037, 6,715,020, 6,751,696, 7,209,997, 6,591,353 and 7,287,109.

U.S. International Trade Commission issued an Initial Determination on March 2, 2012 that found no violation of Section 337 of the Tariff Act by MTK's products.

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

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 alleged that MTK's DTV chips infringe its patent and sought to prevent the accused products from being imported into the United States.

U.S. International Trade Commission issued an Initial Determination for the above referenced matter on July 12, 2012 that found no violation of Section 337 of the Tariff Act by MTK's products, Freescale failed to establish the domestic industry element, Freescale's asserted patent claims are invalid, and MTK's products do not infringe the asserted patent claims.

Freescale also filed a complaint in the United States District Court for the Western District of Texas against MTK and one other defendant on June 8, 2011, alleging infringement of United States Patent No. 5,467,455. Freescale alleged that MTK's DTV chips infringe its patent and sought damages and an injunction to prevent the accused products from being sold in the future.

MTK filed a complaint in the United States District Court for the Northern District of California against Freescale on November 3, 2011 alleging infringement of United States Patent Nos. 6,738,845, 6,088,753, 6,311,244, and 6,889,331. MTK alleged that Freescale's multimedia application processors and micro-controller products infringe the above referenced patents, and sought damages and an injunction to prevent the accused products from being sold in the future.

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 alleged that MTK's DTV chips infringe its patent and sought to prevent the accused products from being imported into the United States.

Additionally, Freescale filed a complaint in the United States District Court for the Western District of Texas against MTK on July 6, 2012 alleging infringement of United States Patent Nos. 6,920,316, 5,825,640, 5,943,274. Freescale alleged that MTK's DTV chips infringe its patents and sought damages and an injunction to prevent the accused 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 of United States Patent Nos. 5,870,087, 6,452,958, 6,707,867, and 6,982,663, and seeking to prevent the accused products from being imported into the United States. Specifically, LSI and Agere asserted 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 asserted that the Wi-Fi chips of subsidiaries Ralink Technology Corp. and Ralink Technology Corp. (USA) also infringed some of the aforementioned patents.

d. Lantiq Deutschland GMBH ("Lantiq") filed a complaint alleging patent infringement against TrendChip Technologies Corp.'s customer, Billion Electric Co. Ltd. ("Billion") in 2010 in Germany. Trendchip Technologies Corp. was later merged into Ralink Technology Corporation ("Ralink"), which is now a wholly-owned subsidiary of MTK. Since Lantiq's patent infringement allegation is related to Ralink's DSL products, Ralink is assisting Billion in the above referenced matter. In addition, Ralink filed a patent nullity suit against Lantiq in the Federal Patent Court of Germany to invalidate the asserted patent. Ralink also filed a complaint in Wisconsin, USA against Lantiq on November 8, 2010 alleging 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 infringement of United States Patent Nos. 6,351,799 and 7,061,904. Lantiq alleged patent infringement by Ralink's networking and computing chips 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. On May 2, 2012, Lantiq added MTK and its subsidiaries MediaTek USA Inc. and MediaTek Wireless, Inc. (USA) as co-defendants. The operations of MTK and subsidiary 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 infringement of United States Patent Nos. 5,131,006, 5,151,920, 5,422,887, 5,706,428, 6,563,786, and 6,992,972. The operations of Ralink would not be materially affected by those patent litigations.

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

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 subsidiaries Ralink and Ralink Technology Corporation (USA), along with other defendants in March 2011 alleging infringement of United States Patent No. 7,756,129. On April 6, 2012, Azure Networks, LLC and Tri-County Excelsior Foundation filed a complaint in the United States District Court for the Eastern District of Texas against MTK alleging infringement of the same patent referenced above. The operations of MTK and subsidiaries Ralink and Ralink Technology Corporation (USA) would not be materially affected by those patent litigations.

The Company will handle these cases carefully.

(2) Operating Lease:

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

Lease Period	Amount
2012.07.01~2013.06.30	$30,371
2013.07.01~2014.06.30	30,371
2014.07.01~2015.06.30	30,371
2015.07.01~2016.06.30	30,371
2016.07.01~2017.06.30	30,371
2017.07.01~2027.12.31	198,862
Total	$350,717

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

Lease Period	Amount
2012.07.01~2013.06.30	$119,616
2013.07.01~2014.06.30	110,854
2014.07.01~2015.06.30	102,770
2015.07.01~2016.06.30	81,241
2016.07.01~2017.06.30	48,236
2017.07.01~2020.12.31	114,806
Total	$577,523

(3) Public tender offer:

In order to enhance the operating performance and competitiveness, the board of directors has approved a tender offer to acquire shares of MStar Semiconductor, Inc. ("MStar") on June 22, 2012. Through this tender offer, the Company plans to acquire MStar shares for 0.794 the Company's shares and NT$1 in cash per MStar share. The Company targets to purchase 211,763,071 to 254,115,685 shares of MStar (40% to 48% of MStar's outstanding shares) through this tender offer by issuing 168,139,879 to 201,767,854 new shares, each share at par value of NT$10, in the amount of NT$1,681,399 thousand to NT$2,017,679 thousand.

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

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

10.Others

(1) Financial Instruments

a. Fair value of financial instruments

	As of June 30,			
	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Non-derivative				
Assets				
Cash and cash equivalents	$95,060,711	$95,060,711	$89,326,102	$89,326,102
Financial assets designated as at fair value through profit or loss	$2,413,524	$2,413,524	$3,280,685	$3,280,685
Receivables	$7,659,372	$7,659,372	$7,832,873	$7,832,873
Other receivables	$2,725,458	$2,725,458	$1,245,868	$1,245,868
Available-for-sale financial assets	$6,498,771	$6,498,771	$6,356,996	$6,356,996
Held-to-maturity financial assets	$1,146,184	$1,139,731	$240,487	$239,739
Financial assets carried at cost	$2,730,310	$-	$1,417,973	$-
Bond portfolios with no active market	$1,000,000	$1,065,185	$1,000,000	$1,087,625
Investments accounted for using the equity method				
-with market value	$-	$-	$1,506,104	$2,660,139
-without market value	$574,165	$-	$394,095	$-
Refundable deposits	$242,167	$242,167	$265,826	$265,826
Restricted assets	$20,676	$20,676	$14,065	$14,065
Liabilities				
Short-term loans	$12,199,200	$12,199,200	$-	$-
Payables (including related parties)	$10,280,497	$10,280,497	$7,923,392	$7,923,392
Accrued expenses	$13,399,956	$13,399,956	$15,741,854	$15,741,854
Other payables	$10,402,540	$10,402,540	$21,999,466	$21,999,466
Long-term accounts payable (including current portion)	$155,480	$155,480	$-	$-
Payables to contractors and equipment suppliers	$71,948	$71,948	$9,293	$9,293
Deposits received	$9,806	$9,806	$6,065	$6,065
Derivative				
Assets				
Held-for-trading financial assets				
-foreign exchange contracts	$1,573	$1,573	$2,868	$2,868
Liabilities				
Held-for-trading financial liabilities				
-foreign exchange contracts	$3,981	$3,981	$869	$869

(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.

(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 using 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$29,769 thousand and NT$14,443 thousand for the six months ended June 30, 2012 and 2011, respectively.

(c) As of June 30, 2012 and 2011, financial assets exposed to fair value risk from fixed interest rate were NT$85,330,917 thousand and NT$81,554,892 thousand, respectively, and financial liabilities exposed to fair value risk from fixed interest rate were NT$12,354,680 thousand and nil, respectively. As of June 30, 2012 and 2011, financial assets exposed to cash flow risk from variable interest rate were NT$2,804,126 thousand and NT$3,290,545 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$867,836 thousand and NT$390,372 thousand for the six months ended June 30, 2012 and 2011, respectively. Interest expense recognized from financial liabilities that were not at fair value through profit or loss amounted to NT$51,541 thousand and nil for the six months ended June 30, 2012 and 2011, respectively. The Company recognized an unrealized gain (loss) of NT$531,017 thousand and NT$(28,331) thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2012 and 2011, respectively, and the amounts that were recycled from equity to losses were nil and NT$13,034 thousand for the six months ended June 30, 2012 and 2011, respectively. The Company also recognized an unrealized gain (loss) of NT$56,647 thousand and NT$(144,098) thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for using the equity method for the six months ended June 30, 2012 and 2011, respectively.

(e) Impairment losses recognized from financial assets were NT$84,998 thousand and nil for the six months ended June 30, 2012 and 2011, respectively.

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$281 thousand and NT$400 thousand as of June 30, 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.

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

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

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

a. 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:

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

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

(b) The acquisition date, the percentage of ownership acquired and the adoption of the purchase method of accounting for the business combination:
The acquisition date was set on October 1, 2011. MTK issued new shares to exchange 100% shares of Ralink Technology Corp. The acquisition was accounted for in accordance with the R.O.C. SFAS No. 25, "Business Combinations - Accounting Treatment under Purchased Method". The acquisition information is as follows:

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

(c) Acquisition cost and the type, number of shares and amount of stock issued as a result of the acquisition:
Totally 55,533,588 new shares (NT$12,814,375 thousand in the amount) of MTK were issued to acquire all Ralink's shares.

(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 six months ended June 30, 2011
Net sales	$45,433,043
Net income attributable to the parent	$7,057,717
Basic earnings per share (in NTD)	$6.15

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

b. 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, and renamed to MediaTek Sweden AB. The acquisition of MediaTek Sweden AB was accounted for in accordance with the R.O.C. SFAS No.25, "Business Combinations - Accounting Treatment under Purchased Method". Since the allocation period of the acquisition price was not consummated as of June 30, 2012, the Company recorded the excess of acquisition cost over the net assets as goodwill temporarily in accordance with the R.O.C. SFAS No.25, "Business Combination - Accounting Treatment under Purchase Method". The Company will allocate goodwill to related assets or liabilities when the allocation period of the acquisition price consummates.

	Amount (US$'000)
Acquisition cost	35,000
Less: Fair value of the identifiable net assets of MediaTek Sweden AB	(2,870)
Goodwill	32,130

(3) Other Information

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

	As of June 30,					
	2012			2011		
	Foreign Currency (thousand)	Exchange rate	NTD (thousand)	Foreign Currency (thousand)	Exchange rate	NTD (thousand)
Financial assets						
Monetary item						
USD	$2,130,087	$29.90	$63,689,614	$1,441,058	$28.802	$41,505,349
Non-monetary item						
USD	$221,000	$29.90	$6,607,899	$179,103	$28.802	$5,158,532
CNY	$82,000	$4.71	$385,927	$252,842	$4.456	$1,126,691
Investments accounted for using the equity method						
USD	$8,101	$29.90	$242,214	$6,831	$28.802	$196,739
Financial liabilities						
Monetary item						
USD	$826,506	$29.90	$24,712,535	$326,222	$28.802	$9,395,834
JPY	$-	$-	$-	$500,000	$0.358	$178,870

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

b. Inter-company relationships and significant inter-company transactions for the six months ended June 30, 2012 are as follows: (For MTK's shares owned by the subsidiary, please refer to the Note 4.(25) 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	$34,491	Based on contract	0.02%
			1	Sales revenues	$213,221		0.50%
		Rolltech Technology, Co. Ltd	1	Other receivables	$168		0.00%
			1	Rent revenues	$960		0.00%
		MediaTek Investment Corp.	1	Other receivables	$1,900,000		1.18%
		MediaTek Wireless, Inc. (USA)	1	Lease guarantee	$65,390		1.18%
		MTK Wireless Limited (UK)	1	Lease guarantee	$26,104		0.04%
		MediaTek China Limited	1	Bank financing guarantee	$897,000		0.02%
		Gaintech Co. Limited	1	Bank financing guarantee	$9,059,700		0.56%
		Ralink Technology Corp.	1	IP purchase guarantee	$67,051		5.62%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	$11,131		0.01%
		MediaTek Sweden AB	3	Temporary payments	$64,786		0.04%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	$66,883	Based on contract	0.04%
			3	Research and development expenses	$315,699		0.73%
		MediaTek Denmark ApS	3	Payables to related parties	$11,650		0.01%
			3	Research and development expenses	$58,112		0.13%
		MTK Wireless Limited (UK)	3	Payables to related parties	$21,571		0.01%
			3	Research and development expenses	$164,284		0.38%

(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. (Note1)	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 USA Inc.	3	Payables to related parties	$103,675		0.06%
			3	Research and development expenses	$705,618		1.64%
		MediaTek Japan Inc.	3	Payables to related parties	$9,537	Based on contract	0.01%
			3	Research and development expenses	$126,651		0.29%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	$18,829		0.01%
			3	Research and development expenses	$115,688		0.27%
		MediaTek Korea Inc.	3	Payables to related parties	$15,513		0.01%
			3	Research and development expenses	$103,623		0.24%
		MediaTek Wireless L.L.C. (Dubai)	3	Payables to related parties	$678		0.00%
			3	Selling expenses	$3,711		0.01%
		MediaTek (Shenzhen) Inc.	3	Prepayment	$50,398		0.03%
			3	Research and development expenses	$718,610		1.67%
		MediaTek (Hefei) Inc.	3	Prepayment	$84,170		0.05%
			3	Research and development expenses	$381,558		0.89%
		MediaTek (Beijing) Inc.	3	Payables to related parties	$235,951		0.15%
			3	Research and development expenses	$751,626		1.75%
		Hesine Technologies, Inc.	3	Prepayments	$5,471		0.00%
			3	Research and development expenses	$31,114		0.07%

(To be continued)

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

(Continued)

No. (Note1)	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	Prepayments	$41,197	Based on contract	0.03%
			3	Research and development expenses	$29,873		0.07%
		MediaTek (Chengdu) Inc.	3	Prepayment	$152,899		0.09%
			3	Research and development expenses	$208,917		0.49%
		MediaTek (Wuhan) Inc.	3	Prepayments	$2,274		0.00%
			3	Research and development expenses	$82,989		0.19%
		MediaTek (Shanghai) Inc.	3	Prepayments	$71,744		0.04%
			3	Research and development expenses	$85,661		0.20%
		MediaTek (Nanjing) Inc.	3	Prepayments	$29,910		0.02%
			3	Research and development expenses	$17,125		0.04%
3	Shadow Investment Limited	MediaTek (Nanjing) Inc.	3	Prepayments	$8,970	Based on contract	0.01%
			3	Research and development expenses	$26,713		0.06%
		MediaTek (Suzhou) Inc.	3	Prepayments	$8,970		0.01%
			3	Research and development expenses	$26,713		0.06%
4	MediaTek Investment Corp.	MedaiTek Capital Co.	3	Other receivables	$251,818		0.16%
5	Lepower Technologies (Beijing) Inc.	MediaTek (Beijing) Inc.	3	Prepayments	$19,969	Based on contract	0.01%
			3	Research and development expenses	$19,964		0.05%
6	MediaTek (Beijing) Inc.	Vogins Technologie (Shanghai) Co. Ltd.	3	Research and development expenses	$35,072		0.08%

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

Inter-company relationships and significant inter-company transactions for the six months ended June 30, 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	$52,191	Based on contract	0.04%
				Sales revenues	$285,000		0.70%
		MediaTek Wireless, Inc. (USA)	1	Lease guarantee	$80,553		0.06%
		MTK Wireless Limited (UK)	1	Lease guarantee	$25,702		0.02%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	$10,722		0.01%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	$632,579	Based on contract	0.44%
			3	Research and development expenses	$578,903		1.42%
		MediaTek Denmark ApS	3	Payables to related parties	$23,605		0.02%
			3	Research and development expenses	$125,879		0.31%
		MTK Wireless Limited (UK)	3	Payables to related parties	$27,497		0.02%
			3	Research and development expenses	$192,881		0.47%
		MediaTek USA Inc.	3	Payables to related parties	$1,511,345		1.05%
			3	Research and development expenses	$453,031		1.11%
		MediaTek Japan Inc.	3	Payables to related parties	$15,417		0.01%
			3	Research and development expenses	$89,461		0.22%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	$21,894		0.02%
			3	Research and development expenses	$121,147		0.30%

(To be continued)

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

(Continued)

No. (Note1)	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	$16,129	Based on contract	0.01%
			3	Research and development expenses	$74,897		0.18%
		MediaTek (Shenzhen) Inc.	3	Prepayments	$30,173		0.02%
			3	Research and development expenses	$612,477		1.50%
		MediaTek (Hefei) Inc.	3	Payables to related parties	$38,539		0.03%
			3	Research and development expenses	$282,120		0.69%
		MediaTek (Beijing) Inc.	3	Prepayments	$1,034,146		0.72%
			3	Research and development expenses	$769,980		1.88%

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.

11. 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.

12. The Authorization of Financial Statements

The consolidated financial statements were approved by the board of directors on July 31, 2012.

13. IFRSs Adoption Information

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

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

The Company has set up a project team and made a plan to adopt IFRSs. Leading the implementation of this plan is MTK's Chief Financial Officer, Mr. David Ku. The main contents of the plan, estimated completion schedule and status of execution as of June 30, 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
7. Assess the adjustments required for internal controls	Finance and Accounting and Internal Auditor	Completed
8. Finalize the accounting policies under IFRSs	Finance and Accounting	Completed
9. Finalize the selection of voluntary exemptions under IFRS 1 "First-time Adoption of International Financial Reporting Standards	Finance and Accounting	Completed

(To be continued)

(Continued)

Contents of Plan	Responsible Department	Status of Execution
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 polices 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”.

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.

(To be continued)

(Continued)

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

(To be continued)

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

(Continued)

Income taxes	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 offset 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) & (e)
Prepaid pension costs	3,826	(3,826)	-	(c)
Other assets	143,698,746	(220,940)	143,477,806	(e)
Total assets	147,741,108	4,676	147,745,784	
Accrued pension liabilities	190,538	254,541	445,079	(c)
Deferred income tax liabilities-noncurrent	590,934	4,520	595,454	(c) & (e)
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	

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

(a) Under the requirement of IAS 28, NT$186,259 thousand of financial assets carried at cost-noncurrent was remeasured and 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 accounting policies.

(c) Under the requirement of ROC GAAP, the Company shall use actuarial assumptions to measure its defined benefit obligations and record relative pension costs and accrued pension liabilities. After the adoption of IFRSs, the Company shall use actuarial assumptions under the requirement of IAS 19 “Employee Benefits”. Under the requirements of IFRS 1, the Company remeasured its defined benefit obligations, adjusted its cumulative actuarial gains and losses to zero, and recognized all unrealized transitional net benefit obligations at the date of transition. After the transitional adjustments, the Company’s accrued pension liabilities, prepaid pension cost, deferred income tax assets-noncurrent, deferred income tax liabilities-noncurrent and retained earnings were increased (decreased) by NT$254,541 thousand, NT$(3,826) thousand, NT$43,272 thousand, NT$(650) thousand and NT$(214,445) thousand, respectively.

(d) Capital reserved-long-term investment transaction of NT$120,192 thousand was reclassified to retained earnings due to incompliance with IFRSs.

(e) The remaining adjustments were reclassified to conform to the presentation under the requirements of IFRSs and did not affect shareholders’ equity.

b. Reconciliation of the balance sheet as of June 30, 2012:

	ROC GAAP	Adjustments	IFRSs	Note
Financial assets carried at cost-noncurrent	$2,730,310	$(186,259)	$2,544,051	(a)
Investments accounted for using the equity method	574,165	241,961	816,126	(a), (b) & (e)
IPs and others	2,402,142	(116,246)	2,285,896	(g)
Deferred income tax assets-noncurrent	248,459	228,899	477,358	(c), (d) & (i)
Long-term prepaid rents	-	116,246	116,246	(g)
Prepaid pension costs	3,826	(3,826)	-	(c)
Other assets	155,141,103	(175,393)	154,965,710	(i)
Total assets	161,100,005	105,382	161,205,387	

(To be continued)

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

(Continued)

	ROC GAAP	Adjustments	IFRSs	Note
Accrued expenses	13,399,956	45,990	13,445,946	(d)
Accrued pension liabilities	194,021	256,183	450,204	(c)
Deferred income tax liabilities-noncurrent	1,040,983	34,064	1,075,047	(c), (f) & (i)
Other liabilities	34,789,610	(5,160)	34,784,450	(i)
Total liabilities	49,424,570	331,077	49,755,647	
Capital	11,475,944	-	11,475,944	
Capital reserve	24,537,133	(30,258)	24,506,875	(a), (b) & (h)
Retained earnings	77,992,467	165,290	78,157,757	(a), (b), (c), (d), (e), (f) & (h)
Cumulative translation adjustments	(2,944,633)	(198)	(2,944,831)	(a)
Unrealized gain (loss) on financial instruments	630,856	(360,529)	270,327	(f)
Treasury stock	(55,970)	-	(55,970)	
Minority interests	39,638	-	39,638	
Shareholders’ equity	111,675,435	(225,695)	111,449,740	

(a) Under the requirement of IAS 28, NT$186,259 thousand of financial assets carried at cost-noncurrent was remeasured and reclassified to investments accounted for using the equity method in the amount of NT$144,279 thousand. Therefore, capital reserve, cumulative translation adjustments and retained earnings were increased (decreased) by NT$3,372 thousand, NT$(198) thousand and NT$(45,154) thousand, respectively.

(b) Investments accounted for using the equity method, capital reserve and retained earnings were (decreased) increased by NT$(1,627) thousand, NT$205 thousand and NT$(1,832) thousand for conforming to accounting policies.

(c) Under the requirement of ROC GAAP, the Company shall use actuarial assumptions to measure its defined benefit obligations and record relative pension costs and accrued pension liabilities. After the adoption of IFRSs, the Company shall use actuarial assumptions under the requirement of IAS 19 “Employee Benefits”. Under the requirement of IFRS 1, the Company remeasured its defined benefit obligations, adjusted its cumulative actuarial gains and losses to zero, and recognized all unrealized transitional net benefit obligations at the date of transition. After the transitional adjustments, the Company’s accrued pension liabilities, prepaid pension cost, deferred income tax assets-noncurrent, deferred income tax liabilities-noncurrent and retained earnings were increased (decreased) by NT$256,183 thousand, NT$(3,826) thousand, NT$43,551 thousand, NT$(650) thousand and NT$(215,808) thousand, respectively.

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

(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$45,990 thousand, NT$7,818 thousand and NT$(38,172) thousand, respectively.

(e) According to IFRSs, when the Company’s equity investment increases and the significant influence is obtained, the Company shall remeasure the entire equity investment at fair value. The Company’s investments accounted for using the equity method and retained earnings both increased by NT$99,309 thousand because of this requirement.

(f) Under IFRSs, when the Company partly disposes of an equity investment and loses its significant influence, the Company shall remeasure the remaining investment at fair value and recognize the difference between the book value of the entire investment and the fair value of the remaining investment plus the proceeds of the disposal as a gain and loss. The Company’s retained earnings, deferred income tax liabilities-noncurrent and unrealized gain (loss) on financial instruments increased (decreased) by NT$333,112 thousand, NT$27,417 thousand and NT$(360,529) thousand, respectively, due to this requirement.

(g) Under the requirement of IFRSs, the Company shall reclassify the right to the use of the land which was classified as an operating lease to long-term prepaid rent. Therefore, long-term prepaid rents and IPs and others were increased (decreased) by NT$116,246 thousand and NT$(116,246) thousand, respectively.

(h) Capital reserve-long-term investment transaction of NT$33,835 thousand was reclassified to retained earnings due to incompliance with IFRSs.

(i) 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 six months ended June 30, 2012:

	ROC GAAP	Adjustments	IFRSs	Note
Net sales	$43,055,222	$-	$43,055,222	
Cost of goods sold	(25,242,178)	(1,429)	(25,243,607)	(a)
Gross profits	17,813,044	(1,429)	17,811,615	
Operating expenses	(13,095,709)	(46,203)	(13,141,912)	(a) & (b)
Operating income	4,717,335	(47,632)	4,669,703	
Non-operating income/ gains or expenses/losses	1,772,307	368,971	2,141,278	(c), (d), (e) & (f)
Income before income tax	6,489,642	321,339	6,810,981	
Income tax expense	(644,024)	(19,320)	(663,344)	(a), (b) & (f)
Net income	5,845,618	302,019	6,147,637	

(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$1,429 thousand, NT$44,561 thousand and NT$(7,818) thousand, respectively.

(b) The Company shall use actuarial assumptions under the requirements of IAS 19 “Employee Benefits” to measure its defined benefit obligations. Therefore, operating expenses and income tax expenses were increased (decreased) by NT$1,642 thousand and NT$(279) thousand, respectively.

(c) Adjustment of gain on equity investments was decreased by NT$63 thousand for conforming to group accounting policies.

(d) Under the requirement of IAS 28, the Company remeasured and reclassified financial assets carried at cost-noncurrent to investments accounted for using the equity method. Therefore, gain on equity investments was decreased by NT$4,447 thousand.

(e) According to IFRSs, when the Company’s equity investment increases and the significant influence is obtained, the Company shall remeasure the entire equity investment at fair value. The Company’s gain on disposal of investments was increased by NT$99,309 thousand because of this requirement.

(f) Under IFRSs, when the Company partly disposes of an equity investment and loses its significant influence, the Company shall remeasure the remaining investment at fair value and recognize the difference between the book value of the entire investment and the fair value of the remaining investment plus the proceeds of the disposal as a gain and loss. The Company’s gain on disposal of investments and income tax expense were increased by NT$274,172 thousand and NT$27,417 thousand, respectively.

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.