

# **MediaTek Inc.**

## **2011 Annual Report**

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# 2011 MediaTek Annual Report

## Table of Contents

<b>1. Letter to Shareholders .....</b>	<b>5</b>
<b>2. Company Profile .....</b>	<b>7</b>
2.1. MediaTek Company Profile .....	7
2.2. Milestones.....	7
<b>3. Corporate Governance .....</b>	<b>10</b>
3.1. Organization .....	10
3.2. Directors and Supervisors .....	12
3.3. Management Team .....	16
3.4. Corporate Governance Report .....	19
3.5. <b>Information Regarding MediaTek’s Independent Auditors</b> .....	<b>26</b>
3.6. Net Changes in Shareholding .....	27
3.7. Top 10 Shareholders Who are Related Parties to Each Other .....	28
3.8. Long-Term Investment Ownership .....	28
<b>4. Capital and Shares.....</b>	<b>29</b>
4.1. Capital and Shares .....	29
4.2. Status of Corporate Bonds .....	33
4.3. Status of Preferred Stocks.....	34
4.4. Status of GDR/ADR.....	34
4.5. Status of Employee Stock Option Plan .....	35
4.6. Status of New Shares Issuance in Connection with Mergers and Acquisitions .....	36
4.7. Financing Plans and Implementation .....	37
<b>5. Business Activities.....</b>	<b>38</b>
5.1. Business Scope .....	38
5.2. Market, Production, and Sales Outlook.....	46
5.3. Employees .....	53
5.4. Important Contracts .....	54
<b>6. Corporate Social Responsibility .....</b>	<b>55</b>
6.1. Corporate Promise.....	55
6.2. Social Participation .....	58
6.3. Environmental Efforts .....	61
<b>7. Financial Status, Operating Results and Status of Risk Management.....</b>	<b>63</b>

7.1.	Financial Status .....	63
7.2.	Operating Results .....	65
7.3.	Cash Flow Analysis .....	66
7.4.	Major Capital Expenditure .....	67
7.5.	Investment Policies.....	68
7.6.	Risk Management.....	68
7.7.	Other Material Events .....	73
<b>8. Other Special Notes.....</b>		<b>74</b>
8.1.	MediaTek Affiliates.....	74
8.2.	Private Placement Securities.....	81
8.3.	Holding or Disposition of MediaTek Stocks by Subsidiaries.....	81
8.4.	Other Significant Events.....	81
8.5.	Other Necessary Supplement .....	82
<b>9. Financial Information.....</b>		<b>82</b>
9.1.	Condensed Balance Sheet.....	82
9.2.	Condensed Income Statement .....	84
9.3.	Independent Auditors' Opinions.....	86
9.4.	Financial Statements for the Past 5 Years.....	86
9.5.	Supervisors' Review Report .....	91
9.6.	Financial Statements and Independent Auditors' Report – Parent Company.....	92
9.7.	Financial Statements and Independent Auditors' Report – MediaTek & Subsidiaries.....	141

# 1. Letter to Shareholders

Dear Shareholders:

2011 remained a year of intense competition and challenges for the IC design industry and also MediaTek. Consumers were uncertain and cautious about the global economy, which limited the growth momentum in the end consumer markets. In order to stimulate demand, consumer electronics manufacturers aggressively launched new products with more added values, leading to even more fierce competition in terms of product specifications and prices. Faced such rapid industry changes and intensifying market competition, MediaTek employees endeavor to excel in their work, achieving a net consolidated revenue of NT\$86.9 billion and an earnings per share of NT\$12.35 for the fiscal year of 2011.

MediaTek has long devoted itself to provide a wide range of high cost-performance products which were well received by customers and were able to sustain leading market shares. Aiming at the fast-increasing demand for smartphones in both China and emerging countries, MediaTek is forging ahead with the development of new product lines by extending mobile communications technology offerings from 3G to 4G smartphones. In 2011, we achieved a breakthrough success in smartphone sales and expect to see a huge business potential by triggering another wave of smartphones replacing feature phones. In addition, MediaTek has made considerable progress on the telecommunications carrier front. Our 3G modems have been tested and certified by European and North American operators, demonstrating superior quality and stability. We will embrace the same philosophy we have always adopted to continue to provide high quality and competitive products as well as offer outstanding technical services to help our customers seize the initiative in the fiercely competitive marketplace, which we anticipate to provide the impetus for **MediaTek's next wave of growth.**

On the product development front, over the past year MediaTek continued to launch high cost-performance smartphone solutions, multimedia single chips for handsets, EDGE chips for handsets, four-in-one single chips that integrate **Wi-Fi/Bluetooth/GPS/FM, the world's first single-chip solution that supports 120Hz polarized/shutter type 3D technology, and the world's smallest 802.11n Wi-Fi single chips**, all of which were widely adopted by our customers. Furthermore, the acquisition of Ralink Technology Corp., announced in March 2011, has further strengthened MediaTek's network communications products, such as wireless networking, Ethernet, xDSL and a full range of communications chip solutions. We expect **a multiplicative effect in MediaTek's product offerings with expansion into the wired/wireless home or enterprise network terminal product market** and expect to expand our global operations and further enhance our worldwide leading position.

MediaTek has continued to dedicate resources to research on advanced technology, emphasize the importance of employee training, enhance capability of R&D team and develop management talent with both the technological knowledge and innovative **vision required for the company's next phase of development. MediaTek was named an outstanding enterprise in Council of Labor Affairs' annual**

**“Employee Assistance Programs.”** With respect to corporate social responsibility, MediaTek has also been actively providing sponsorships in technological, environmental and educational projects, and has been recognized by the U.K.’s Financial Times through its **Boldness in Business Award**. On the R&D front, **MediaTek’s achievements have continued to receive acclaim from** professional organizations both at home and abroad. One such honor was the 5th National Telecom Award 2011 – **“Best Technology for Mobile Phone”** presented by CMAI Association of India. **MediaTek also published five research papers on ISSCC in 2011, a record high for the country’s industrial community, thus becoming the first and only Taiwanese enterprise to have papers accepted for publication on ISSCC for nine consecutive years.**

Looking forward, the way consumers use electronic products has been re-shaped by the rise of new technologies and the widespread adoption of new applications. The concept of wireless communications and digital homes will become even more deeply ingrained in the minds of consumers and in their households and demand for entertainment, games, software, communications and information services is also expected to demonstrate explosive growth. In an industry so full of opportunities, we respond to each challenge by fully understanding the needs of our customers and aggressively creating new market potential. We will continue to strengthen our R&D and marketing capabilities, and through our teamwork **and solid execution ability, MediaTek is confident in pursuing the company’s next phase of growth and in** generating fruitful results for our shareholders, customers and employees alike. Once again we thank our shareholders for the generous and continued support.

Chairman: Ming-Kai Tsai

President: Ching-Jiang Hsieh

Chief Financial Officer: David Ku

## 2. Company Profile

### 2.1. MediaTek Company Profile

MediaTek Inc. was founded on May 28, 1997 and has been listed on Taiwan Stock Exchange (TSE) since July 2001. The company is headquartered in Taiwan with sales and research subsidiaries in Mainland China, Singapore, India, US, Japan, Korea, Denmark, England, Sweden and Dubai, etc. MediaTek Inc. is a leading fabless semiconductor company for wireless communications and digital multimedia solutions. The company is a market leader and pioneer in cutting-edge SOC system solutions for wireless communications, high-definition TV, optical storage, and DVD and Blu-ray products.

MediaTek ranks among top 10 IC design companies in the world. The company has leading positions in both technology and market share. While the company continues its revenue and market share expansion, it also strives to innovate and improve its product value for solid and sustainable profitability.

### 2.2. Milestones

Year	Milestones
2011	<ul style="list-style-type: none"> <li>■ Published five research papers in the ISSCC – “An Injection-Locked Ring PLL with Self-Aligned Injection Window”, “A 70Mb/s -100.5dBm Sensitivity 65nm IP MIMO Chipset for WiMAX Portable Router (Industrial Demo)”, “A Saw-Less GSM/GPRS/EDGE Receiver Embedded in a 65nm CMOS SOC (Industrial Demo)”, “A Receiver for WCDMA/EDGE Mobile Phones with Inductorless Front-End in 65nm CMOS”, and “A GPS/Galileo SOC with Adaptive in-Band Blocker Cancellation in 65nm CMOS”.</li> <li>■ Awarded “2011 The Best Telecommunication Technology” by CMAI Association of India)</li> <li>■ Awarded “The Boldness in Business” by UK Financial Times</li> <li>■ Awarded Top 10 Most Admired <b>Companies in Taiwan” by Commonwealth Magazine</b> for nine continuous years</li> <li>■ Awarded “2011 The Most Innovative Product” by Science Park ((MT5395 highly-integrated 3D TV/Internet TV SoC)</li> </ul>
2010	<ul style="list-style-type: none"> <li>■ Published research papers in the ISSCC – “23.6 A 1V 17.9dBm 60GHz Power Amplifier in Standard 65nm CMOS”, and “11.3 A SiGe BiCMOS 16-Element Phased-Array Transmitter for 60GHz Communications”.</li> <li>■ MediaTek’s “WiMAX 802.16e device chipset project” awarded “Outstanding Contribution Award” by Ministry of Economic Affairs.</li> <li>■ Awarded “<b>Top 50 Corporate Citizens” by Commonwealth Magazine</b> for four continuous years.</li> <li>■ Awarded “Top 10 Most Admired Companies in Taiwan” by Commonwealth Magazine for eight continuous years.</li> <li>■ Ranked Top 10 of “<b>2010 Asia’s 200 most-admired companies”</b> by The Wall Street Journal</li> <li>■ Awarded no. 12 of “Global Top 100 High-Tech Companies” by Bloomberg Business Week</li> <li>■ Awarded “2010 Corporate Social Responsibility Top 65” by Global Views Monthly</li> <li>■ Awarded “Best Annual Report in Taiwan” and “Best One-on-One Meetings in Taiwan” by IR Magazine</li> </ul>

Year	Milestones
2009	<ul style="list-style-type: none"> <li>■ Awarded "Innovative Product Award" for the company's High Sensitivity GPS SoC by Science-based Industrial Park Administration (SIPA)</li> <li>■ Published four research papers in the ISSCC – "A Multi-Format Blu-ray Player SoC in 90nm CMOS", "A 1.2V 2MHz BW 0.084mm<sup>2</sup> CT <math>\Delta\Sigma</math> ADC with -97.7dBc THD and 80dB DR Using Low-Latency DEM", "A 250Mb/s-to-3.4Gb/s HDMI Receiver with Adaptive Loop Updating Frequencies and an Adaptive Equalizer", and "A 110nm RFCMOS GPS SoC with 34mW -165dBm Tracking Sensitivity".</li> <li>■ Awarded "Asia Pacific Leadership Council Award" by Global Semiconductor Alliance (GSA).</li> <li>■ Awarded "Best Investor Relations by a CEO Award" and "Best Investor Relations for a Corporate Transaction" by IR Magazine</li> <li>■ Awarded "Best Corporate Governance in Taiwan and in Asia" by Asiamoney Magazine</li> <li>■ Awarded the third annual "Top 50 Corporate Citizens" by CommonWealth Magazine</li> </ul>
2008	<ul style="list-style-type: none"> <li>■ Awarded "Innovative Product Award" for the company's Full-HD ATSC DTV SoC, by Science-based Industrial Park Administration (SIPA).</li> <li>■ Launched Blu-ray DVD player chipset, GSM/GPRS/EDGE handset baseband chip, and next-generation ATSC and DVB-T digital TV single-chip.</li> <li>■ Published 2 research papers in the ISSCC – "A 1V 11b 200MS/s Pipelined ADC with Digital Background Calibration in 65nm CMOS," and "A Fractional Spur Free All-Digital PLL with Loop Gain Calibration and Phase Noise Cancellation for GSM/GPRS/EDGE"</li> <li>■ Awarded "Best Financially Managed Company" by Global Semiconductor Alliance (GSA).</li> <li>■ Awarded "Corporate Social Responsibility Award" by Global View Magazine.</li> <li>■ Awarded the second annual "Top 50 Corporate Citizens" by CommonWealth Magazine.</li> </ul>
2007	<ul style="list-style-type: none"> <li>■ Awarded "Distinguished Innovation Accomplishment" at the 15<sup>th</sup> ITA Award by the Ministry of Economic Affairs.</li> <li>■ Launched high-performance GPS signal receiver single-chip, first generation Bluetooth chip, and next-generation 120Hz video processing chip.</li> <li>■ Published research paper in the ISSCC – "RTL-based Clock recovery architecture with all-digital duty-cycle correction".</li> <li>■ Published research paper in the IEEE IRPS (International Reliability Physics Symposium) "A New Device Reliability Evaluation Method for Overdrive Voltage Circuit Application."</li> <li>■ Awarded "Best Financially Managed Company" by Global Semiconductor Alliance (GSA).</li> <li>■ Awarded "The Asian Top 50" by Forbes Asia.</li> <li>■ Awarded "Corporate Social Responsibility Award" by Global View Magazine.</li> <li>■ Awarded the 12th annual "Most Admired Company in Taiwan" by CommonWealth Magazine.</li> <li>■ Awarded "Top 50 Corporate Citizens" by CommonWealth Magazine.</li> </ul>
2006	<ul style="list-style-type: none"> <li>■ Awarded "Innovative Product Award" for the company's Blu-ray DVD player chipset, by SIPA.</li> <li>■ Launched GSM/GPRS/EDGE high-resolution camcorder chipset for mobile phones.</li> <li>■ Published research paper in the ISSCC – "Fully Integrated CMOS SoC for 56/18/16 CD/DVD-dual/RAM Applications".</li> <li>■ Awarded "Best Financially Managed Company" by Fabless Semiconductor Association (FSA, now renamed as GSA).</li> <li>■ Awarded "The Asian Top 50" by Forbes Asia.</li> </ul>
2005	<ul style="list-style-type: none"> <li>■ Awarded "Innovative Product Award" for the company's multimedia GSM/GPRS mobile phone chipset, by SIPA.</li> <li>■ Launched ATSC and DVB-T high-resolution LCD TV chipset.</li> <li>■ Published research papers in the ISSCC – "Multi-Format Read/Write SoC for 7x Blu-ray/16x DVD/56x CD" and "DLL-Based Clock Recovery in a PRML Channel."</li> <li>■ Awarded "The Asian Top 50" by Forbes Asia.</li> <li>■ Awarded the 10th annual "Most Admired Company in Taiwan" by CommonWealth Magazine.</li> </ul>
2004	<ul style="list-style-type: none"> <li>■ Awarded "Innovative Product Award" for the company's DVD-Recorder Backend single-chip, by SIPA.</li> <li>■ Launched GSM/GPRS baseband handset chips.</li> </ul>

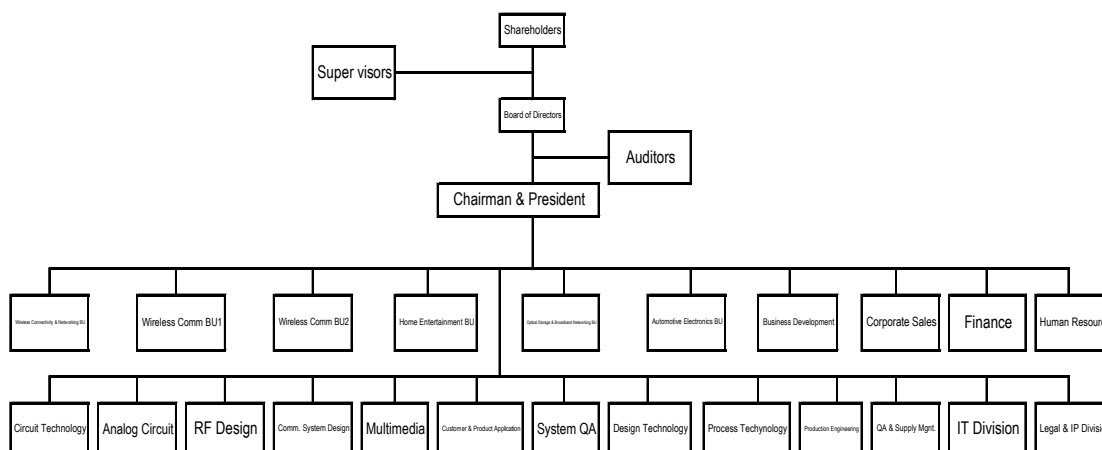


Year	Milestones
	<ul style="list-style-type: none"> <li>■ Ranked no.3 in the high-tech industry in Taiwan as part of Euromoney's "Best Corporate Governance" survey in 2004.</li> <li>■ Awarded the 9th annual "Most Admired Company in Taiwan" by Commonwealth Magazine.</li> </ul>
2003	<ul style="list-style-type: none"> <li>■ Awarded "Innovative Product Award" for the company's 8x DVD-read/write (DVD-R/W) optical storage chipset, by SIPA.</li> <li>■ Awarded "National Quality Award" by the Executive Yuan of Taiwan R.O.C.</li> <li>■ Launched DVD-Dual chipset.</li> <li>■ Awarded Top High-Tech Company in Taiwan by "Business Next Magazine."</li> </ul>
2002	<ul style="list-style-type: none"> <li>■ Awarded "Innovative Product Award" for the company's high-speed COMBI optical storage chipset by SIPA.</li> <li>■ Launched 48x CD-R/W chipset.</li> <li>■ Launched CD/DVD COMBI chipset.</li> </ul>
2001	<ul style="list-style-type: none"> <li>■ Awarded "Innovative Product Award" for the company's high-integration DVD-Player chipset by SIPA.</li> <li>■ Awarded the 9<sup>th</sup> annual MOEA Award for Industrial Technology Advancement.</li> <li>■ Listed on the Taiwan Stock Exchange (TSE) under ticker of "2454".</li> </ul>
2000	<ul style="list-style-type: none"> <li>■ Awarded "Innovative Product Award" for the company's high-speed CD-R/RW chipset by SIPA.</li> <li>■ Launched 12x DVD-ROM chipset.</li> </ul>
1999	<ul style="list-style-type: none"> <li>■ Awarded "Innovative Product Award" for the company's 12x DVD-ROM chipset by SIPA.</li> <li>■ Launched 12-x DVD-ROM chipset.</li> </ul>
1998	<ul style="list-style-type: none"> <li>■ Awarded "Innovative Product Award" for the company's CD-ROM digital data/servo processor by SIPA.</li> <li>■ Launched the highest performance 48x CD-ROM chipset in the world.</li> </ul>
1997	<ul style="list-style-type: none"> <li>■ Founded on May 28<sup>th</sup>.</li> </ul>

# 3. Corporate Governance

## 3.1. Organization

### 3.1.1. Organization Chart



As of March 31, 2012.

### 3.1.2. Functions of Key Divisions

Division	Functions
<b>Wireless Connectivity &amp; Networking BU</b>	Research, design and promotion of wireless local area network (LAN) and personal area network (PAN) chips
<b>Wireless Communication BU 1&amp;2</b>	Research, design and promotion of mobile communication chips
<b>Home Entertainment BU</b>	Research, design and promotion of digital consumer and digital TV chips
<b>Optical Storage &amp; Broadband Networking BU</b>	Research, design and promotion of optical storage and broadband networking chips
<b>Automotive Electronics BU</b>	Research, design and promotion of automotive electronics chips.
<b>Business Development</b>	Leverage products from all BUs; enhance relationship with customers and partners to develop market opportunities
<b>Corporate Sales Division</b>	Product sales, market development, customer relations, sales operations and management, etc.
<b>Finance</b>	Finance and accounting, tax, treasury and asset management, strategic investment, and investor relations
<b>Human Resources</b>	Human resource management and organization development, general affairs, plant administration, and labor safety
<b>Circuit Technology Engineering Division</b>	Research and development of cell libraries, packaging design, computer aided design (CAD), printed circuit board (PCB), circuit layout, etc.
<b>Analog Circuit Design Division</b>	Research and design of audio/video analog front end (AFE) and amplifier, assorted wire-line transmission interfaces, optical disc drive servo and read-write controllers, and power management circuits
<b>RF Design Division</b>	Research and design of radio frequency technologies for wireless communication
<b>Communication System Design Division</b>	Research and development of communication system architecture and design
<b>Multimedia Development Division</b>	Research and development of multimedia technologies for video and imaging applications

Division	Functions
<b>Customer &amp; Product Applications Division</b>	Wireless and mobile communications product and customer applications services
<b>System Quality Assurance Division</b>	Home entertainment BU and optical storage & broadband networking BU related products' system and software quality management
<b>Design Technology Engineering Division</b>	Design services and technical platform development
<b>Manufacturing Technology Development Division</b>	Advanced process research and development, high-end product pilot run production and device technology development
<b>Manufacturing Engineering Division</b>	Pilot run of newly developed products and technology development
<b>Quality Assurance and Supply Management Division</b>	Product quality and reliability management, customer satisfaction management, production planning and procurement
<b>Information Technology Division</b>	Information system architecture, e-commerce strategy, information system development and operation
<b>Legal &amp; Intellectual Property Division</b>	Corporate legal affairs, contracts, patents, and the management of other intellectual property rights
<b>Auditors</b>	Internal audit and operation procedure management

## 3.2. Directors and Supervisors

### 3.2.1. Information Regarding Board Members & Supervisors

As of March 31, 2012. Unit: Shares

Title/Name	Date Elected	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Selected Education & Past Positions	Current Positions at MediaTek and Other Companies
				Shares	%	Shares	%	Shares	%		
<b>Chairman Ming-Kai Tsai</b>	June 10, 2009	3	May 21, 1997	40,547,187	3.78%	40,873,162	3.56%	48,422,145	4.22%	- Master, Electrical Engineering, University of Cincinnati, USA - President of the 2 <sup>nd</sup> Business Group, UMC	- CEO, MediaTek, Inc. - Chairman of Andes Technology, and JMicro Technology - Director of Alpha Imaging Technology, Mobitek Communication Corp.
<b>Vice Chairman Jyh-Jer Cho</b>	June 10, 2009	3	May 21, 1997	30,117,007	2.80%	30,281,447	2.64%	10,784,414	0.94%	- Master, Electrical Engineering, National Chiao Tung University - Manager, Multimedia R&D Team, UMC	- None.
<b>Director Ching-Jiang Hsieh</b>	June 10, 2009	3	June 13, 2005	4,364,101	0.41%	4,203,271	0.37%	2,082,927	0.18%	- Master, Electrical Engineering, National Taiwan University - Engineer, Multimedia R&D Team, UMC	- President, MediaTek, Inc. - Director/Chairman of MediaTek's Affiliates
<b>Director National Taiwan University Representative: Ming-Je Tang</b>	June 10, 2009	3	June 3, 2002	2,863	0.00%	2,873	0.00%	0	0.00%	- Ph.D., Business Management, MIT, USA	- Vice President, National Taiwan University - Director, Trend Technology and Education Foundation
<b>Director National Chiao Tung University Representative: Ching-Teng Lin</b>	June 10, 2009	3	June 3, 2002	2,863	0.00%	2,873	0.00%	0	0.00%	- Ph.D., (E.E.), Purdue University, USA	- Dean, Academic Affairs of NCTU - Director, The Spring Foundation of NCTU
<b>Supervisor MediaTek Capital Co. Representative: Paul Wang</b>	June 10, 2009	3	June 21, 2006	7,763,004	0.72%	7,794,085	0.68%	0	0.00%	- Ph.D., Physics, Carnegie-Mellon, USA - Senior Consultant of IBM, USA	- Chairman of Pacific Venture Group and SerComm Corp. - Director, Prosperity Dielectrics Co., Ltd. (PDC), Mitac Inc., Taiwan Cement and MITAC Information Technology Corp. - Independent Director of Taiwan Prosperity Chemical Corp. - Supervisor of Les Enfants, and TECO Electric
<b>Supervisor National Tsing Hua University Representative: Chung-Lang Liu</b>	June 10, 2009	3	May 16, 2003	2,044	0.00%	2,052	0.00%	0	0.00%	- Ph.D., (E.E.), MIT, USA - President, National Tsing Hua University	- Chairman, Dramexchange Technology Inc. - Director of CMSC Inc., Macronix Intl. Co. Ltd - Independent Director of Anpec Electronics Corp., UMC, and PSC - Supervisor, Andes Technology Corp.
<b>Supervisor National Cheng-Kung University Representative: Yan-Kuin Su</b>	June 10, 2009	3	June 21, 2006	204	0.00%	204	0.00%	0	0.00%	- Ph.D., (E.E.), National Cheng Kung University - Dean of Academic Affairs, National Cheng Kung University	- President, Kun Shan University

**Remarks:** No member of the Board of Directors and Supervisors held MediaTek shares by nominee arrangement. No member of the Board of Directors had a spouse or relative within two degrees of consanguinity serving as a manager or director at MediaTek.

### 3.2.2. Major Shareholders of Important Institutional Shareholders

MediaTek Capital Co. is one of MediaTek’s supervisors and also institutional shareholder. MediaTek Capital Co. is 100% owned by MediaTek Investment Co., which is 100% owned by MediaTek Inc.

### 3.2.3. Directors and Supervisors’ Professional Qualifications and Independent Analysis

Name/ Criteria	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	Criteria (Note)										Number of other public companies concurrently serving as an independent director	
				1	2	3	4	5	6	7	8	9	10		
<b>Chairman Ming-Kai Tsai</b>			✓				✓	✓	✓	✓	✓	✓	✓	✓	0
<b>Vice Chairman Jyh-Jer Cho</b>			✓				✓	✓	✓	✓	✓	✓	✓	✓	0
<b>Director Ching-Jiang Hsieh</b>			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	0
<b>Director Ming-Je Tang</b>	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
<b>Director Ching-Teng Lin</b>	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
<b>Supervisor Paul Wang</b>			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	1
<b>Supervisor Chung-Lang Liu</b>	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	3
<b>Supervisor Yan-Kuin Su</b>	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0

**Note:** Directors or Supervisors with a “✓” sign meet the following criteria:

1. Not an employee of the company or any of its affiliates;
2. Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, or any subsidiary in which the company holds, directly or indirectly, more than 50% of the voting shares;
3. Not a natural-person shareholder who holds shares, together with those held by the person’s spouse, minor children, or held by the person under others’ names, in an aggregate amount of 1% or more of the total number of outstanding shares of the company or ranking in the top 10 in holdings;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the company or that holds shares ranking in the top five in holdings;
6. Not a director, supervisor, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial or business relationship with the company;
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultations to the company or to any affiliate of the company, or a spouse thereof;
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company;
9. Not been a person of any conditions defined in Article 30 of the Company Law; and
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.



### 3.2.4.2. Remunerations Paid to Supervisors

Unit: NT\$ thousands

Title/Name	Remunerations Paid to Supervisors						(A+B+C) as % of 2011 Net Income		Other compensations from non-subsidiary affiliates
	Salary (A)		Profit Sharing (B)		Business Expense (C)		Mediatek	Consolidated Entities	
	Mediatek	Consolidated Entities	Mediatek	Consolidated Entities	Mediatek	Consolidated Entities			
<b>Supervisor MediaTek Capital Co. Rep: Paul Wang</b>									None.
<b>Supervisor National Tsing Hua University Rep: Chung-Lang Liu</b>			10,686	10,686	105	105	0.08	0.08	
<b>Director National Cheng Kung University Rep: Yan-Kuin Su</b>									

**Note:**

- The policies, standards, combinations, procedures and performance of remunerations paid to directors: The compensations are determined in accordance with the procedures set forth in MediaTek's Articles of Incorporation which authorized Board of Directors to resolve the compensation based on the industry level. The Articles of Incorporation also provides that MediaTek shall allocate the compensations to its directors and supervisors at 0.5% maximum of the earnings available after deducting the amount of legal reserve.
- The Board of Directors resolved on March 21, 2012 meeting that NT\$10,686 thousands to be allocated as remunerations to Supervisors. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting on June 13, 2012. The updated information shall be posted on the Company's website.
- The Company's Remunerations paid to supervisors totaled NT\$18,182 thousands, which was 0.06% of 2010 net profit.

	Compensation Paid to Supervisors (A+B+C)	
	MediaTek	Consolidated Entities of MediaTek
<b>Less than NT\$2 million</b>	-	-
<b>NT\$2 million ~ \$5 million</b>	MediaTek Capital Co., National Tsing Hua University, National Cheng Kung University	
<b>NT\$5 million ~ \$10 million</b>	-	-
<b>NT\$10 million ~ \$15 million</b>	-	-
<b>NT\$15 million ~ \$30 million</b>	-	-
<b>NT\$30 million ~ \$50 million</b>	-	-
<b>NT\$50 million ~ \$100 million</b>	-	-
<b>Above NT\$100 million</b>	-	-
<b>Total</b>	3	

## 3.3. Management Team

### 3.3.1. Profiles of Key Managers

As of March 31, 2012. Unit: Shares

Title/Name	Date on Board	Current Shareholding		Spouse & Minor Shareholding		Shareholding under the title of a 3 <sup>rd</sup> party		Selected Education & Past Positions	Current Positions at Other Companies
		Shares	%	Shares	%	Shares	%		
<b>Chairman &amp; CEO Ming-Kai Tsai</b>	May 21, 1997	40,873,162	3.56%	48,422,145	4.22%	-	-	- Master, Electronic Engineering, University of Cincinnati, USA - President of the 2 <sup>nd</sup> Business Group, UMC	- Chairman of Andes Technology, and JMicro Technology - Director of Alpha Imaging Technology and Mobitek Communication Corp.
<b>Vice Chairman Jyh-Jer Cho</b>	Sep. 15, 2005	30,281,447	2.64%	10,784,414	0.94%	-	-	- Master, Electronic Engineering, National Chiao Tung University - Manager, Multimedia R&D Team, UMC	(None)
<b>President Ching-Jiang Hsieh</b>	Sep. 15, 2005	4,203,271	0.37%	2,082,927	0.18%	-	-	- Master, Electrical Engineering, National Taiwan University - Engineer, Multimedia R&D Team, UMC	- Chairman/Director of MediaTek's affiliates
<b>Vice President Ping-Hsing Lu</b>	Jan. 1, 2006	312,499	0.03%	250,177	0.02%	-	-	- Ph.D., Electronics, National Chiao Tung University - President, ALI Corp. - Chairman, Alpha Imaging Technology Corp. - Chairman, Alpha Imaging Technology	- Director of MediaTek's affiliates
<b>Vice President Chwei-Huang Chang</b>	July 1, 2006	721,285	0.06%	674,318	0.06%	-	-	- Master, Electronic Engineering, Polytechnic University, USA - Engineer, Multimedia R&D Team, UMC	(None)
<b>Vice President Kou-Hung Loh</b>	July 1, 2006	-	-	-	-	-	-	- Ph.D., Electrical Engineering, Texas A&M University - CEO and founder of Silicon Bridge	- Director of MediaTek's affiliates
<b>Vice President Cheng-Te Chuang</b>	April 7, 2009	1,162,307	0.10%	719,077	0.06%	-	-	- Master, Electronic Engineering, National Chiao Tung University - Engineer, UMC	- Director of MediaTek's affiliates
<b>Vice President &amp; CTO Kevin Jou(Note 1)</b>	May 30, 2011	-	-	-	-	-	-	- Ph.D, Electronic Engineering, University of South California - Vice President, Qualcomm Inc.	(None)
<b>Vice President &amp; General Counsel WF Hsu</b>	May 12, 2010	20,045	0.00%	5,817	0.00%	-	-	- Ph.D., Law School, University of Washington - Lawyer, Johns Day	- Director of Asia Pacific Intellectual Property Association
<b>Vice President &amp; Chief Strategy Officer Oliver Chow</b>	July 19, 2010	8,750	0.00%	-	-	-	-	- MBA, MIT, USA - Corporate Development Director of Telus Corp.	(None)
<b>CFO &amp; Spokesman David Ku</b>	Jan. 1, 2011	7,317	0.00%	-	-	-	-	- MBA, University of Illinois at Urbana Champaign - Vice President of JPMorgan Investment bank	- Director of MediaTek's affiliates and Alpha Imaging Technology Corp.

**Note:**

1. Dr. Kevin Jou was appointed to the Company's Vice President and CTO on May 30, 2011.
2. None of the managers who are spouses or within second-degree relative of consanguinity to each other.



### 3.3.2. Remunerations and Employee Bonus Paid to Key Managers (Note 1)

Unit: Share / NT\$ thousands

Name / Title	Salary (A)		Pension (B) (Note 4)		Bonus (C)		Employee Profit Sharing (D)				(A+B+C+D) as % of Net Income (Note 6)		Employee Stock Options	
	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek (Note 5)		Consolidated Entities		MediaTek	Consolidated Entities	MediaTek	Consolidated Entities
							Cash	Stock	Cash	Stock				
<b>Chairman &amp; CEO</b> <b>Ming-Kai Tsai</b>														
<b>Vice Chairman</b> <b>Jyh-Jer Cho</b>														
<b>President</b> <b>Ching-Jiang Hsieh</b>														
<b>Vice President</b> <b>Ping-Hsing Lu</b>														
<b>Vice President</b> <b>Chwei-Huang Chang</b>														
<b>Vice President</b> <b>Kou-Hung Loh</b>														
<b>Vice President</b> <b>Christian Kermarrec (Note 2)</b>	48,117	56,721	927	1,252	16,708	70,748	91,800	-	91,800	-	1.16	1.62	-	-
<b>Vice President</b> <b>Cheng-Te Chuang</b>														
<b>Vice President &amp; CTO</b> <b>Kevin Jou (Note 3)</b>														
<b>Vice President &amp; General Counsel</b> <b>WF Hsu</b>														
<b>Vice President &amp; Chief Strategy Officer</b> <b>Oliver Chow</b>														
<b>CFO &amp; Spokesman</b> <b>David Ku</b>														

Note:

- The policies, standards, combinations, procedures and performance of remunerations paid to managers: The compensations are determined in accordance with managers' position, responsibility, contribution, performance and uncertainties and risks of the Company.
- Mr. Christian Kermarrec resigned from the position of the Company's Vice President on Apr. 29, 2011, so the remunerations and employee bonus paid to him in 2011 was from Jan. 1 to Apr. 29, 2011.
- Mr. Kevin Jou was appointed to the Company's Vice President & CTO on May 30, 2011. To increase the relevance of the information, 2011 full year remunerations and employee bonus paid to him were disclosed in the above figure.
- The company did not have pension payment in 2011. The provision for pension expense in 2010 at MediaTek and the consolidated entities were NT\$927 thousands and NT\$1,252 thousands respectively.
- The Board of Directors resolved on March 21, 2012 meeting that NT\$1,714,243 thousands to be allocated as bonus to employees. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting on June 13, 2012. The updated information shall be posted on the Company's website. As of the printing date of this annual report, the distribution plan of employee profit sharing hasn't been finalized: the abovementioned numbers are based on estimation.
- The company's remunerations and bonus paid to key managers in 2010 was NT\$291,494 thousands which was 0.94% of 2010 net income.
- None of these abovementioned key managers receive other compensation from non-subsidiary affiliates.

	Compensation Paid to Key Managers	
	MediaTek	Consolidated Entities of MediaTek
Less than NT\$2 million	-	-
NT\$2 million ~ \$5 million	-	-
NT\$5 million ~ \$10 million	-	-
NT\$10 million ~ \$15 million	Jyh-Jer Cho, Ping-Hsing Lu, Chwei-Huang Chang, WF Hsu, David Ku	
NT\$15 million ~ \$30 million	Ming-Kai Tsai, Ching-Jiang Hsieh, Cheng-Te Chuang, Oliver Chow, Kevin Jou	
NT\$30 million ~ \$50 million	Kuo-Hung Loh,	
NT\$50 million ~ \$100 million	-	-
Above NT\$100 million	-	-
<b>Total</b>	11	

Note: Key managers as of March 31, 2012.

Unit: Share / NT\$ thousands

Title/Name	Cash Bonus	Stock Bonus	Total Bonus	% of 2010 Net Income
Chairman & CEO Ming-Kai Tsai				
Vice Chairman Jyh-Jer Cho				
President Ching-Jiang Hsieh				
Vice President Ping-Hsing Lu				
Vice President Chwei-Huang Chang				
Vice President Kuo-Hung Loh	91,800	-	91,800	0.67
Vice President Cheng-Te Chuang				
Vice President & CTO Kevin Jou				
Vice President & General Counsel WF Hsu				
Vice President & CSO Oliver Chow				
CFO & Spokesman David Ku				

## 3.4. Corporate Governance Report

### 3.4.1. Board of Directors' Meeting Status

The Board of the Company has held 8 sessions in 2011. The attendance of the Directors is shown in the following table:

Title/Name	Attend in Person	By Proxy	Attendance Rate in Person (%)
<b>Chairman Ming-Kai Tsai</b>	8	0	100%
<b>Vice Chairman Jyh-Jer Cho</b>	8	0	100%
<b>Director Ching-Jiang Hsieh</b>	5	3	62.5%
<b>Director National Taiwan University Representative: Ming-Je Tang</b>	6	2	75%
<b>Director National Chiao-Tung University Representative: Ching-Teng Lin</b>	6	1	75%

Other important notes: None.

### 3.4.2. Supervisors' Meeting Status

The Board of the Company has held 8 sessions in 2011. The attendance of the Directors is shown in the following table:

Title/Name	Attend in Person	Attendance Rate in Person (%)
<b>Supervisor MediaTek Capital Co. Representative: Paul Wang</b>	8	100%
<b>Supervisor National Tsing-Hua University Representative: Chung-Lang Liu</b>	7	87.5%
<b>Supervisor National Cheng-Kung University Representative: Yan-Kuin Su</b>	4	50%

#### Other important notes:

- Supervisors and responsibilities:
  - Communication between Supervisors and employees, shareholders:  
The Company reports to the Supervisors on a regular basis. Since the Supervisors' information are public, employees, shareholders, and interested parties are able to contact them freely.
  - Communication between Supervisors and auditors and accountants:  
**The Company's internal** audit managers and the Finance Division report to the Supervisors on issues relating to finance and business operations. The Supervisors audit the Company's financial reports regularly and keep communication channels with the auditors open.
- If any Supervisor made a statement of opinion during the Board of Directors meeting, the following items shall be recorded: date of Board of Directors' meeting, proposal, board resolution, and how the company's response to the statement.  
None.

### 3.4.3. Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission

Item	Implementation Status	Reason for Non-Implementation
<b>1. Shareholding Structure &amp; Shareholders' Rights</b> <b>(1). Method of handling shareholder suggestions or complaints</b>  <b>(2). The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders</b>  <b>(3). Risk management mechanism and "firewall" between the Company and its affiliates</b>	<p>The Company has designated relevant departments, such as Investor Relations, Public Relations, Legal, etc. to handle shareholder suggestions or disputes.</p> <p>The Company tracks the shareholdings of directors, supervisors, officers, and shareholders holding more than 10% of the outstanding MediaTek shares.</p> <p>When designing the structure of its subsidiaries, the Company has implemented a firewall mechanism. The Company and its subsidiaries have established appropriate internal control systems.</p>	None.
<b>2. Organization &amp; Responsibilities of the Board:</b> <b>(1). Independent Directors</b>  <b>(2). Regular evaluation of external auditors' independence</b>	<p>The Company currently has two external Directors (NTU &amp; NCTU)</p> <p>The employment or replacement of independent auditors is required by the approval of the Board, who will regularly conduct evaluations of auditor independence. To enhance the independence of auditors, the Company replaces those who have audited the Company's financial statements for seven years.</p>	The Company currently has external Directors, and expect to add two seats for independent directors at the Annual Shareholders Meeting on June 13, 2012.
<b>3. Communication Channels with Stakeholders</b>	The Company designates relevant departments to communicate with stakeholders on a case-by-case basis. The Company also lists contact information of the spokesman and relevant departments on the Company's website.	None.
<b>4. Information Disclosure:</b> <b>(1). Establishment of a corporate website to disclose information regarding the Company's financial, business, and corporate governance status</b>  <b>(2). Other information disclosure (e.g. maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investor conferences)</b>	<ol style="list-style-type: none"> <li>1. MediaTek discloses information through its website: <a href="http://www.mediatek.com">www.mediatek.com</a></li> <li>2. MediaTek has designated appropriate persons to handle information collection and disclosure. Contact person: Sophia Liang, TEL: +886-(0)3-567-0766 ext.26568</li> <li>3. MediaTek has established the spokesperson system. Spokesperson: David Ku; Deputy Spokesperson: Sophia Liang</li> <li>4. MediaTek webcasts live investor conferences through its website</li> <li>5. MediaTek discloses all information to shareholders and stakeholders through the Company's website and the MOPS website.</li> </ol>	None.
<b>5. Operations of the Company's Nomination Committee, Compensation Committee, or other committees of the Board of Directors</b>		
MediaTek established Compensation Committee on Aug 24, 2011.		
<b>6. If the Company Has Established Corporate Governance Policies based on TSE Corporate Governance Best Practice Principles, Please Describe Any Discrepancies between the Policies and Their Implementation.</b>		
MediaTek does not establish such corporate governance policies. For the status of MediaTek's corporate governance, please refer to the section titled "Corporate Governance" in this Annual Report.		
<b>7. Other important information to Facilitate Better Understanding of the Company's Corporate Governance Practices:</b>		
<ol style="list-style-type: none"> <li>(1). MediaTek discloses its financial and corporate governance information on the Chinese and English versions of its website (<a href="http://www.mediatek.com">www.mediatek.com</a>). The Company aims to provide free access to transparent information for employees, investors, suppliers and stakeholders.</li> <li>(2). MediaTek's Directors and Supervisors are experts in their professional specialties. The Company provides new regulation updates that require Director and Supervisor attention. Besides, the executive team of the Company also reports to the Board and the Supervisors periodically. Director and Supervisor training records can be found on the MOPS website.</li> <li>(3). The Company has already instituted internal control systems as required by the law and has properly implemented the system. The Company also conducts risk assessments on the banks, customers, and suppliers in order to reduce credit risks.</li> <li>(4). All Directors of the Company have avoided conflict of interest for related issues.</li> <li>(5). MediaTek maintains D&amp;O insurance for its Directors, Supervisors, and key officers.</li> </ol>		
<b>8. If the Company Has a Self Corporate Governance Evaluation or Has Authorized Any Other Professional Organization to Conduct Such an Evaluation, the Evaluation Results, Major Deficiencies or Suggestions, and Improvements are Stated as Follows:</b>		
None.		

### 3.4.4. Directors and Supervisors Profession Enhancement Status

MediaTek's directors and supervisors regularly attended corporate governance related lectures required by authorities.

### 3.4.5. Key Management Profession Enhancement Status

MediaTek's key management regularly attended corporate governance and financial transparency lectures required by authorities.

### 3.4.6. Operation of the Company's Remuneration Committee

1) Responsibilities of the Company's Remuneration Committee: the compensation committee aims at establishing and reviewing regularly the performance review mechanism for directors, supervisors and managers; setting up the policy, system, standard and structure of the compensation and regularly reviewing the compensation of directors, supervisors and managers.

2) Composition of the Company's remuneration committee: As of March 31, 2012, there are three members in the Company's remuneration committee. Please refer to the Company's website for remuneration committee's Charter.

3) Remuneration Committee Meeting Status

The Company's remuneration committee was established on August 24, 2011 and has held 1 session in 2011. The attendance of the Directors is shown in the following table:

Title	Name	Attend in Person	Attendance Rate in Person (%)
<b>Convener</b>	Chung-Yu, Wu	1	100%
<b>Member</b>	Wen-Tsuen, Chen	1	100%
<b>Member</b>	Ching-Jiang Hsieh	1	100%

### 3.4.7. Status of Fulfilling Corporate Social Responsibility

Item	Implementation Status	Reason for Non-implementation
<b>1. Implementation of Corporate Governance</b> <b>(1) Corporate social responsibility policy and performance evaluation</b>  <b>(2) Dedicated organization for the promotion and execution of corporate social responsibility</b> <b>(3) Regular training and promotion of corporate ethics among employees and the Board of Directors, and integration with the employee performance appraisal system</b>	<p>The company has not yet a written "corporate social responsibility policy" approved by the Board. However, the company has committed itself to social responsibility related events. Please refer to "Section 6, Social Responsibility" for more details.</p> <p>The company aggressively participated in social responsibility events.</p> <p>The company has a periodical performance review and evaluation system which is integrated with the employee performance appraisal system</p>	Will implement in the future, depending on the company's operation and scale
<b>2. Sustainable Environment Development</b> <b>(1) Commitment to improving resources utilization and the use of renewable materials</b> <b>(2) Environmental management system designed to industry characteristics.</b> <b>(3) Dedicated environmental management unit or personnel</b> <b>(4) Company strategy for climate change, energy conservation and greenhouse gas reduction</b>	Please see "Section 6, Social Responsibility" section in this report	None.
<b>3. Promotion of social welfare</b> <b>(1) Compliance with labor regulations, protection of employee rights, and appropriate management measures and procedures</b> <b>(2) Safety and health in working environment</b> <b>(3) Disclosure of consumer rights policy, and official channel for consumer complaints</b> <b>(4) Collaboration with suppliers</b> <b>(5) Participation in community development and charities through commercial activities, donations or volunteers</b>	Please see "Section 6, Social Responsibility" section in this report	None.
<b>4. Enhancement of Information Disclosure</b> <b>(1) Disclosure of corporate social responsibility related information with significance and reliability.</b>  <b>(2) Published corporate social responsibility report and disclosure of implementation of corporate social responsibility</b>	<p>The company disclosed social responsibility related information in the annual report, please refer to "Section 6, Social Responsibility" for more details.</p> <p>The company started studied the trend of social responsibility report and currently has no social responsibility report.</p>	Will implement in the future, depending on the company's operation and scale
<b>5. If the company has established its corporate social responsibility code of practice according to "Listed Companies Corporate Social Responsibility Code of Practice", please describe the operational status and differences</b> Please see "Section 6, Social Responsibility" section in this report		
<b>6. Other important information to facilitate better understanding of the Company's implementation of corporate social responsibility (e.g., environmental protection, community participation, social contribution, social services, social welfare, consumers' rights, human rights and safety and health):</b> Please refer to the company's web page at <a href="http://mediatek.com/tw/foundation/social_welfare.php">http://mediatek.com/tw/foundation/social_welfare.php</a>		
<b>7. I Other information regarding products or "Corporate Social Responsibility Report" which are verified by certification bodies:</b> None.		

### 3.4.8. Status of Fulfilling Operational Integrity

The company strictly follows the six core values: Courage & Discernment, Innovative thinking, Trust & Respect, Teamwork, Integrity and Continuous Learning and has set up various internal guidelines.

### 3.4.9. Corporate Governance Guidelines and Regulations

3.4.9.1 The company has the following corporate governance guidelines and regulations in place:

- (1) Rules and Procedures of Shareholders' Meeting
- (2) Rules and Procedures of Board of Directors' Meeting
- (3) Rules for Election of Directors and Supervisors
- (4) Procedures Governing the Acquisition or Disposition of Assets
- (5) Procedures of Endorsement and Guarantee
- (6) Procedures of Outward Loans to Others
- (7) Procedures of Internal Material Information
- (8) Remuneration Committee Charter

3.4.9.2. More detailed information on corporate governance guidelines and regulations:

Please refer to the Company's website at [www.mediatek.com](http://www.mediatek.com)

### **3.4.10. Other Important Corporate Governance Information**

The procedure of internal material information has been approved by the 19<sup>th</sup> Board of Directors' meetings on Dec. 29, 2011, and uploaded to the company website for director, supervisors, management and all employees to follow to avoid insider trading.

## 3.4.11. Status of the Internal Control System Implementation

### 3.4.11.1. Declaration of Internal Control

#### MediaTek Inc. Statement of Declaration of Internal Control

Date: March 21<sup>st</sup>, 2012

MediaTek Inc. has conducted internal audits in accordance with its Internal Control Regulations covering the period from January 1<sup>st</sup> to December 31<sup>st</sup>, 2011, and hereby declares the following:

1. The Company acknowledges and understands that the establishment, enforcement, and preservation of internal control systems are the responsibility of the Board and that the managers and the Company have already established such systems. The purpose is to reasonably ensure the efficiency of operations (including profitability, performance, and security of assets), the reliability of financial reporting, and legal compliance.
2. Internal control systems have limitations, no matter how perfectly they are designed. As such, effective internal control systems may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls systems. The internal control systems of the Company feature certain self-monitoring mechanisms. The company will take immediate corrective actions once any shortcomings are identified.
3. The Company judges the effectiveness of the internal control systems in design and enforcement according to the "Criteria for the Establishment of Internal Control Systems of Public Offering Companies" (hereinafter referred to as "the Criteria"). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control systems. There are five components for effective internal control as specified by the Criteria with which the procedures for effective internal controls are composed: (1) Control environment, (2) Risk evaluation, (3) Control operation, (4) Information and communication, and (5) Monitoring. Each of the elements in turn contains certain audit items, and the Criteria shall be referred to for details.
4. The Company has adopted the aforementioned internal control systems for an internal audit of the effectiveness of internal control design and enforcement.
5. Based on the aforementioned audit findings, the Company holds that within the aforementioned period, its internal control procedures (including the procedures to monitor subsidiaries), effectiveness and efficiency of operations, reliability of financial reporting, and compliance with relevant legal regulations, and design and enforcement of internal controls, are effective. The aforementioned goals can be achieved with reasonable assurance.
6. This statement of declaration shall form an integral part of the annual report and prospectus of the Company and shall be made public. If there is any fraud, concealment, or unlawful practices discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, 32, 171, and 174 of the Securities and Exchanges Act.
7. This statement of declaration has been approved by the Board on March 21<sup>st</sup>, 2012 with all Directors in session under unanimous consent.

MediaTek Inc.

Ming-Kai Tsai  
Chairman

Ching-Jiang Hsieh  
President



#### **3.4.11.2. Disclose the Review Report of Independent Auditors if They are Retained for Reviewing the Internal Control System**

None.

#### **3.4.12. Punishment on the Company and its Staff**

Punishment on the Company and its Staff in Violation of Law, or Punishment on its Employees in Violation of Internal Control System and Other Internal Regulations, Major Shortcomings and Status of Correction: None.

#### **3.4.13. Major Resolutions of Shareholders' Meeting and Board Meetings**

##### **3.4.13.1. Major Resolutions of Shareholders' Meeting and Implementation Status**

MediaTek's 2011 regular shareholder meeting was held in Hsinchu Taiwan on June 15<sup>th</sup>, 2011. At the meeting, shareholders present in person or by proxy approved the following resolutions:

- (1). The Company's 2010 Business Report and Financial Statements;
- (2). The distribution of 2010 profits;
- (3). The acquisition of Ralink Technology Corp.;
- (4). Amended the company's "Procedures of Outward Loans to Others" and "Procedures of Endorsement and Guarantee";
- (5). Amended the company's "Articles of Incorporation"
- (6). Amended the company's "Rules for Election of Directors and Supervisors"

All of the resolutions of the Shareholders' Meeting had been fully implemented in accordance with the resolutions.

##### **3.4.13.2. Major Resolutions of Board Meetings**

During the 2011 calendar year, and through the period of January 1<sup>st</sup> to the printing date of this annual report, 9 Board Meetings were convened. Major resolutions approved at these meetings are summarized below:

Approved the company's 2011 operating budget plan, convened 2011 annual general shareholders' meeting; approved 2010 operation report, financial statements, proposal of profit distribution, capitalization of 2010 dividend; approved the proposal to amend the company's "Rules for Election of Directors and Supervisors", approved the proposal to acquire Ralink Technology, approved the proposal of Proposal for issuance of new shares for acquisition; approved the share swap agreement for the Ralink acquisition; acquired office building in Beijing; approved issuance of employee options; approved endorsement for subsidiaries; approved bank loans applications; approved the proposal to amend policy on remuneration of directors and supervisors; approved share repurchase; approved

investment in Spice Digital Ltd. by Singapore subsidiary; approved 2011 first half financial statements; approved the establishment of remuneration committee; approved the 2012 audit plan; approved the policy of Directors and supervisors' performance evaluation and remuneration; approved the policy of key management's performance evaluation and remuneration; approved the procedures of internal material information; approved the **company's 2012** operating budget plan, convened 2012 annual general shareholders' meeting; approved 2011 operation report, financial statements, proposal of profit distribution, capitalization of 2011 dividend; approved a proposal to amend the company's Articles of Incorporation; re-election of directors and supervisors, etc.

### 3.4.14. Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors

None.

### 3.4.15. Resignation of Personnel Related to Financial Statement Preparation in 2011 to the Printing Date of this Report

None.

## 3.5. Information Regarding MediaTek's Independent Auditors

### 3.5.1. Information on Audit Fees

	Audit Fee	Non-Audit Fee	Total
Less than NT\$2 million		✓	
NT\$2 million ~ \$4 million			
NT\$4 million ~ \$6 million			
NT\$6 million ~ \$8 million	✓		
NT\$8 million ~ \$10 million			✓
Above NT\$10 million			

Other important disclosures:

(1). Non-audit fee paid to auditors, the audit firm and its affiliates accounted for more than one-fourth of total audit fee:

Ernst & Young, Mr. Shao-Pin Kuo and Mr. Hsin-Min Hsu for the period of 2011

Audit fee paid: NT\$7,254 thousands

Total non-audit fee paid: NT\$994 thousands

(2). Replaced the audit firm and the audit fee paid to the new audit firm was less than the payment of previous year: No.

(3). Audit fee reduced more than 15% year over year: No.

(4). Replacement of Independent Auditors in the Last Two Years and Thereafter: No.

(5). The Company's Chairman, President or managers in charge of finance or accounting has been under current audit firm or its affiliates' employment in 2011: No.

### 3.6. Net Changes in Shareholding

Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders with 10% Shareholding or More

Unit: Share

Title/Name	2011		Jan. 1 to Mar. 31, 2012	
	Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
<b>Chairman &amp; CEO</b> Ming-Kai Tsai	91,026	-	-	-
<b>Vice Chairman</b> Jyh-Jer Cho	23,776	-	-	-
<b>Director &amp; President</b> Ching-Jiang Hsieh	(52,349)	-	-	-
<b>Director</b> National Taiwan University	-	-	-	-
<b>Director</b> National Chiao Tung University	-	-	-	-
<b>Supervisor</b> MediaTek Capital Co.	-	-	-	-
<b>Supervisor</b> National Tsing Hua University	-	-	-	-
<b>Supervisor</b> National Cheng Kung University	-	-	-	-
<b>Vice President</b> Ping-Hsing Lu	(9,024)	-	(69,000)	-
<b>Vice President</b> Chwei-Huang Chang	(12,174)	-	-	-
<b>Vice President</b> Kou-Hung Loh	-	-	-	-
<b>Vice President</b> Christian Kermarrec (Note 1)	-	-	-	-
<b>Vice President</b> Cheng-Te Chuang	62,901	-	(39,000)	-
<b>Vice President &amp; General Counsel</b> WF Hsu	-	-	-	-
<b>Vice President &amp; CSO</b> Oliver Chow	6,250	-	-	-
<b>Vice President &amp; CTO</b> Kevin Jou (Note 2)	-	-	-	-
<b>CFO &amp; Spokesperson</b> David Ku	526	-	-	-

**Note:**

1. Mr. Christian Kermarrec resigned from the position of the company's vice president on Apr. 29, 2011; the information for 2011 were from Jan. 1 to Apr. 29, 2011.
2. Mr. Yu-Chun Cho is newly appointed to the position of Vice President and CTO on May 30, 2011. The information for 2011 were from May 30 to Dec. 31, 2011.

Stock Trade with Related Party: None.

Stock Pledge with Related Party: None.

### 3.7. Top 10 Shareholders Who are Related Parties to Each Other

As of July 16, 2011. Unit: Share/%

Top 10 Shareholders	Shareholding		Shareholding under Spouse and Minor		Shareholding under 3 <sup>rd</sup> Party		Top 10 Shareholders Who are Related Parties to Each Other	
	Shares	Proportion	Shares	Proportion	Shares	Proportion	Name	Relationship
<b>Chui-Hsing Lee</b>	48,674,145	4.43%	40,782,136	3.71%	-	-	Ming-Kai Tsai	Spouse
<b>Ming-Kai Tsai</b>	40,782,136	3.71%	48,674,145	4.43%	-	-	Chui-Hsing Lee	Spouse
<b>Capital World Growth and Income Fund Inc.</b>	40,600,426	3.69%	-	-	-	-	-	-
<b>Capital Income Builder, Inc.</b>	31,425,774	2.86%	-	-	-	-	-	-
<b>Jyh-Jer Cho</b>	30,257,671	2.75%	10,784,414	0.98%	-	-	-	-
<b>Growth Fund of America, Inc.</b>	22,709,996	2.06%	-	-	-	-	-	-
<b>Tin-Ren Liu</b>	21,011,763	1.91%	3,459,879	0.31%	-	-	-	-
<b>Lazard Emerging Markets Equity Portfolio</b>	20,276,421	1.84%	-	-	-	-	-	-
<b>EuroPacific Growth Fund</b>	15,402,625	1.40%	-	-	-	-	-	-
<b>Vanguard Emerging Markets Stock Index Fund</b>	15,159,975	1.38%	-	-	-	-	-	-

### 3.8. Long-Term Investment Ownership

As of December 31, 2011. Unit: Share/%

Long-Term Investments	Investments by MediaTek (1)		Investments Directly or Indirectly Controlled by Directors, Supervisors, and Managers of MediaTek (2)		Total Investment (1) + (2)	
	Shares	Portion	Shares	Portion	Shares	Portion
<b>MediaTek Investment Corp.</b>	4,073,539,273	100%	-	0%	4,073,539,273	100%
<b>Hsu-Ta Investment Ltd.</b>	Not Applicable	100%	Not Applicable	0%	Not Applicable	100%
<b>Hsu-Kang Investment Ltd.</b>	Not Applicable	100%	Not Applicable	0%	Not Applicable	100%
<b>Hsu-Chia Investment Ltd.</b>	Not Applicable	100%	Not Applicable	0%	Not Applicable	100%
<b>ALi Corp.</b>	64,098,383	21.09%	-	0%	64,098,383	21.09%
<b>Yuantonix, Inc.</b>	300,000	3.75%	-	0%	300,000	3.75%

## 4. Capital and Shares

### 4.1. Capital and Shares

#### 4.1.1. Capitalization

As of March 31, 2012. Unit: 1,000 shares/NT\$1,000

Month/ Year	Issue Price (per share)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Date of Approval & Approval Document No.
May 1997	10	20,000	200,000	20,000	200,000	Initial capital	Technology & Patent: \$30,000	May 28, 1997 Yuan-Shang-Tze No.10164
Sep. 1997	10	80,000	800,000	55,000	550,000	Stock offering: \$350,000	-	Sep. 26, 1997 Yuan-Shang-Tze No.19782
Aug. 1998	10	80,000	800,000	62,916	629,162	Retained Earnings: \$79,162	-	Aug. 5, 1998 Yuan-Shang-Tze No.19355
Aug. 1999	10	220,000	2,200,000	116,774	1,167,743	Retained Earnings: \$538,581	-	Aug. 21, 1999 Yuan-Shang-Tze No.018036
Sep. 2000	10	220,000	2,200,000	216,866	2,168,666	Retained Earnings: \$1,000,923	-	Sep. 15, 2000 Yuan-Shang-Tze No.020099
Sep. 2001	10	570,000	5,700,000	316,006	3,160,056	Retained Earnings: \$991,390	-	July 11, 2001 Tai-Tsai-Cheng-I No.144160
Sep. 2002	10	570,000	5,700,000	460,465	4,604,654	Retained Earnings: \$1,444,598	-	Aug. 1, 2002 Tai-Tsai-Cheng-I No.0910142914
Aug. 2003	10	896,000	8,960,000	641,547	6,415,473	Retained Earnings: \$1,810,819	-	June 20, 2003 Tai-Tsai-Cheng-I No.0920127376
Aug. 2004	10	896,000	8,960,000	772,773	7,727,729	Retained Earnings: \$1,312,256	-	July 8, 2004 Chi-I-Tze No.0930130229
Sep. 2004	10	896,000	8,960,000	769,336	7,693,359	Cancel Treasury Stock: (\$34,370)	-	Oct. 15, 2004 Yuan-Shang-Tze No.0930029178
Aug. 2005	10	896,000	8,960,000	864,051	8,640,506	Retained Earnings: \$947,147	-	July 15, 2005 Chen-I-Tze No.0940128790
Aug. 2006	10	1,200,000	12,000,000	968,313	9,683,127	Retained Earnings: \$1,042,621	-	July 13, 2006 Chen-I-Tze No.0950130197
July 2007	10	1,200,000	12,000,000	1,037,412	10,374,120	Retained Earnings: \$690,993	-	June 25, 2007 Chen-I-Tze No.0960031987
Sep. 2007	10	1,200,000	12,000,000	1,040,854	10,408,538	Share Swap: \$34,418	69% of NuCORE Technology shares	Aug. 30, 2007 Chen-I-Tze No.0960045488
July 2008	10	1,200,000	12,000,000	1,073,152	10,731,523	Retained Earnings: \$322,985	-	June 25, 2008 Chen-I-Tze No.0970031744
July 2009	10	1,200,000	12,000,000	1,090,119	10,901,189	Retained Earnings: \$169,666	-	June 24, 2009 Chen-Fa-Tze No.0980031350
July 2010	10	1,200,000	12,000,000	1,099,785	10,997,846	Retained Earnings: \$96,657	-	June 29, 2010 Chen-Fa-Tze No.0990033415
Sep. 2010	10	1,200,000	12,000,000	1,099,871	10,998,708	Employee option exercised: \$862	-	Sep. 16, 2010 Yuan-Shang-Tze No.0099027401
Nov. 2010	10	1,200,000	12,000,000	1,099,932	10,999,317	Employee option exercised: \$609	-	Nov. 23, 2010 Yuan-Shang-Tze No.0990035005
March 2011	10	1,200,000	12,000,000	1,099,968	10,999,682	Employee option exercised: \$365	-	Mar. 29, 2011 Yuan-Shang-Tze No.100008840
July 2011	10	1,200,000	12,000,000	1,099,977	10,999,772	Employee option exercised: \$90	-	Jul 1, 2011 Yuan-Shang-Tze No.1000019125
Oct. 2011	10	1,200,000	12,000,000	1,155,511	11,555,108	Share Exchange: \$555,336	100% of Ralink shares	Oct 18, 2011 Yuan-Shang-Tze No.1000031428

Month/ Year	Issue Price (per share)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Date of Approval & Approval Document No.
Nov. 2011	10	1,200,000	12,000,000	1,147,511	11,475,108	Cancelled repurchased shares: \$ 80,000	-	Nov 18, 2011 Yuan-Shang-Tze No.1000034738
Dec. 2011	10	1,200,000	12,000,000	1,147,519	11,475,191	Employee option exercised: \$83	-	Registration ongoing; booked as "capital collected in advance"
Mar. 2012	10	1,200,000	12,000,000	1,147,575	11,475,751	Employee option exercised: \$560	-	Registration ongoing; booked as "capital collected in advance"

As of March 31, 2012. Unit: share

Type of Stock	Authorized Capital			Remark
	Outstanding	Un-Issued	Total	
Common Stock	1,147,575,061	52,424,939	1,200,000,000	Listed on TSE

Shelf Registration: None.

## 4.1.2. Composition of Shareholders

As of Jul. 16, 2011: Unit: share/%

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Persons	Individuals	Total
Number of Shareholders	1	69	514	877	108,965	110,426
Shareholding (shares)	6,918,377	62,743,026	61,923,861	454,087,880	514,304,102	1,099,977,246
Holding Percentage (%)	0.63%	5.70%	5.63%	41.28%	46.76%	100.00%

## 4.1.3. Distribution of Shareholding

As of Jul. 16, 2011

Common Share Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership (Share)	Ownership (%)
1 ~ 999	27,455	2,665,618	0.24%
1,000 ~ 5,000	70,773	126,818,139	11.53%
5,001 ~ 10,000	6,795	48,580,099	4.42%
10,001 ~ 15,000	1,953	23,766,666	2.16%
15,001 ~ 20,000	969	17,174,706	1.56%
20,001 ~ 30,000	837	20,417,375	1.86%
30,001 ~ 40,000	362	12,664,182	1.15%
40,001 ~ 50,000	217	9,983,270	0.91%
50,001 ~ 100,000	466	32,530,255	2.96%
100,001 ~ 200,000	239	32,880,873	2.99%
200,001 ~ 400,000	127	35,666,219	3.24%
400,001 ~ 600,000	51	25,712,858	2.34%
600,001 ~ 800,000	39	26,694,888	2.43%
800,001 ~ 1,000,000	22	19,502,622	1.77%
Over 1,000,001	121	664,919,476	60.44%
<b>Total</b>	<b>110,426</b>	<b>1,099,977,246</b>	<b>100.00%</b>

Preferred Share: None.

## 4.1.4. Major Shareholders

As of Jul. 16, 2011

Top 10 Shareholders	Total Shares Owned	Ownership (%)
Chui-Hsing Lee	48,674,145	4.43%
Ming-Kai Tsai	40,782,136	3.71%
Capital World Growth and Income Fund Inc.	40,600,426	3.69%
Capital Income Builder, Inc.	31,425,774	2.86%
Jyh-Jer Cho	30,257,671	2.75%
Growth Fund of America, Inc.	22,709,996	2.06%
Tin-Ren Liu	21,011,763	1.91%
Lazard Emerging Markets Equity Portfolio	20,276,421	1.84%
EuroPacific Growth Fund	15,402,625	1.40%
Vanguard Emerging Markets Stock Index Fund	15,159,975	1.38%

## 4.1.5. Market Price, Net Worth, Earnings, Dividends per Common Share

Unit: NT\$ / Share

Item		2010 (Distributed in 2011)	2011 (Distributed in 2012)	Jan. 1 ~ Mar. 31, 2012	
Market Price Per Share (Note 1)	Highest	570.0	424.0	324.5	
	Lowest	352.0	221.0	256.5	
	Average	457.8	315.6	294.1	
Net Worth Per Share	Before Distribution	102.29	102.02	**	
	After Distribution	82.14	*	*	
Earnings Per Share	Weighted Average Shares	1,088,689,895	1,103,110,322	1,139,771,155	
	EPS	Not-Adjusted	28.44	12.35	**
		Adjusted	28.44	*	**
Dividends Per Share	Cash Dividends		20.00	*	**
	Stock Dividend	From Retained Earnings	-	*	**
		From Capital Surplus	-	*	**
	Accumulated Undistributed Dividend		-	-	**
Return on Investment	Price/Earnings Ratio (Note 2)	16.10	25.55	**	
	Price/Dividend Ratio (Note 3)	22.89	*	**	
	Cash Dividend Yield (Note 4)	4.37%	*	**	

\* : Pending shareholders' approval in 2011 Annual General Shareholders' Meeting.

\*\* : Not applicable.

Note 1: Retroactively adjusted for stock dividends and stock bonuses to employees

Note 2: Price/Earnings Ratio = Average Market Price / Earnings Per Share

Note 3: Price/Dividend Ratio = Average Market Price / Cash Dividends Per Share

Note 4: Cash Dividend Yield = Cash Dividends Per Share / Average Market Price

## 4.1.6. Dividend Policy and Status of Execution

### 4.1.6.1. Dividend Policy under the Article of Incorporation

Since the Company is in an industry that's in a growth phase, the dividend policy shall take into consideration factors such as the Company's current and future investment environment, needs for capital, domestic and overseas competition, capital budgeting plans, etc., to come out with a

proposal that strike a balance among shareholders' benefits and the Company's long-term financial plans. Each year, the Board of Directors shall prepare a profit distribution proposal and report it at the shareholders' meeting. After considering financial, business and operational factors, the Company may distribute the whole of distributable profits for the year; dividends to shareholders may be distributed in cash or in stock, and the cash dividends shall not be lower than 10% of total dividends to shareholders.

#### **4.1.6.2. Proposal to Distribute 2011 Profits**

The Board adopted a proposal for 2011 profit distribution as below:

**A. Stock dividend to common shareholders:** Zero.

**B. Cash Dividends to Common Shareholders:** NT\$10,328,141 thousands.

The proposed profit distribution will be effected according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders' Meeting.

#### **4.1.7. Effect of 2010 Share Dividends to Operating Performance and EPS**

Not applicable.

#### **4.1.8. Employee Bonus and Directors and Supervisors Compensation**

##### **4.1.8.1. Employee Bonus and Directors and Supervisors Compensation as Stated in the Article of Incorporation**

When allocating the net profits for each fiscal year, the following order shall be followed: (1). Reserve for tax payments; (2). Offset losses in previous years, if any; (3). Legal reserve, which is 10% of leftover profits; (4).

Allocation or reverse of special reserves as required by law or government authorities. The remuneration to Directors and Supervisors, at a maximum of 0.5% of remaining net profits after deducting item (1) to (4) shall be paid in cash. The remaining net profits, after considering retained earnings from previous years and amounts set aside for distribution in future years, shall be allocated as employees' profit sharing and shareholders' dividend. The guideline for employee profit sharing is, the amount of employee profit sharing shall not be lower than 1% of the sum of employee profit sharing and shareholder dividends. Employee profit sharing may be paid in cash or in stock to qualified employees of the Company and its affiliate companies. The Board of Directors shall be authorized to set criteria for qualified employees.

##### **4.1.8.2. Proposed 2010 Employee Profit Sharing Plan and Remuneration to Directors and Supervisors**



The Board adopted a proposal on March 21, 2012 for 2011 employee cash bonus of NT\$1,714,243 thousands and remuneration to Directors and Supervisors of NT\$28,497 thousands. In accordance with new accounting regulations requiring expensing of employee profit sharing, MediaTek's net profit was the net of employee profit-sharing and remuneration to Directors and Supervisors.

Remuneration to Directors and Supervisors was NT\$28,497 thousands (0.20% of 2011 earnings available for distribution). There is a difference of NT\$3,810 thousands **with the estimated Directors' compensation** (NT\$24,687 thousands). The estimate was calculated based on 0.20% of the current year's net income while the actual compensation was calculated based on 0.20% of the distributable earnings. The difference shall be **accounted as "changes in accounting estimations" and be booked in the next fiscal year's financial report, after approved in the annual shareholders' meeting.**

#### 4.1.8.3. Earnings Retained in Previous Period Allocated as Employee Bonus and Directors and Supervisors Compensation

Unit: share / NT\$1,000

	AGM resolution	Estimate	Difference	Shares	Share price (NT\$)	Reason of difference
<b>Employee Cash Bonus</b>	3,863,296	3,863,296	-	-	-	-
<b>Remuneration to Directors &amp; Supervisors</b>	48,045	71,628	23,583	-	-	(Note)

**Note:** The difference was mainly because the actual payment was less than the estimated amount, and the difference shall be accounted as "changes in accounting estimations" and be booked in the next fiscal year's financial report, after approved in the annual shareholders' meeting.

#### 4.1.9. Repurchase of Company Shares

<b>Item</b>	The second company share repurchase program
<b>Goal</b>	To maintain company credits and shareholder's equity
<b>Period</b>	July 18, 2011 to Sep. 6, 2011
<b>Price range</b>	NT\$ 247-NT\$371
<b>Class of share repurchased</b>	Common Stock
<b>Number of shares repurchased</b>	8,000,000 shares
<b>Total amount used</b>	NT\$ 2,110,271,228
<b>Number of shares cancelled or transferred</b>	8,000,000 shares cancelled
<b>Number of company shares held (accumulative)</b>	-
<b>% of company shares held (accumulative)</b>	-

## 4.2. Status of Corporate Bonds

None.

### **4.3. Status of Preferred Stocks**

None.

### **4.4. Status of GDR/ADR**

None.

## 4.5. Status of Employee Stock Option Plan

### 4.5.1. Issuance of Employee Stock Options

As of March 31, 2012

Employee Stock Options Granted	1 <sup>st</sup> Grant	2 <sup>nd</sup> Grant	3 <sup>rd</sup> Grant	4 <sup>th</sup> Grant	5 <sup>th</sup> Grant
<b>Approval Date by the Securities &amp; Futures Bureau</b>	Dec. 19, 2007	Dec. 19, 2007	Jul. 27, 2009	May 10, 2010	May 10, 2010
<b>Issue (Grant) Date</b>	Mar. 31, 2008	Aug. 28, 2008	Aug. 18, 2009	August 27, 2010	Nov. 4, 2010
<b>Number of Options Granted</b>	1,134,119	1,640,285	1,382,630	1,605,757	65,839
<b>Percentage of Shares Exercisable to Outstanding Common Shares</b>	0.10%	0.14%	0.12%	0.14%	0.01%
<b>Option Duration</b>	10 years	10 years	10 years	10 years	10 years
<b>Source of Option Shares</b>	New Common Share	New Common Share	New Common Share	New Common Share	New Common Share
<b>Vesting Schedule</b>	2 <sup>nd</sup> Year: Up to 30% 3 <sup>rd</sup> Year: Up to 60% 4 <sup>th</sup> Year: Up to 100%	2 <sup>nd</sup> Year: Up to 30% 3 <sup>rd</sup> Year: Up to 60% 4 <sup>th</sup> Year: Up to 100%	2 <sup>nd</sup> Year: Up to 30% 3 <sup>rd</sup> Year: Up to 60% 4 <sup>th</sup> Year: Up to 100%	2 <sup>nd</sup> Year: Up to 30% 3 <sup>rd</sup> Year: Up to 60% 4 <sup>th</sup> Year: Up to 100%	2 <sup>nd</sup> Year: Up to 30% 3 <sup>rd</sup> Year: Up to 60% 4 <sup>th</sup> Year: Up to 100%
<b>Shares Exercised</b>	122,547	70,127	0	0	0
<b>Value of Shares Exercised (NT\$)</b>	46,692,183	25,385,974	0	0	0
<b>Shares Unexercised</b>	468,345	788,430	772,071	1,044,144	17,714
<b>Adjusted Exercise Price Per Share (NT\$)</b>	374.7	358.9	460.6	429.8	397
<b>Percentage of Shares Unexercised to Outstanding Common Shares</b>	0.04%	0.07%	0.07%	0.09%	0.00%
<b>Impact to Shareholders' Equity</b>	Dilution to shareholder's equity is limited				

Employee Stock Options Granted	6 <sup>th</sup> Grant	7 <sup>th</sup> Grant	8 <sup>th</sup> Grant	9 <sup>th</sup> Grant	10 <sup>th</sup> Grant
<b>Approval Date by the Securities &amp; Futures Bureau</b>	Aug. 9, 2011	Aug. 23, 2011	Aug. 23, 2011	Aug. 23, 2011	Aug. 23, 2011
<b>Issue (Grant) Date</b>	Aug. 24, 2011	Jun. 30, 2006	Sep. 30, 2006	Dec. 31, 2006	Mar. 31, 2007
<b>Number of Options Granted</b>	2,109,871	499	3,092	1,247	3,791
<b>Percentage of Shares Exercisable to Outstanding Common Shares</b>	0.18%	0.00%	0.00%	0.00%	0.00%
<b>Option Duration</b>	10 years	6 years	6 years	6 years	6 years
<b>Source of Option Shares</b>	New Common Share	New Common Share	New Common Share	New Common Share	New Common Share
<b>Vesting Schedule</b>	2 <sup>nd</sup> Year: Up to 30% 3 <sup>rd</sup> Year: Up to 60% 4 <sup>th</sup> Year: Up to 100%	2 <sup>nd</sup> Year: Up to 50% 3 <sup>rd</sup> Year: Up to 75% 4 <sup>th</sup> Year: Up to 100%	2 <sup>nd</sup> Year: Up to 50% 3 <sup>rd</sup> Year: Up to 75% 4 <sup>th</sup> Year: Up to 100%	2 <sup>nd</sup> Year: Up to 50% 3 <sup>rd</sup> Year: Up to 75% 4 <sup>th</sup> Year: Up to 100%	2 <sup>nd</sup> Year: Up to 50% 3 <sup>rd</sup> Year: Up to 75% 4 <sup>th</sup> Year: Up to 100%
<b>Shares Exercised</b>	0	0	1,197	0	3,791
<b>Value of Shares Exercised (NT\$)</b>	0	0	17,117	0	59,519
<b>Shares Unexercised</b>	1,990,580	499	1,895	1,247	0
<b>Adjusted Exercise Price Per Share (NT\$)</b>	280	14.3	14.3	14.3	15.7
<b>Percentage of Shares Unexercised to Outstanding Common Shares</b>	0.17%	0.00%	0.00%	0.00%	0.00%
<b>Impact to Shareholders' Equity</b>	Dilution to shareholder's equity is limited				

Employee Stock Options Granted	11 <sup>th</sup> Grant	12 <sup>th</sup> Grant	13 <sup>th</sup> Grant	14 <sup>th</sup> Grant
Approval Date by the Securities & Futures Bureau	Aug. 23, 2011	Aug. 23, 2011	Aug. 23, 2011	Aug. 23, 2011
Issue (Grant) Date	Jun. 30, 2007	Sep. 30, 2007	Dec. 30, 2007	Dec. 31, 2007
Number of Options Granted	10,416	47,368	299	87,895
Percentage of Shares Exercisable to Outstanding Common Shares	0.00%	0.00%	0.00%	0.01%
Option Duration	6 years	6 years	6 years	6 years
Source of Option Shares	New Common Share	New Common Share	New Common Share	New Common Share
Vesting Schedule	2 <sup>nd</sup> Year: Up to 50% 3 <sup>rd</sup> Year: Up to 75% 4 <sup>th</sup> Year: Up to 100%	2 <sup>nd</sup> Year: Up to 50% 3 <sup>rd</sup> Year: Up to 75% 4 <sup>th</sup> Year: Up to 100%	2 <sup>nd</sup> Year: Up to 50% 3 <sup>rd</sup> Year: Up to 75% 4 <sup>th</sup> Year: Up to 100%	2 <sup>nd</sup> Year: Up to 50% 3 <sup>rd</sup> Year: Up to 75% 4 <sup>th</sup> Year: Up to 100%
Shares Exercised	0	22,039	299	36,901
Value of Shares Exercised (NT\$)	0	346,012	4,694	616,247
Shares Unexercised	10,416	25,329	0	50,596
Adjusted Exercise Price Per Share (NT\$)	15.7	15.7	15.7	16.7
Percentage of Shares Unexercised to Outstanding Common Shares	0.00%	0.00%	0.00%	0.00%
Impact to Shareholders' Equity	Dilution to shareholder's equity is limited			

#### 4.5.2. Employee Stock Option Granted to Management Team and to Top 10 Employees with an Individual Grant Value over NT\$30 million

None.

### 4.6. Status of New Shares Issuance in Connection with Mergers and Acquisitions

#### 4.6.1. Items to Disclose for Acquisition Completed in 2011 to the Printing Date of this Report

4.6.1.1. Underwriter's evaluation opinion on the recent acquisition:

The underwriter's evaluation report on the Ralink acquisition on the fourth quarter of 2011 is listed below:

(A) Date of new share issuance for the acquisition: October 18, 2011

(B) Impact on the operation from the acquisition:

MediaTek completed the acquisition of Ralink by issuing new shares in exchange for 100% of Ralink Technology's outstanding shares on October 1, 2011 and completed the registration procedure on October 8, 2011. MediaTek Inc. is a leading fabless semiconductor company for wireless communications and digital multimedia solutions. The company is a market leader and pioneer in cutting-edge SOC system solutions for wireless communications, high-definition TV, optical storage, and DVD and Blu-ray products. Ralink Technology Corporation is a leading innovator and developer in the wireless home networking and broadband access semiconductor markets. Ralink products are recognized for their superior performance and reliability, rich feature set,

low-power consumption, and high levels of integration. This acquisition enables better talent pools, technology, product and customer mix for MediaTek's future growth. MediaTek's fourth quarter of 2011 consolidated revenues is approximately NT\$22,632,77 thousands, slightly declined 3% from NT\$23,375,740 thousands in the third quarter of 2011 and slightly declined 0.21% from NT\$22,679,823 thousands in the fourth quarter of 2010. The quarter-over-quarter and year-over-year decline was primarily due to the slowdown in macro environment which led to decrease in demand in handset, TV, PC chips. This transaction aims for long-term strategic plan and expect the synergies from the acquisition to emerge with the execution of relevant cooperation projects.

(C) Effect from the acquisition: After the acquisition, MediaTek is equipped with a wider range of networking products and experienced team offering communication semiconductor solutions covering PC, connected TV, Blu-ray DVD player, game console, tablet PC and smartphone. MediaTek also acquired key patent and IP from Ralink to further enhance MediaTek's competitiveness. This acquisition enables simplified purchasing process for worldwide customers, streamline the operation process, shorten time to market and seize market opportunities and therefore should have positive effects on company's sales, finance and shareholder's equity.

4.6.1.2.: Recent Execution Status and Specify Any Impact on Shareholder's Equity and Improvement Plan if the Execution didn't Meet the Expectation: Not applicable.

4.6.1.3.: Any Acquisition or Share Exchange Plan Approved by the Board in 2011 to the Printing Date of this Report: Not applicable.

## **4.7. Financing Plans and Implementation**

Not applicable.

# 5. Business Activities

## 5.1. Business Scope

### 5.1.1. Business Scope

#### 5.1.1.1. The Main Business Activities of MediaTek

- A. Research, develop, produce, and sell the following products:
  - a. Multimedia Integrated Circuits (IC);
  - b. Computer peripheral ICs;
  - c. High-end digital consumer ICs;
  - d. Other application specific ICs;
  - e. Patent and circuit-layout licensing and services of the above-mentioned products.
- B. Provide the above-mentioned products with software and hardware application design, test, maintenance, and technological consultation services
- C. Import and export of the above-mentioned products.

#### 5.1.1.2. Revenue Mix (2011)

Product Category	Multimedia Chipsets	Others*
Revenue Mix	99.34%	0.66%

\*Note: Others include revenue from technical services and licensing fees.

#### 5.1.1.3. Products Currently Offered by MediaTek

- A. Mobile communication chipsets;
- B. Bluetooth chips;
- C. Wireless LAN (WLAN) chips;
- D. GPS chips;
- E. WiMax Chips;
- F. Connectivity combo chips that integrated Bluetooth, FM, WLAN, GPS, etc.
- G. Optical storage chipsets;
- H. DVD player system-on-a-chip (SoC);
- I. Blu-ray DVD player chipsets;
- J. Highly integrated digital TV controller chips;
- K. ATSC and DVB-T TV decoder and demodulator chipsets.
- L. xDSL chips;

#### 5.1.1.4. New Products Planned for Development

- A. Next generation highly-integrated mobile communication chipsets;
- B. Next generation high-sensitivity and low power consumption GPS receiver chips;
- C. Next generation highly integrated low-power WLAN and WPAN chipsets;
- D. Next generation highly-integrated smart TV chips;

- E. Highly integrated Blu-ray DVD player single-chip;
- F. Next generation high-speed Blu-ray single-chip;
- G. Touch screen controller chipsets;
- H. High-speed game console decoder single-chip.
- I. xPON chipsets;

## **5.1.2. Industry Outlook**

### **5.1.2.1. The Relationship between the Upstream, Midstream, and Downstream of the Industry:**

The semiconductor industry can be categorized as: Upstream – IC design companies, midstream – wafer foundries, and downstream – IC packaging and testing service providers. The horizontal specialization is the main difference that sets Taiwan’s IC industry apart from its overseas peers. Major international semiconductor companies usually operate vertically across the value chain, from IC design and manufacturing, to packaging, testing and even systems integration. However, in an industry environment that evolves very rapidly and requires increasingly high capital investments, Taiwan’s specialized model proves to be performing better than the integrated model.

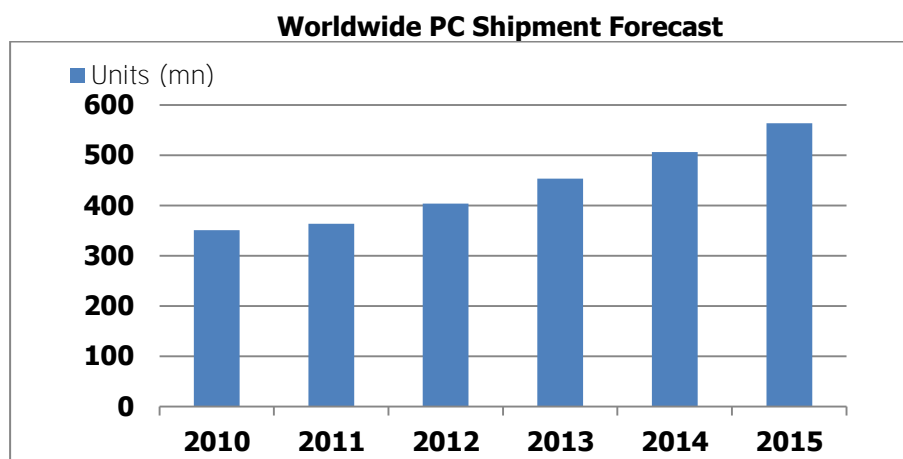
The major operation of an IC design company is to design and sell semiconductor devices, or to design the chip according to customers’ requirements. IC design is the upstream of the industry value chain; other players in the backend of supply chain include photo mask providers, wafer foundries, packaging and testing companies, etc. In general, IC companies outsource almost 100% of photo mask, wafer fabrication, and IC packing to specialized manufacturing partners. Most companies outsource their chip testing tasks to specialized testing houses, while some IC design companies keep certain portion of testing in-house.

In the semiconductor food chain, the IC design industry is a knowledge-intensive industry with relatively high return on investment. Thanks to Taiwan’s complete semiconductor industry ecosystem and the ample talents, IC design is a thriving industry in Taiwan.

## 5.1.2.2. Industry Outlook, Trends and Competition

### A. Optical Storage Industry:

The optical storage industry is closely related to the PC market. Nowadays the PC market still has volume growth each year.



Source: Gartner, September 2011

Among the major segments of PC, slim-type notebook computers and tablets don't carry optical disks. Therefore, the overall optical disk shipment is expected to be flat or slightly decline. Regarding the existing optical storage product types, DVD-ROM, CD-R/RW, COMBI, and DVD-Rewritable are all mature products. Although there are competitors in this sector, MediaTek still maintains a high market share by continuously enhancing its core competitiveness and customer service.

As for the next generation optical storage technology, with the industry standard of Blu-ray, and high-definition flat panel displays becoming more popular, we saw Blu-ray optical storage continues to gain traction. MediaTek will leverage its experience and use the spirit of innovation and service to expand its market share by meeting the demands of its customers worldwide.

### B. Digital Consumer Products:

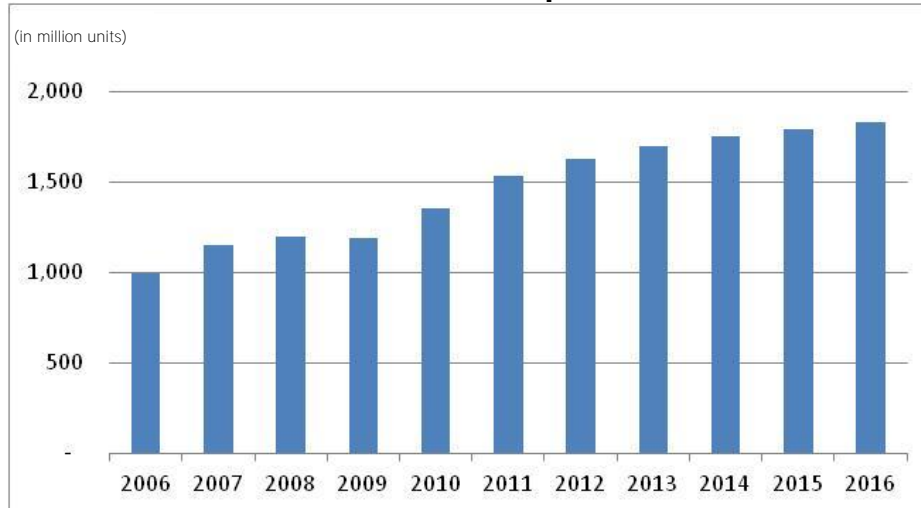
Blu-ray DVD players has been gaining momentum, thanks to these factors: (1). The price of Blu-ray DVD players has been as low as high-end DVD players; (2) The popularized high-resolution flat panel TVs; (3). The increased video/audio streaming services; (4) Newly introduced 3D contents. The volume of traditional DVD players is stable and will be gradually replaced by Blu-ray DVD players. Blu-ray player market has excellent growth potential.

### C. Wireless Communications Products:

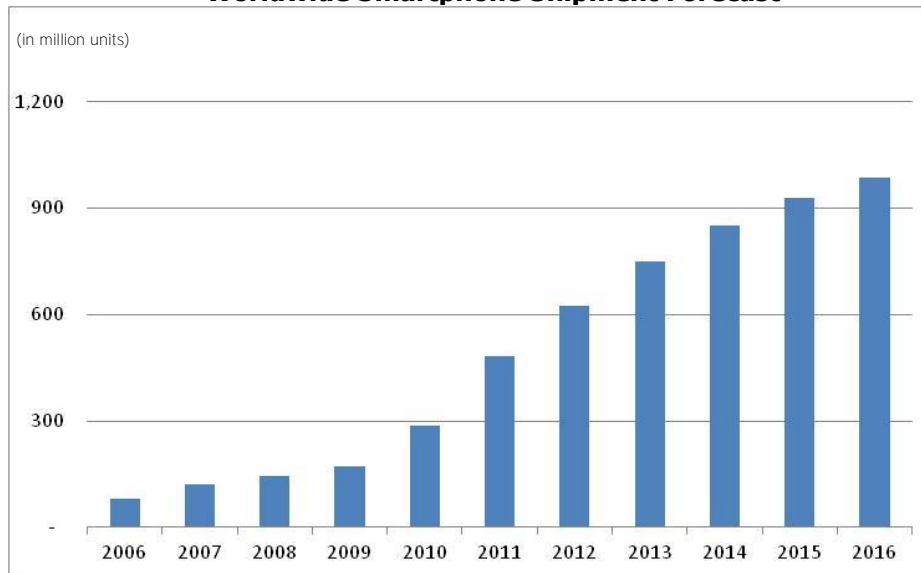
According to Strategy Analytics, worldwide handset shipment has reached 1.5 billion units in 2011 and the number is expected to steadily grow to 1.8 billion units in 2016, thanks to the growth of smartphone. Global smartphone shipment was about 500 million units in 2011 and the number is expected to double to close to 1 billion in 2016, driving the growth of wireless communication industry.



### Worldwide Handset Shipment Forecast



### Worldwide Smartphone Shipment Forecast



Source: Strategy Analytics, September 2011

#### We've seen two product development trends for the wireless communication

products: (1). The fast evolution of communication technologies that pushes 2G (GSM/GPRS/EDGE) users to move to 3G/3.5G standards and even move forward to 4G standards; (2). Handset platforms are more frequently integrating multimedia and connectivity functions, such as digital cameras, music players, Bluetooth, Wi-Fi, GPS, Mobile TV, WiMax, etc and more are expected to come.

The global 3G network deployment continued in the past year with fast growing 3G subscribers; most significantly, Southeastern Asia and India have started their 3G commercial rollout, implying a huge market potential. Fueled by increasing penetration of 3G network, more diversified mobile communication applications and aggressive promotions from operators, the enormous China and emerging **countries'** 3G market is set to ramp up.

The China low-priced smartphone segment is especially the bright spot of all. The total number of 3G subscribers from the three China operators: China Unicom, China Mobile and China Telecom has reached 100 million in 2011 and according to Strategy

Analytics, smartphone in China has a nearly 40% growth rate in 2012. The maturing smartphone supply chain enables more handset manufacturers to launch a wide range of good cost-performance smartphones to stimulate end market demand. In addition, operators' subsidized programs coupled with a variety of software further lower the entry barrier of using smartphones and accelerate the next wave of low-price smartphone conversion.

For the mainstream 2G, the demand was not withered in light of 3G network deployment; on the contrary, since handset penetration rate in emerging markets such as India, Middle East, Africa and South America is still relatively low, it is expected that the 2G handset market will continue to grow.

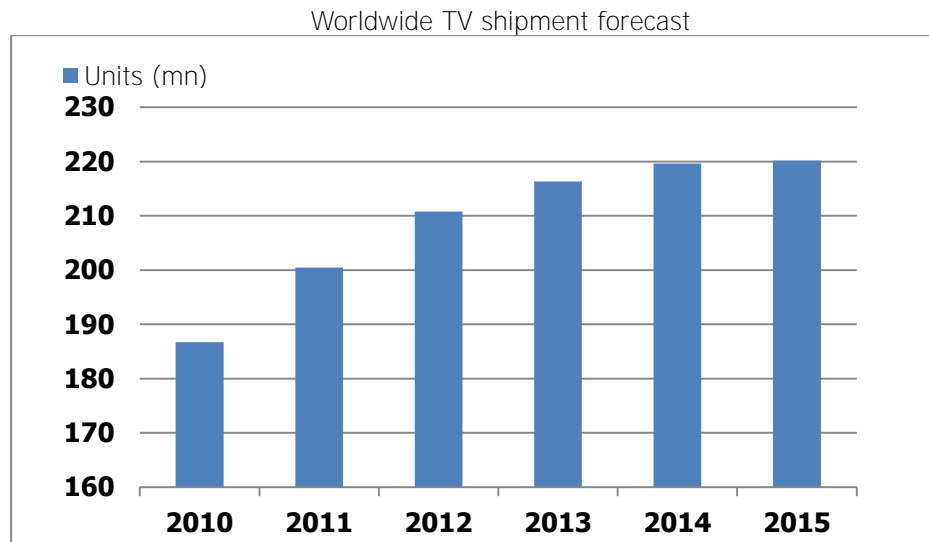
**MediaTek's handset solutions also come with assorted peripheral chips, such as** Bluetooth, WLAN and GPS. The increasing connectivity attach rate makes these solutions another important growth driver. Bluetooth is used for wireless data and voice transmission in short distance and has been widely adopted in handsets, earphones and notebook computers. WLAN chips are mainly used in notebook computers and smartphones; as the price of smartphone coming down and coverage of mobile network increasing, more end users are using the mobile phones to access Internet services. Since WLAN is a good complement to the 3G network, it is expected that WLAN will become a must-have feature in mid to high end mobile phones. The demand for GPS chipsets is mainly from PND and handsets. As the quality of maps been improved and new applications introduced, the PND market is becoming matured. Besides, as the 3G network and location-based services become more popular, the GPS attachment rate in handset is going to increase, too.

Fast growing wireless communication markets come with intense competition. MediaTek faces competition from semiconductor companies in the US, Europe, China and Taiwan. Not only have to keep up with the new technology standard and launch more advanced products to compete, MediaTek also competes in the field of cost control and technical support to offer the best total solutions to customers. Moving forward, MediaTek will continue to launch handset and other peripheral chipsets integrating multimedia and internet connection features in different market segments. Besides, MediaTek will also continue to offer competitive turnkey solutions to help clients time to market, maintain leading market position, expand customer base and meet end users' needs.

For smartphone products, MediaTek will establish partnership with worldwide operators and channels to aggressively develop 3G/3.5G/3.75G/TD-SCDMA/4G and Open OS mobile communication technologies to expand global market with clients. On feature phone side, MediaTek will integrate more features into products to achieve higher level of differentiation for customers. As for Bluetooth, WLAN, GPS, touch screen controller and other peripheral chips, MediaTek will enhance product competitiveness by supporting the latest standards and will also expand to other consumer electronic platforms such as e-book, game console, TV, set-top box and digital camera.

## D. Digital TV Products

With the continued growth of digital television and the switch from analog signal to digital signal, the digital flat panel TV shipment should exceed 200 million units worldwide at the end of 2011.

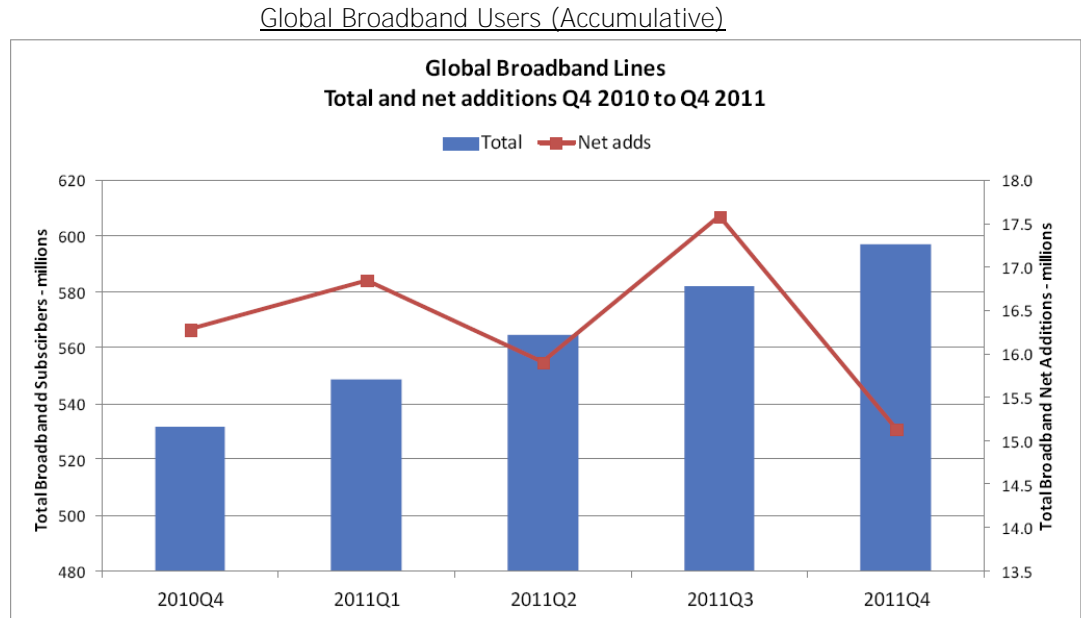


Source: Strategy Analytics, August 2011

North America is the largest market for digital TV. Europe, China and other developing countries are also seeing rapid growth of TV market. As conversion plans go in effect, ATSC/DVB-T and other digital signal receivers have become standard equipment for flat panel TVs. Consumers' desire for eco-friendly products is helping the expansion of low-power LED backlight TV. In addition, as 3D movies are gaining popularity, 3D TV will become one of the standard features in TV. MediaTek is a leading company of launching 3D TV single chip, and has been developing highly integrated smart TV single chips to enrich family's entertainments.

## E. Broadband Networking

The global broadband industry continues to grow thanks to the increasing number of broadband users. According to Point-Topic, there are approximately 580 million global broadband users at the end of 2011, grew by 65 million from a year ago and continues to grow at a CAGR of 12%.



Source: Point-Topic, April 2012

Among broadband networking subscribers, xDSL is the most popular. xDSL has approximately 370 million subscribers accounting for 64% of the total subscribers and 90% is adopting ADSL technology. However, the global shipment for such products has stabilized. To meet the demand for higher bandwidth, operators now offer VDSL technology with higher bandwidth of 50Mbps~100Mbps and VDSL-related demand also increase accordingly.

Another technology is xPON connecting to the internet via FTTH and currently has approximately 20million users. Countries such as China has chosen FTTH as its primary telecommunication development and become the major market for FTTH. New FTTH subscribers in 2011 achieved 2.8 million and expect to see fast growth in the following years to reach 100million in 2016.

### 5.1.3. Technology and R&D

#### 5.1.3.1. R&D Spending

MediaTek's R&D spending in 2011 was NT\$21,183,903 thousands, and from January 1<sup>st</sup> 2011 to the printing date of this annual report, the R&D spending was NT\$4,980,900 thousands.

### **5.1.3.2. Successfully Developed Technologies or Products in the Last Fiscal Year and Year-to-Date**

- A. Highly integrated GSM/GPRS SOC for multimedia phones;
- B. Highly integrated EDGE chipsets for smartphones;
- C. Highly integrated WCDMA chipsets;
- D. Highly integrated WLAN SOC;
- E. High Performance/Cost Bluetooth SOC;
- F. Highly integrated Bluetooth and FM Radio Combo chip;
- G. High sensitivity and low power GPS chips;
- H. Highly integrated combo SoC
- I. Highly integrated 24x DVD-Rewritable SOC;
- J. 16x Blu-ray multifunction rewritable chipset;
- K. Highly integrated 3D Blu-ray DVD player SOC;
- L. Highly integrated 3D TV and Connected TV chipsets;
- M. Analog mobile TV chips;
- N. Highly integrated ADSL WiFi Gateway & IAD chipsets;
- O. Highly integrated VDSL2 IAD chipsets;

### **5.1.4. Long- and Short-Term Business Development Plans**

#### **5.1.4.1. Short-Term Business Development Plans**

- A. Continue to develop competitive mainstream products, adopt more advanced process nodes and optimize circuit design to meet the market demand
- B. Fully understand customers' needs and offer comprehensive solutions** with thoughtful services to facilitate customers to time to market and seize market opportunities
- C. Enhance the existing long-term partnership with customers/operators as well as expand customer base and market share by implementing efficient marketing strategies
- D. Maintain the good partnership with the supply chain including foundries, packaging and testing houses. Ensure the real-time mutual communication with customers and manufacturing partners to respond market changes quickly and effectively, secure sufficient capacity, ensure smooth delivery and also AR/inventory management
- E. Sustain the systematic and flexible financial systems to support all RD and sales activities

#### **5.1.4.2. Long-Term Business Development Plans**

- A. Actively participate in global standard committees and strengthen long-term cooperation with international customers to develop more diversified business opportunities
- B. Continue to develop innovative products to maintain leading positions in different markets.
- C. Continue to work closely with the supply chain and further develop more cost-effective solutions
- D. Recruit and retain global talents with different expertise for future

product and market development. Establish complete internal training systems to pass on successful experience

E. Establish comprehensive global management systems to ensure effective internal and external communications. Sustain good relationship with capital markets and seek suitable targets for further sales development

## 5.2. Market, Production, and Sales Outlook

### 5.2.1. Market Analyst

#### 5.2.1.1. Major Markets

Region	Year 2011	
	Sales (NT\$1,000)	Percentage
Export sales	78,564,122	90.45%
Domestic sales	8,293,372	9.55%
<b>Total</b>	<b>86,857,494</b>	<b>100.00%</b>

#### 5.2.1.2. Market Share

According to an iSuppli Report published in March 2012, worldwide semiconductor device industry revenue was US\$311.4 billion in 2011; MediaTek's market share was 0.9% and ranked no. 22 worldwide, slightly lower than the previous year's no. 19.

#### 5.2.1.3. Major Markets

##### A. Optical Storage Products

MediaTek is currently the only IC company in the world that can provide a complete spectrum of products, ranging from CD-ROM controller chips to DVD-Rewritable products, and next generation Blu-ray DVD products. Besides providing a comprehensive product range, our total services also help accelerate customers' time-to-market and time-to-profit. This is why MediaTek has been able to maintain a large market share despite stiff competition.

On the supply side, the main DVD-ROM and COMBI IC suppliers are MediaTek and Panasonic; the main DVD-Rewritable suppliers are MediaTek, Renesas, NEC, and Panasonic. Major Blu-ray optical storage IC suppliers, other than MediaTek, the others are Japanese companies such as SONY, NEC, Panasonic, Renesas, Toshiba, etc. There are other domestic and overseas vendors trying to enter the optical storage industry, but their impact so far has been limited.

Going forward, as the global economy is recovering, corporate IT spending is on the rise and hence drives up the demand for PC and optical storage. Notebook computers will continue to grow and provides momentum for the slim-type optical drives. Moreover, game consoles and high-resolution flat panel displays are getting popular, and these are important drivers for optical storage chipsets in the future.

## **B. Digital Consumer Products**

MediaTek has established leading positions in the DVD player IC market. By continuously launching more cost competitive products, we expect to keep the volume shipments at a steady range. For the next generation Blu-ray DVD player market, other than traditional disc rental and sales, sources of high definition contents include online video/audio streaming services that are gaining popularity. Driven by consumers' increased demand for high definition video/audio and even 3D images, and helped by lowered price of Blu-ray DVD players, consumers' desire for Blu-ray DVD players is increasing and the future market growth is promising. MediaTek will continue to develop competitive IC products and establish long-term relationships with important electronic consumer companies. We expect the volume of Blu-ray DVD players continue increasing.

## **C. Wireless Communications Products**

We expect these factors will continue to drive the handset demand: emerging markets, ultra-low-cost phones, and replacement cycles. We've seen two product development trends for the wireless communication products: (1). The fast evolution of communication technologies that pushes 2G (GSM/GPRS/EDGE) users to move to 3G/3.5G standards; (2). Handset platforms are more frequently integrating multimedia and connectivity functions, such as digital cameras, music players, Bluetooth, Wi-Fi, GPS, Mobile TV, WiMax, etc.

In developed countries, smart phones are coming with 3.75G HSPA+ so the telecom operators are providing more mobile Internet applications and services to make good use of the data transmission bandwidth. Moreover, not only are high-end multimedia phones coming with 3G – Telecom operators, to yield faster returns for their bulky 3G infrastructure investments, are also cooperating with handset OEM/ODM companies to launch low-cost 3G phones. Multimedia and location based services (LBS) will become more and more important in the future.

In emerging countries, since 2G/2.5G/2.75G product technologies have become mature, the cost and time for developing new models have been reduced. Handset manufacturers have been adding new hardware and software features in high/mid/low end product segments for differentiation. Handset OEM/ODMs have also been working with telecom operators, distributors and local brands around the world to provide localized and customized phones for different regional markets. MediaTek will continue to launch higher end products and different platform solutions for different market segmentation and help our customers gain market share worldwide.

MediaTek's handset solutions also come with assorted peripheral chips, such as Bluetooth, WLAN and GPS. The Company is also promoting the handset peripheral chips to international handset manufacturers. The attachment rate of Bluetooth in handset has been relatively high; MediaTek will continue to promote its Bluetooth solution to different market segments. WLAN chips are mainly used in notebook computers and smartphones; as the price of smartphone coming down and

coverage of mobile network increasing, more end users are using the mobile phones to access Internet services. Since WLAN is a good complement to the 3G network, it is expected that WLAN will become a must-have feature in mid to high end mobile phones. Besides, the Company is also exploring new market opportunities for WLAN in TV, Set-Top-Box, game console, portable game devices, e-Book Readers, and digital photo frames, etc. The demand for GPS chipsets is mainly from PND and handsets. As the quality of maps been improved and new applications introduced, the PND market is becoming matured. MediaTek's GPS solution has been adopted by leading PND vendors and we expected this product segment will continue to grow. Besides, as the 3G network and location-based services become more popular, the GPS attachment rate in handset is going to increase, too.

#### **D. Digital TV**

With an increased digital TV penetration rate, the demand for smart TV chips is also increasing. By providing the most highly integrated digital TV single-chip, MediaTek has penetrated international tier-one TV companies' supply chains and will continue to expand its market share.

#### **E. Broadband Networking**

MediaTek's market share in ADSL chipsets is over 25%. Despite the stabilized ADSL shipment, market share is still expected to further expand with launch of next generation high performance/cost products. Meanwhile, to meet the increasing demand in VDSL products, MediaTek started to offer integrated VDSL2 IAD chipsets in early 2011 and development of chipsets for xPON equipments to prepare for the next wave of growth.

### **5.2.1.4. Competitive Advantage**

#### **A. Outstanding Team**

MediaTek's management team has been working together in the multimedia industry for years and has grown with the participation of outstanding talents. Many of our staff consists of senior IC design and system engineers and a very high percentage of the employees has a Master's degree or higher. The exceptional quality of human resources and the team spirit developed through long-term cooperation are the key factors that have enabled MediaTek's continuous innovation and cultivated a great culture for the company's long-term prosperity.

#### **B. Strength in System-on-a-Chip (SoC) Development**

SoC has been a hot topic of the technology industry for many years. MediaTek has a large pool of talented IC and system designers; through their joint efforts, we've been able to launch competitive SoC products every year.

### **5.2.1.5. Favorable and Unfavorable Factors and the Countermeasures**

#### **Favorable Factors**

##### **A. New Applications for Handsets Getting Popularity**

MediaTek has always invested heavily in the development of new mobile phone



applications to equip our customers with convenient and robust integrated solutions. The market's appetite for richer multimedia features is a positive factor for MediaTek's peripheral chips such as Bluetooth, FM, WLAN, GPS and Mobile TV. We aim to shorten our customers' development cycle for new handset products by providing highly integrated total solution. Besides, after MediaTek launched its 3G and Open OS platform solutions, the Company expects to increase its market share in 3G by leveraging the strength and customer base build in the 2G segment. More and more handset users are accessing the Internet through WLAN after the launch of Apple's iPhone. MediaTek's smartphone integrated solution includes a WLAN chip, which provide customers with a reliable platform and can accelerate their product's time to market. Many handset OEM/ODMs are investing in GPS-enabled handsets' promotion, responding to consumers' increasing demand for location based services. This trend is positive for the company's GPS solution. Another noteworthy trend is that as the handsets are getting more and more compact, SOC designs that integrate baseband and RF, and combo chips that integrated multiple wireless connectivity features is the inevitable trend. According to ABI Research, multifunction combo chips will account for one-third of total wireless connectivity chip shipments in 2012. MediaTek will continue to launch combo chips that integrate 802.11n WiFi, Bluetooth, GPS and FM Radio. OEM/ODM customers can use these ultra small and low power combo chips to design elegant products.

#### **B. Optical Storage Introduced to More New Market Segments**

In recent years, the PC market hasn't grown as fast as it had in the past, so some heavyweight optical storage vendors are shifting their focus from the PC market to digital home electronic products. Optical disc drives are no longer just a PC peripheral but are also used in audio-visual entertainment products. New market segments for optical disc drives include game consoles and camcorders. MediaTek will benefit from this trend and move in the direction of 3C integration.

#### **C. Blu-ray DVD Players Becoming Mainstream**

In developed countries, Blu-ray players have been replacing traditional DVD players, driven by lowered Blu-ray players' selling prices and more high resolution video/audio contents. We expect Blu-ray DVD player market continues to grow.

#### **D. Smart TV Will Become the Center of Home Entertainments**

Smart TVs are integrating more and more functions, including web browsing, video-on-demand, video conferencing, application software or game installment, etc. These functions can enrich people's life and accelerate TV replacement cycle in developing countries.

#### **E. Emerging Markets and New Technologies Will Become Growth Drivers for Broadband Market**

ADSL is now the prevailing broadband technology. With advantages of existing equipments and low investment costs, ADSL has become one of the major development items in several emerging countries and also keeps the flexibility to upgrade to VDSL for higher bandwidth in the future. xDSL is still expected to be the most popular broadband technology up to 2016. Moreover, xPON has become a major item of FTTH establishment and is expected to see another wave of growth backed on certain countries' telecommunication policies.

## **F. Comprehensive IC Manufacturing Infrastructure in Taiwan**

Taiwan has a well-developed IT industry and world-leading manufacturing capability. The large demand in China is MediaTek's biggest opportunity and Taiwan's outstanding semiconductor manufacturing system provides fast and efficient supply to fulfill our customers' needs.

## **Unfavorable Factors and Countermeasures**

The information technology industry is moving at a fast pace and new technologies may appear at any time. As a result, the lifecycle of our products may be cut short and the pricing pressures may increase. In an extremely competitive technology industry, MediaTek is always prepared and has been aggressively developing new products, improving competitiveness, and providing better products from our high-quality employees. In addition to continuing to market our existing products, we also work proactively on next generation products. We aim to increase our competitiveness by bringing high-quality products to the market ahead of our competitors.

## **5.2.2. Key Product Applications and Manufacturing Processes**

### **5.2.2.1. Key Product Applications**

MediaTek's major products include optical storage chipsets, high-end consumer electronics chipsets, wireless communication chipsets, and digital TV chipsets. Key product applications are listed below:

#### **A. Wireless Communication**

Wireless communication chipsets are mainly used in cell phones. MediaTek's wireless communication offerings range from the high-end smartphones, mainstream GSM/GPRS/EDGE/WCDMA/HSUPA/TD-SCDMA multimedia phones, to entry-level voice-only mobile phones. Peripheral chips such as Bluetooth, WLAN and GPS are mainly used in mobile phones, but can also be used in other applications such as game consoles, notebook computers, mobile TVs, e-book readers, and PND, etc.

#### **B. Optical Storage**

DVD-ROM chipsets have two major applications. The first is in game console storage devices and the other in multimedia PC storage devices. COMBI chipsets are mainly used in slim-type optical drives and high-end PC storage devices. DVD-Rewritable chipsets are used in high-end PC storage devices and recordable DVD players. BD ODD chipsets are used in high-end PC storage devices and embedded Blu-ray ODD in high-end TVs.

#### **C. Digital Consumer Electronics**

DVD player SOCs are mainly used in digital home appliances for DVD players. BD-Player SOCs are mainly used in higher resolution and richer functionality next-generation Blu-ray DVD Players.

#### **D. Digital TV**

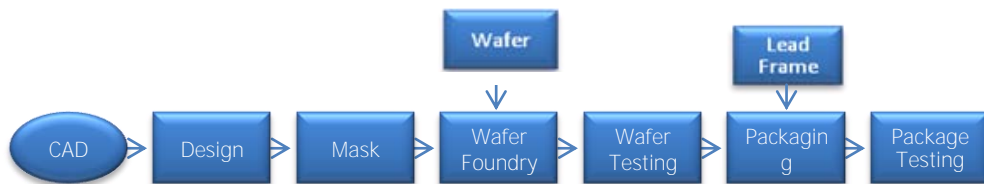
Digital TV decoder chips and demodulator chips are used to receive and decode digital TV signals. Digital TV controller chipsets are mainly used in the latest digital flat panel TVs. Mobile TV chips are used in mobile devices (such as handsets) to receive TV signals.

## E. Broadband Networking

xDSL chipsets are used in digital modems which can be further categorized into the following by functionality: DSL Modem (purely for bridging purpose) · Wired DSL Router (DSL Modem integrating routing function) · Wireless DSL Router and IAD (integrating VoIP function) ·

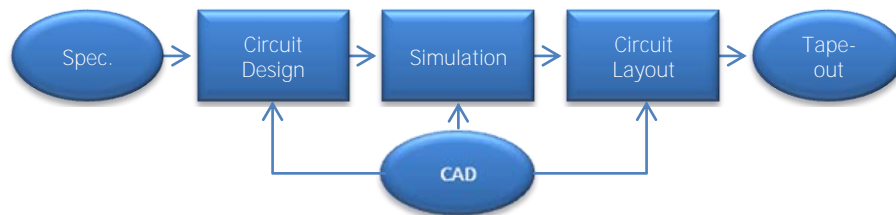
### 5.2.2.2. Key Product Manufacturing Process

The chart below shows the process of developing an IC product:



#### A. Design Process

After the product specifications being defined, IC design engineers will start doing the circuit design, using computer-aided design (CAD) tools. Their job is to a blueprint that can be placed into production.



#### B. Mask Process

The finished IC circuit designs are stored in a tape as a database for masking company to produce the mask sets. There are four stages in the manufacturing of mask; namely glass process, Cr film coating, resist coating and shipping. The finished masks are then delivered to a wafer foundry.

#### C. Wafer Foundry Process

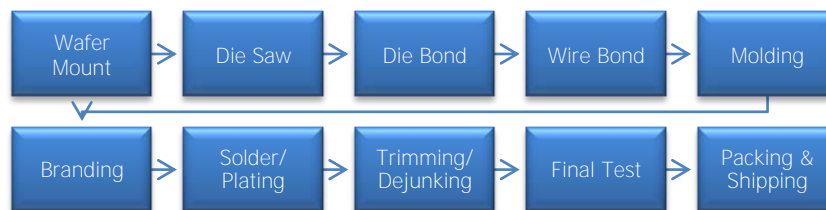
Wafer fabrication is outsourced to foundries. The wafer manufacturing process begins by entering a module, going through etching, photo, thin film and diffusion with masks. The finished wafers must be tested before shipping to the next stage.

#### D. Wafer Testing Process

A finished wafer must be checked for conformity in electrical function. Dysfunctional “bad dies” will be marked and sorted out later.

#### E. Packaging Process

The “good dies” on the wafer will go through the final packaging and testing process:



### 5.2.3. Supply of Essential Raw Materials

Wafers are our major product materials and they mainly come from our foundry partners United Microelectronics Corporation (UMC), Taiwan Semiconductor Manufacturing Limited Company (TSMC), Dongbu Electronics (DBE), GLOBALFOUNDRIES Singapore Pte. Ltd., etc. These suppliers have been able to maintain good quality and process capability, satisfying MediaTek's requirements. We negotiate pricing with suppliers according to the market supply and demand status. We also review the production and service quality periodically with our suppliers. MediaTek not only continue to strengthen our cooperation with existing manufacturing partners, we also actively survey and contact other potential suppliers to ensure secured supply, high quality and low cost.

### 5.2.4. Key Supplies & Customers

#### 5.2.4.1. Key Suppliers

Names of suppliers accounting for more than 10% of the total purchase in any of the previous two years:

Supplier	2010		2011		2012.Q1	
	Amount Purchased (NT\$1,000)	% of Total Purchase	Amount Purchased (NT\$1,000)	% of Total Purchase	Amount Purchased (NT\$1,000)	% of Total Purchase
Supplier A	14,118,701	46.30%	12,610,895	44.36%	3,478,189	44.76%
Supplier B	13,207,914	43.32%	11,995,700	42.19%	2,902,017	37.35%
Others	3,165,013	10.38%	3,824,516	13.45%	1,390,573	17.89%
<b>Total</b>	<b>30,491,628</b>	<b>100.00%</b>	<b>28,431,111</b>	<b>100.00%</b>	<b>7,770,779</b>	<b>100.00%</b>

Note: Note of the major suppliers are related party.

#### 5.2.4.2. Key Customers

Names of customers accounting for more than 10% of the total sales in any of the previous two years:

Customer	2010		Customer	2011		Customer	2012.Q1	
	Sales (NT\$1,000)	% of Total Revenue		Sales (NT\$1,000)	% of Total Revenue		Sales (NT\$1,000)	% of Total Revenue
Customer A	32,116,381	28.29	Customer A	14,446,871	19.45	Customer A	2,819,025	14.37
Customer B	15,345,455	13.52	Customer B	6,739,876	9.39	Customer D	1,851,379	9.44
Customer C	8,934,767	7.87	Customer C	6,728,866	7.75	Customer C	1,240,558	6.32
Customer D	6,151,029	5.42	Customer D	5,636,492	6.49	Customer B	1,056,286	5.39

2010			2011			2012.Q1		
Customer	Sales (NT\$1,000)	% of Total Revenue	Customer	Sales (NT\$1,000)	% of Total Revenue	Customer	Sales (NT\$1,000)	% of Total Revenue
<b>Others</b>	50,974,326	44.90	<b>Others</b>	53,305,389	56.92	<b>Others</b>	12,648,041	64.48
<b>Total</b>	113,521,958	100.00	<b>Total</b>	86,857,494	100.00	<b>Total</b>	19,615,289	100.00

Note: Reasons for change: Changes in product mix. None of the top customers are related party.

## 5.2.5. Production Volume and Value in the Past Two Years

	2010			2011		
	Production Capacity	Production Volume (1,000 pieces)	Production Value (NT\$1,000)	Production Capacity	Production Volume (1,000 pieces)	Production Value (NT\$1,000)
<b>Multimedia and Handset Chipsets</b>	N/A	1,947,643	53,828,818	N/A	1,599,439	47,517,670

Note: MediaTek outsourced manufacturing to wafer foundries, packaging houses and testing companies. There's no in-house production capacity.

## 5.2.6. Sales Volume and Value in the Past Two Years

	2010				2011			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Volume (1,000 pieces)	Value (NT\$1,000)	Volume (1,000 pieces)	Value (NT\$1,000)	Volume (1,000 pieces)	Value (NT\$1,000)	Volume (1,000 pieces)	Value (NT\$1,000)
<b>Multimedia a Chipsets</b>	99,877	11,315,917	1,840,350	101,696,014	96,444	8,267,207	1,539,874	78,018,839
<b>Others</b>	N/A	32,099	N/A	477,928	N/A	26,165	N/A	545,283
<b>Total</b>	99,877	11,348,016	1,840,350	102,173,942	96,444	8,293,372	1,539,874	78,564,122

## 5.3. Employees

		2010	2011	2012 (As of March 31)
<b>Number of Employees</b>	Management	334	358	347
	R&D	4,736	5,997	6,018
	Sales & Marketing	209	262	252
	Manufacturing	102	129	132
	Total	5,381	6,746	6,749
<b>Average Age</b>		31.7	32.0	32.0
<b>Average Years of Service</b>		3.0	2.9	3.0
<b>Education</b>	Doctoral	4.91%	5.10%	5.16%
	Master	62.62%	62.57%	62.78%
	University & College	31.78%	31.81%	31.55%
	High School	0.69%	0.52%	0.51%
	Total	100.00%	100.00%	100.00%

## 5.4. Important Contracts

Agreement Type	Counterparty	Term	Summary	Restrictions
<b>Licensing &amp; Settlement</b>	ESS Technology International, Inc. and ESS Technology, Inc.	Permanently effective from June 11, 2003	MediaTek licensed ESS technology and settled the legal dispute	None.
<b>Licensing &amp; Settlement</b>	VIA Technologies Inc. and Western Digital Taiwan Co., Ltd.	Start from Aug. 3, 2004	MediaTek settled the legal dispute with VIA and its subsidiary Western Digital. MediaTek also licensed part of its intellectual property to Western Digital (permanent licensing of copyright and business secrets; 5-year license on patents)	Only applicable to Western Digital optical storage products built before May 15, 2004 that used MediaTek intellectual property (IP)
<b>Licensing</b>	Zoran Corporation and Oak Technology, Inc.	Permanently effective from Jan. 25, 2006	MediaTek licensed Zoran's certain IP and its derivative IP	None.
<b>Investment</b>	NuCORE Technology Inc.	From April 19, 2007	MediaTek acquired 69% of NuCORE shares	None.
<b>Acquiring Assets</b>	Analog Devices, Inc.	Sep. 10, 2007	MediaTek acquired ADI's RF and baseband chipset operations	None.
<b>Acquiring Assets</b>	Allied Integrated Patterning Corp	Dec. 30, 2008	MediaTek acquired AIPC's office building	None.
<b>IP Agreement</b>	Qualcomm	Nov. 30, 2009	Patent peace agreement regarding CDMA and WCDMA core patents owned by both parties	None
<b>Strategic Alliance</b>	AST Technology (Suzhou)	From Jan. 15, 2010	Cooperation in TD-SCDMA market	None.
<b>Strategic Alliance</b>	Microsoft Corp.	From Feb. 2010 to Jan. 2011	Collaboration on smartphone platforms with rich multimedia features	None.
<b>Settlement</b>	British Telecommunication, BT	June 2010	MediaTek has settled the litigation and signed a settlement agreement with BT. BT shall file for dismissal of the lawsuit and shall forever release MediaTek and its subsidiaries from any claims of infringement of the patent asserted in the litigation and its related foreign counterparts, continuations, etc. worldwide.	None.
<b>Licensing</b>	NTT DOCOMO Inc.	From July 2010	MediaTek licensed NTT DOCOMO's LTE technology	None.
<b>Acquisition</b>	Ralink Technology Corp.	March 16, 2011	Acquisition agreement	Under Article 15 of the contract, the deal shall be approved by the board and shareholders meeting of both companies and be approved by the authority. Each side shall obey the commitment, obligation, agreement in the contract, and the statements and assurance shall all be genuine.
<b>Real Estate</b>	Beijing Electronic Zone Ltd.	From May 23, 2011	MediaTek (Beijing) purchased office building.	None
<b>Strategic Alliance</b>	Yahoo, Inc.	From June 1, 2011	To implement Yahoo services to MediaTek's new software platform.	None
<b>Investment</b>	Spice Digital Ltd.	From July 29, 2011	MediaTek Singapore licensed from Spice Digital.	None
<b>Real Estate</b>	Winsome Development Corp.	From Feb. 13, 2012	Ralink Technology Corp. purchased office building.	None
<b>Patent settlement and licensing</b>	Rambus Inc.	From Mar. 5, 2012	Rambus agreed to license relevant patents for MediaTek's various products and also revoked all lawsuits outstanding.	None

# 6. Corporate Social Responsibility

## 6.1. Corporate Promise

### 6.1.1. Employee Relations

MediaTek Corporation has followed its “humanistic” principle in cultivating a healthy relationship with its employees. The designated Employee Relations Department is responsible for planning, promoting, and implementing initiatives that lead to a positive and proactive relationship, which is one of the key elements of MediaTek’s ability to maintain growth. The framework for how MediaTek manages its employee relations is as follows:

#### A. Communication with Employees

A variety of mechanisms are in place for the purpose of triggering communication between employees and supervisors as well as evaluating the effectiveness of communication. Some of the initiatives include “Understanding MediaTek’s Business Operations,” “Knowing Your Manager,” “Improving the Working Environment,” and “Reaching a Consensus,” which are conducted both in-person and electronically. These initiatives are carried in a matrix-type framework so that employees can better understand and carry out MediaTek’s policies, while improving the work environment. Opening around the clock and 365 days per year, the mutual communication platform responds employees’ feedback within four working days in average and as high as 95.18% of feedback is rated “satisfied” by employees. In addition, a regular face-to-face meeting is held for employee representatives to meet with top management to discuss major topics. These initiatives and mechanisms are integral to a healthy communication between MediaTek and its employees as well as a cohesive environment.

#### B. Employee Cohesiveness

Beside the formal channels of communication, MediaTek also hosts different types of events. There are company sponsored events such as year-end parties and MediaTek corporate days; holiday celebrations on Engineers’ Day, Valentine’s Day, Mother’s Day, Father’s Day, summer break, Mid-Autumn Festival; and departmental activities such as the department’s Family Day and joint birthday celebrations, volunteer days, travels, and clubs, etc. The key to success is to design activities that fit the employee’s needs so that employees will participate with their families.

Through these activities we can strengthen the interaction and connection between MediaTek and its employees. Since MediaTek began promoting various employee clubs, there are 31 clubs running in total including those were newly-established in 2011: volunteers club, healthy life club and Qigong club. The number of employees participating in clubs is around 3,200 and about 39% of our employees belong to at least one club. MediaTek effectively promotes the expansion of these clubs through company reimbursements and allowances. These clubs are highly valued as they create employee cohesion and a sense of community.

#### C. Health Promotion

MediaTek firmly believes that “healthy employees are essential to high productivity”

and is deeply committed to promoting both the mental and physical health of its employees. In terms of physical health, MediaTek has provided high quality health checks and post-check consultations to its employees for the past seven consecutive years. Higher-risk groups such as executives, female staff, and testing staff receive additional testing such as eyesight checks, mammograms, cervical smear tests, and blood lead concentration tests, etc. The focus is placed on preventive care so that effective treatments can be given before actual symptoms occur.

MediaTek places equally emphasis on the physiological aspect of overall healthcare. Employees are encouraged to use onsite fitness centers or participate in cross-departmental competitions. This type of initiative is aimed at helping the staff develop regular exercise routines. The utilization rate for the various sports facilities at the Health & Lifestyle Center (including a fitness center, badminton court, basketball court, table tennis room, aerobics room) is currently near 100% in the evenings. MediaTek also hires blind masseurs recommended by the Taipei Association of Blind Masseurs whose services are provided inside the fitness center.

#### **D. Humanistic Services**

**Humanistic services include not only MediaTek's overall policies and software/hardware, but also an employee-friendly working environment. Such an environment would also meet the employees' personal needs. There are authorized stores, ticket/gift certificate ordering services, and concierge services that help employees plan for wedding parties/baby showers and order greeting cards and flowers for Mother's Day. These thoughtful services help the employees save a great deal of time and stress.**

#### **E. Care for the Employees and Their Families**

The Employee Relations Department provides one-on-one care and assistance to individual employee issues and needs. The services provided by the department range from emergency assistance (such as car accidents or family emergencies) and **psychological counseling/referral. The regular "Employee Satisfaction Survey" which identifies departments with lower-than-average results and further diagnoses the problems through a "Department Morale Survey", focus group interviews, and random interviews to help the department take necessary rectification measures.** Also, MediaTek understands that behind every hard-working employee is a supportive family. The **"Family Network" is one of the company's initiatives in helping employee families understand the company, build a community for the employee families and provide information such as medical care, childcare and education, apartment rental and home buying, etc.** There is also a family activity room in the Health-and-Life-Style Center where families can charter their own classes and create a strong bond amongst the community.

#### **F. Employee Welfare Committee**

MediaTek has established an Employee Welfare Committee (herein referred to as **the Committee**) in accordance to the Council of Labor Affairs **"Rules Governing Organization of Employee's Welfare Committee."** **The Committee is responsible for promoting various employee activities and funding those activities. The Committee aims to organize a wide-range of activities that achieve both employee cohesiveness and personal flexibility. For example, the Committee offers allowance for Family**



Days and birthday celebrations for each department. It encourages each department to organize team-building activities for both the staff and their family members. Employees can choose to use their travel allowances on personal travel or company-sponsored group travel. Since the Committee's inception, the utilization rate of various welfare allowances have exceeded 95%, which reflects the true spirit of the employee's welfare committee.

## **G. Continuing Education and Training System**

MediaTek provides a comprehensive, humanistic training system. The training system is integral to MediaTek's continuous growth by serving as a learning environment that allows employees to meet their full potential. There are four types of training, each based on the employee's rank and nature of work:

**(a) Management Training System:** The management training system helps managers develop their training blueprint based on the skills required for their positions.

**(b) Engineer Training System:** The engineer training system provides training and development courses for engineers who wish to grow professionally.

**(c) Professional Knowledge Training System:** The professional knowledge training system offers non-engineering training, such as basic management, legal affairs, intellectual property, information technology, human resources, accounting and financing, etc.

**(d) New Staff Training System:** The new staff training system provides training for new employees and engineers.

Total education and training costs accounted for NT\$31,669 thousand in 2011 and NT\$7,481 thousand year-to-date.

## **H. Retirement system**

MediaTek's retirement system was designed in accordance to the Labor Standards Law and the Labor Pension Act. The retirement system makes monthly reserves depositing the funds in the Supervisory Committee on Labor Retirement Funds account at the Central Trust of China. Since the promulgation of the Labor Pension Act on July 1st of 2005, employees have been given the option to stay with the Old System or the New System (but keep the number of working years). For employees who chose the New System, the company makes monthly reserves of at least 6% of the employee's monthly salary statements in accordance with Financial Accounting Standard No.18 "Employer's Accounting for Pension Plans" and provides actuarial reports and recognizes the reserve as a pension liability on the balance sheet.

### **6.1.2. Supplier Management**

As a responsible corporate citizen, MediaTek is committed to implementing environmental-friendly and carbon-reducing initiatives. MediaTek has established the "MediaTek Environment-Friendly and Carbon-Reducing Products Policy," which encompasses four major areas of demands for its suppliers. This policy demands suppliers to make changes in the areas of design, material, transport, and minor details. Descriptions of each item are as follows:

**A. Design:** simplify product structure through green design in order to reduce the use of consumables and the use of pure gold in IC packaging.

**B. Material:** The entire product line should meet the European Directive on the

“Restriction of the Use of Certain Hazardous Substances.” The manufacturing process should incorporate halogen-free material and reduce the use of chemicals.

**C. Transport:** Use recyclable material and reduce the use of consumables during the process of loading and transporting ICs.

**D. Minor Details:** Inspect the IC manufacturing process for excessive waste of resources, such as water and electricity.

## 6.2. Social Participation

### 6.2.1. Social Contributions

#### 6.2.1.1. Sponsor the “NTHU - MediaTek Dr. Wu Ta-You Scholarship”

The scholarship was established to honor the spirit of Dr. Wu Ta-You, who believed in cultivating top university students’ interest in academic research and cross-strait academic exchanges. Since 2005, MediaTek has sponsored National Tsing Hua University with the Dr. Wu Ta-You Scholarship. Each year, 30~50 outstanding NTHU sophomores and juniors receive a NT\$20,000 scholarship and an opportunity to attend a 2-month-long research seminar in China. The sponsorship program also includes inviting 30~50 outstanding students from mainland China universities to visit Taiwan to advance the mutual understanding academically and socially.

#### 6.2.1.2. Establish the MediaTek Fellowship

MediaTek is deeply committed in its efforts to promote science education. The MediaTek Fellowship was established in 2002 with the purpose of encouraging graduate students who wish to go on to a Ph.D. program. The fellowship is intended to reward outstanding graduate students in the field of electric engineering and information technology. Since 2002, 38 students have received the fellowship, each receiving NT\$50,000 per month for as long as 48 months. The fellowship allows the students to dedicate themselves to research. Some of the fellowship recipients have entered the industry or back to academia and begun making contributions in the field of research.

#### 6.2.1.3. Establish the MediaTek Cross-Strait Scholarship

Starting from 2009, MediaTek Foundation provides scholarship to cross-strait exchange students and researchers to fund graduate students, Ph.D. students, and post-doctoral researchers of electronic engineering, electronic machinery, and computer science related fields. Each year, around 15 candidates are entitled to up to 12 months of scholarship.

#### 6.2.1.4. Establish Scholarship for Mainland China Students

To encourage outstanding Mainland China students to pursue master and/or Ph.D. degrees in Taiwan to enhance cross-strait sharing, MediaTek established scholarship designated for Mainland China students since 2011. In 2011, MediaTek sponsored National Taiwan University and National Chiao-Tung University NT\$3.4 millions in total for cross-strait academic events.

#### 6.2.1.5. Partnership with Academia and Research Publications

MediaTek’s long-term partnership with top universities serves as a bridge between the

high-technology industry and academia. MediaTek's commitment to innovative research is also evidenced through its research publications. Particularly, MediaTek has been published in the ISSCC for 9 consecutive years, the only company to accomplish that in Taiwan. **The ISSCC is widely recognized as the "Semiconductor Olympia" of the electrical engineering field and a platform where the latest technological developments can be found.**

MediaTek regularly sponsors scholarships in its efforts to promote science education. The company has sponsored the NTU-MediaTek Wireless Research Lab for 13 consecutive years. The NTU-MediaTek Wireless Research Lab aims to be a world-class lab with a focus on analog radiofrequency wireless communication systems. The Lab has published over 244 research papers. Of these papers, 35 relating to solid-state circuits were published in the International Solid State Circuits Conference (ISSCC). The Lab has filed 26 patent applications and has been rewarded 10 patents, demonstrating a high level of achievement.

In addition, MediaTek joined the "Diamond Project" led by Mr. Chung-Yu Wu, the Principal of NCTU. The project aims to incubate talents in information technology, memory and chip system fields. MediaTek also began a partnership with National Tsing Hua University in 2008 and established the "NTHU-MediaTek Embedded System Laboratory." **The lab focuses its research on embedded systems and developing related designers for the system and system software.** In the first five years, the research has focused on low power embedded Linux kernel, its software development platform, and the core technologies for smart handheld device applications.

MediaTek also cooperate with worldwide outstanding professors in advance technologies. For example, MediaTek work with NTU/NCTU on 4G advanced technology and deliver proposals to the technology standard setup institutes. MediaTek also work with international and domestic outstanding schools on projects covering cloud computing, ADC (Analog to Digital Converter) performance improvement and MIMO (Multi-input Multi-output; MIMO).

**MediaTek's partnerships have reached beyond the top universities in Taiwan. Academic institutions sponsored by MediaTek can be found in the United States, Singapore, and Mainland China.** The company believes that more research opportunities can be exploited by developing talents worldwide.

#### **6.2.1.6. Exclusive Sponsorship of the Lung Yingtai Cultural Foundation's "MediaTek Lectures"**

The MediaTek Foundation is committed to helping Taiwanese youth broaden their horizons, elevate their critical thinking skills, and gain an international view of the world. **The "MediaTek Lectures" was a partnership with the Lung Yintai Cultural Foundation for that very purpose. The "MediaTek Lectures" broke away from the traditional definition of "experts." Respected professionals and leaders from the field of economics, politics, science, and literature were invited to speak at the event. The speakers encouraged the attendees to reach for creativity and innovation in the global arena. The "MediaTek**

Lectures” were not only well received by the attendees but critically lauded.

## **6.2.2. Community Involvement**

### **6.2.2.1. Support the Arts and Culture**

Exclusive sponsorship of IC 97.5 FM’s “I Talk, You Laugh” and “Talking with History” Programs: Real changes can only be made through elevating people’s social and cultural accomplishments. In response to IC 97.5 FM’s slogan of “I Care, I Can, I Change,” MediaTek sponsored the two programs exclusively: “I Talk, You Laugh,” hosted by former President of NTHU, Dr. Chung-Laung Liu, and “Talking with History,” hosted by renowned historian, Hu Zhongxin. These two programs offered insightful analysis to history that served as valuable lessons for the community. By examining historical values and ideas, people can better think critically and independently, which ultimately leads to civic participation. This sense of civic responsibility and participation is crucial to the betterment of our living standards.

### **6.2.2.2. “Save a Life by Donating Blood”**

“Save a Life by Donating Blood” was a blood drive organized by MediaTek employees and promoted through the media. Since 2007, MediaTek employees have organized regular blood drives to the Hsinchu Blood Center during periods of low supply.

### **6.2.2.3. Relay the Hope to Rural Schools for a Brighter Future**

Education is the foundation upon which we build our future. The MediaTek Foundation understands that education requires systematic investment over a long period of time. The foundation has combined its management skills and experience working with higher education, such as fellowships and research partnerships with NTU, NTHU, and NCTU, and put them to use at twelve rural elementary schools in the Hsinchu area. Historically, these rural schools have relied on sporadic donations but have lacked the ability to consolidate resources in a systematic manner. Thus it has been extremely difficult to make long-term progress and changes. The foundation plans to take its experiences with the schools in the Hsinchu area and eventually apply them to other parts of the country as part of its efforts to promote education.

### **6.2.2.4. Sponsor Sports Games**

Starting from 2010, MediaTek became a sponsor of games hosted by Chinese Taipei Football Association (CTFA).

### **6.2.2.5. Volunteer Team**

MediaTek employees have been involving in many different employee volunteer programs, as part of MediaTek’s efforts in corporate social responsibility.

### **6.2.2.6. Environmental Activities**

MediaTek cares about environmental issues and has been actively involved in environmental activities.

## 6.3. Environmental Efforts

### 6.3.1. Long-Term and Short-Term Goals

#### 6.3.1.1. Short-Term Environmental Goals

The company's short-term environmental goals are to implement green product design, packaging and procurement to reduce wasted in resources and energy, as well as follow the international environmental activities..

#### 6.3.1.2. Mid-Term Environmental Goals

Mid-term environmental goals are to strengthen training in the areas of environment, safety, and health. Employees are encouraged to reduce and recycle material and reduce carbon footprint. The importance of occupational health and safety is also impressed upon the entire staff.

#### 6.3.1.3. Long-Term Environmental Goals

Long-term environmental goals are to fully comply with regulatory environmental rules to implement green design for our products, avoid any toxic material, and strengthen green purchasing and green management. Further, establish a comprehensive audit system to inspect the process and continue to do improvement.

### 6.3.2. MediaTek's Energy-Savings Measures and Results

MediaTek believes that being environmentally friendly and reducing the carbon footprint is part of its social responsibility. Some of the company's achievements in this area are as follows:

#### 6.3.2.1: Efforts in energy reduction

**A. Internet Data Center:** Reduced wasted in air conditioning by enhancing design of the internet data center, saves 7.9% more energy, which translates to about NT\$2 million a year.

**B. Air Conditioning System:** Compared to traditional air conditioning systems, MediaTek's Variable Air Volume (VAV) AC system, saves 25.7% more energy, which translates to about NT\$1.56 million a year.

**C. Lighting System:** Lighting control in public areas and parking structures use lighting that is CNS compliant and approved by the Energy Bureau. These measures lead to an annual saving of NT\$1.55 million.

**D. Energy Reduction for Parking Structures:** Controlled parking on the weekends leads to an annual saving of NT\$2.63 million.

#### 6.3.2.2: Efforts in water reduction

**A. Water-saving Faucets:** Replaced traditional faucets with water-saving faucets. Usage of water is reduced by 27%, about 468 tons a year.

**B. Rainwater Recycling:** Implemented a rainwater collection storage tank in size of 2 tons. About 160 tons of water is collected and recycled a year.

**C. Water Reduction:** Condensed water from the company's air conditioners is reused for plant watering. Approximately 5,400 metric tons of condensed water is reused each year.

### **6.3.2.3: Waste Management and Recycling:**

The first step is to reduce overall waste, followed by proper sorting, recycling, and re-use. Continual improvement is also made to waste storage, transport, and processing with an emphasis on reducing the environmental impact. Waste processing and recycling vendors are first carefully chosen then monitored and audited at irregular intervals. The company takes full accountability for its waste management.

### **6.3.2.4 Others:**

The Company implements a policy of company-wide use of non-disposable utensils, promote energy reduction on computer use, etc.

# 7. Financial Status, Operating Results and Status of Risk Management

## 7.1. Financial Status

### 7.1.1. Parent Company

Unit: NT\$ thousands

Item	2010	2011	Change	% of Change
<b>Current Assets</b>	\$59,573,161	\$42,508,698	\$ (17,064,463)	(28.64)
<b>Funds &amp; Investment</b>	59,535,407	81,168,558	21,633,151	36.34
<b>Fixed Assets</b>	6,744,246	6,503,119	(241,127)	(3.58)
<b>Intangible Assets</b>	8,623,090	7,714,627	(908,463)	(10.54)
<b>Other Assets</b>	164,577	141,602	(22,975)	(13.96)
<b>Total Assets</b>	<b>134,640,481</b>	<b>138,036,604</b>	<b>3,396,123</b>	<b>2.52</b>
<b>Current Liability</b>	22,159,301	20,740,542	(1,418,759)	(6.40)
<b>Long-Term Liability</b>	-	-	-	-
<b>Other Liability</b>	768,070	1,018,046	249,976	32.55
<b>Total Liabilities</b>	<b>22,927,371</b>	<b>21,758,588</b>	<b>(1,168,783)</b>	<b>(5.10)</b>
<b>Capital Stock</b>	10,999,682	11,475,191	475,509	4.32
<b>Capital Reserve</b>	12,259,404	24,605,882	12,346,478	100.71
<b>Retained Earnings</b> (include statutory reserve and special reserve)	92,708,116	82,463,225	(10,244,891)	(11.05)
<b>Accumulated Conversion Adjustments</b>	(4,380,730)	(2,253,504)	2,127,226	(48.56)
<b>Unrealized Gain of Financial Assets</b>	182,608	43,192	(139,416)	(76.35)
<b>Treasury Stock</b>	(55,970)	(55,970)	-	-
<b>Total Shareholders' Equity</b>	<b>111,713,110</b>	<b>116,278,016</b>	<b>4,564,906</b>	<b>4.09</b>

Changes that exceed 20% and reach NT\$10 million in the past two years and explanation for those changes:

- (1) Decrease in current assets: Mainly due to decrease in cash and cash equivalents.
- (2) Increase in funds and Investment: Mainly due to stock exchange for Ralink acquires ion and increase in net income of invested companies using equity method
- (3) Increase in other liability: Mainly due to increase in deferred income tax liabilities – non-current.
- (4) Increase in capital reserve: Mainly due to premium resulting from stock exchange for Ralink acquisition.
- (5) Increase in accumulated conversion adjustments: Due to volatility in foreign exchange.
- (6) Decrease in unrealized gain of financial assets: Mainly due to unrealized loss of financial assets coming from invested companies using equity method.

## 7.1.2. Consolidated Report

Unit: NT\$ thousands

Item	2010	2011	Change	% of Change
<b>Current Assets</b>	\$112,595,354	\$112,042,128	\$ (553,226)	(0.49)
<b>Funds &amp; Investment</b>	7,734,457	9,416,963	1,682,506	21.75
<b>Fixed Assets</b>	7,807,817	9,810,051	2,002,234	25.64
<b>Intangible Assets</b>	9,572,335	16,150,659	6,578,324	68.72
<b>Other Assets</b>	324,729	321,307	(3,422)	(1.05)
<b>Total Assets</b>	<b>138,034,692</b>	<b>147,741,108</b>	<b>9,706,416</b>	<b>7.03</b>
<b>Current Liability</b>	25,786,256	30,428,120	4,641,864	18.00
<b>Long-Term Liability</b>	-	147,662	147,662	100.00
<b>Other Liability</b>	535,101	836,999	301,898	56.42
<b>Total Liabilities</b>	<b>26,321,357</b>	<b>31,412,781</b>	<b>5,091,424</b>	<b>19.34</b>
<b>Capital Stock</b>	10,999,682	11,475,191	475,509	4.32
<b>Capital Reserve</b>	12,259,404	24,605,882	12,346,478	100.71
<b>Retained Earnings</b> (include statutory reserve and special reserve)	92,708,116	82,463,225	(10,244,891)	(11.05)
<b>Accumulated Conversion Adjustments</b>	(4,380,730)	(2,253,504)	2,127,226	(48.56)
<b>Unrealized Gain of Financial Assets</b>	182,608	43,192	(139,416)	(76.35)
<b>Treasury Stock</b>	(55,970)	(55,970)	-	-
<b>Minority Stock</b>	225	50,311	50,086	22,260.44
<b>Total Shareholders' Equity</b>	<b>111,713,335</b>	<b>116,328,327</b>	<b>4,614,992</b>	<b>4.13</b>

Changes that exceed 20% and reach NT\$10 million in the past two periods and explanation for those changes:

- (1) Increase in fund & investment: Mainly due to increase in available-for-sale financial assets – noncurrent and financial assets carried at cost-noncurrent
- (2) Increase in fixed assets: Mainly due to the acquisition of Ralink Technology Corp.
- (3) Increase in intangible assets: Mainly due to the acquisition of Ralink Technology Corp.
- (4) Increase in long-term liability: Mainly due to increase in long-term payables.
- (5) Increase in other liabilities: Mainly due to increase in accrued pension liabilities and deferred income tax liabilities – non-current.
- (6) Increase in capital reserve: Mainly due to premium resulting from stock exchange for Ralink acquisition.
- (7) Increase in accumulated conversion adjustments: Due to volatility in foreign exchange.
- (8) Decrease in unrealized gain of financial assets: Mainly due to unrealized loss of financial assets coming from invested companies using equity method.
- (9) Increase in minority stock: Mainly due to increase in minority stock.



## 7.2. Operating Results

### 7.2.1. Parent Company

Unit: NT\$ thousands

Item	2010	2011	Change	% of Change
<b>Revenue</b>	\$79,274,483	\$57,285,540	\$ (21,988,943)	(27.74)
<b>Less: Sales Returns &amp; Discounts</b>	(7,286,053)	(3,443,174)	3,842,879	(52.74)
<b>Net Sales</b>	71,988,430	53,842,366	(18,146,064)	(25.21)
<b>Cost of Goods Sold</b>	(32,726,157)	(31,773,236)	952,921	(2.91)
<b>Gross Profit</b>	39,262,273	22,069,130	(17,193,143)	(43.79)
<b>Operating Expenses</b>	(21,995,227)	(17,229,349)	4,765,878	(21.67)
<b>Income from Operation</b>	<b>17,267,046</b>	<b>4,839,781</b>	<b>(12,427,265)</b>	<b>(71.97)</b>
<b>Non-Operating Incomes</b>	14,971,580	9,257,428	(5,714,152)	(38.17)
<b>Non-Operating Expenses</b>	(44,947)	(138,661)	(93,714)	208.50
<b>Earnings Before Tax</b>	32,193,679	13,958,548	(18,235,131)	(56.64)
<b>Corporate Income Tax</b>	(1,232,242)	(335,478)	896,764	(72.77)
<b>Net Income</b>	<b>30,961,437</b>	<b>13,623,070</b>	<b>(17,338,367)</b>	<b>(56.00)</b>

Changes that exceed 20% and reach NT\$10 million in the past two periods and explanation for those changes:

- (1) Decrease in revenue, sales returns & discounts, net sales, gross profit and net income: Mainly due to lower selling price resulting from market competition.
- (2) Decrease in operating expenses: Mainly due to lower employee bonus resulting from decreased net income.
- (3) Decrease in non-operating incomes and gain: Mainly due to decrease in investment gain.
- (4) Increase in non-expenses and loss: Mainly due to increase in financial assets valuation loss.
- (5) Decrease in earnings before tax and net income: Mainly due to decrease in revenue.
- (6) Decrease in income tax expenses: Mainly due to decrease in earnings before tax.

## 7.2.2. Consolidated

Unit: NT\$1,000

Item	2010	2011	Change	% of Change
<b>Revenue</b>	\$122,374,147	\$91,480,134	\$(30,894,013)	(25.25)
<b>Less: Sales Returns &amp; Discounts</b>	(8,852,189)	(4,622,640)	4,229,549	(47.78)
<b>Net Sales</b>	113,521,958	86,857,494	(26,664,464)	(23.49)
<b>Cost of Goods Sold</b>	(52,613,892)	(47,513,337)	5,100,555	(9.69)
<b>Gross Profit</b>	60,908,066	39,344,157	(21,563,909)	(35.40)
<b>Operating Expenses</b>	(29,829,446)	(26,999,429)	2,830,017	(9.49)
<b>Income from Operation</b>	<b>31,078,620</b>	<b>12,344,728</b>	<b>(18,733,892)</b>	<b>(60.28)</b>
<b>Non-Operating Incomes</b>	1,253,410	1,970,525	717,115	57.21
<b>Non-Operating Expenses</b>	(44,113)	(112,002)	(67,889)	153.90
<b>Earnings Before Tax</b>	32,287,917	14,203,251	(18,084,666)	(56.01)
<b>Corporate Income Tax</b>	(1,351,314)	(587,448)	763,866	(56.53)
<b>Consolidated Net Income</b>	30,936,603	13,615,803	(17,320,800)	(55.99)
<b>Net Income Attributed to Shareholders of the Parent</b>	<b>30,961,437</b>	<b>13,623,070</b>	<b>(17,338,367)</b>	<b>(56.00)</b>

Changes that exceed 20% and reach NT\$10 million in the past two quarters and explanation for those changes:

- (1) Decrease in revenue, sales returns & discounts, net sales, gross profit and net income: Mainly due to lower selling price resulting from market competition.
- (2) Increase in non-operating incomes and gain: Mainly due to increase in interest income and foreign exchange gain.
- (3) Increase in non-expenses and loss: Mainly due to increase in financial assets valuation loss.
- (4) Decrease in earnings before tax, consolidated net income and net income attributed to shareholders of the parent: Mainly due to decrease in revenue.
- (5) Decrease in income tax expenses: Mainly due to decrease in earnings before tax.

## 7.3. Cash Flow Analysis

### 7.3.1. Parent Company

Unit: NT\$ thousands

Cash Balance Dec. 31, 2010	Net Cash Provided by Operating Activities in 2011	Net Cash Outflows from Investing and Financing Activities in 2011	Cash Balance Dec. 31, 2011	Remedy for Cash Shortfall (Investment & Financing Plan)
<b>\$43,169,400</b>	\$7,985,564	\$(24,017,696)	\$27,137,268	-

#### 7.3.1.1. Analysis of the Change in Cash Flow in 2011

**Operation:** Net cash inflow of NT\$7,985,564 thousands, mainly from operating profits.

**Investment:** Net cash inflow of NT\$83,088 thousands, mainly due to the sale of financial assets.

**Financing:** Net cash outflow of NT\$24,100,784 thousands, mainly due to the distribution of earnings and purchase of treasure stock.

### 7.3.1.2. Remedial Actions for Cash Shortfall

The company has ample cash on-hand; remedial actions are not required.

### 7.3.1.3. Cash Flow Projection for Next Year

Not applicable.

## 7.3.2. Consolidated

Unit: NT\$ thousands

Cash Balance Dec. 31, 2010	Net Cash Provided by Operating Activities in 2011	Net Cash Outflows from Investing and Financing Activities in 2011	Impact of Foreign Exchange Ratio	Cash Balance Dec. 31, 2010	Remedy for Cash Shortfall (Investment & Financing Plan)
\$85,927,357	\$16,707,372	\$(18,901,242)	\$2,087,951	\$85,821,438	-

### 7.3.2.1. Analysis of the Change in Cash Flow in 2011

**Operation:** Net cash inflow of NT\$16,707,372 thousands, mainly from operating profits.

**Investment:** Net cash inflow of NT\$1,015,627 thousands, mainly due to sale of financial and cash inflow resulting from the acquisition.

**Financing:** Net cash outflow of NT\$19,916,869 thousands, mainly due to the distribution of earnings and purchase of treasury stock.

### 7.3.2.2. Remedial Actions for Cash Shortfall

The company has ample cash on-hand; remedial actions are not required.

### 7.3.2.3. Cash Flow Projection for Next Year

Not applicable.

## 7.4. Major Capital Expenditure

### 7.4.1. Major Capital Expenditure and Sources of Funding

Unit: NT\$ thousands

Plan	Actual or Planned Source of Capital	Estimated Capital Requirement (as of Dec 31, 2011)	Status of Actual or Projected Use of Capital			
			2008	2009	2010	2011
Land	Cash flow generated from operation	\$888,722	-	-	\$888,722	-
Office Building	Cash flow generated from operation	\$1,435,356	\$121,528	\$1,044,427	\$171,449	\$97,952
R&D Equipments & Software	Cash flow generated from operation	\$1,701,048	\$540,739	\$296,360	\$507,645	\$356,304

Plan	Actual or Planned Source of Capital	Estimated Capital Requirement (as of Dec 31, 2011)	Status of Actual or Projected Use of Capital			
			2008	2009	2010	2011
<b>Intangible Assets</b>	Cash flow generated from operation	\$5,473,722	\$3,858,537	\$847,761	\$648,464	\$118,960

## 7.4.2. Expected Future Benefits

- (1) Lands and office buildings:  
Investment in proper and well-planned space is necessary for attracting talents who are responsible for developing new products. Product development is crucial to **The Company's sustainability.**
- (2) R&D equipment and software:  
Equipment and software can **help The Company's R&D process become more** efficient and thus shortening the product development cycle.
- (3) Intangible assets: computer software, technology and patents:  
It is necessary for the company to strengthen its patent protection in order to navigate the current competitive landscape, which is often mired in complex patent disputes. The company has continued its efforts to obtain high-value patents to improve the **company's patent portfolio. These patents can be applied in many of the company's advanced products.**

## 7.5. Investment Policies

The company's investments are long-term strategic investments. Investment gain from equity method investment in 2011 was NT\$124,047 thousands. The company will keep its long-term strategic investment policy and evaluate investment plans prudentially.

## 7.6. Risk Management

### 7.6.1. Risks Associated with Interest Rate Fluctuation, Foreign Exchange Volatility, and Inflation

Regarding risks associated with foreign exchange: In the past year, US dollars depreciated due to USA **government's** quantitative easing policy; Asian countries' currencies appreciated significantly. The company has a well defined hedging strategy and engages in foreign exchange forward contracts to minimize possible gain/loss stemming from foreign exchange volatility.

Regarding risks associated with interest rate fluctuation: Due to the pressure of inflation, Central Banks of every companies has been increasing interest rates. The company will continue to manage its cash position carefully and endeavor to increase the returns with minimal risks. The Finance Division is responsible for related risk management.

## 7.6.2. Risks Associated with High-Risk/High-Leveraged Investment; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions

As part of The Company's conservative financial management, it does not engage in investments that are either high-risk or high-leveraged. The Company has in place a complete and thorough policy and internal control scheme governing lending, endorsements, guarantees for other parties, and financial derivative transactions. The Company only engages in derivative transactions for hedging purposes. Any gains or losses from such transactions should roughly cancel out gains or losses in the underlying assets. For fiscal year 2011, The Company has provided lease guarantees for its subsidiaries MediaTek Wireless, Inc.(USA) and MTK Wireless Limited (UK) in the amount of NT\$76,629 thousands and NT\$26,123 thousands. The company also provided guarantees for its subsidiaries Gaintech Co. Limited for bank loans in the amount of NT\$ 2,877,550 thousands and guarantees for its subsidiaries Ralink Technology Corp. for IP purchase in the amount of NT\$67,925 thousands. The Finance Division is responsible for related risk management.

## 7.6.3. Future R&D Plans and Expected R&D Spending

R&D Project Name	Schedule
<b>2.75G and 3G Mobile Phone Chipsets</b>	End of 2012
<b>High Sensitivity and Low Power Consumption GPS Receiver Chips</b>	
<b>Next generation high integration and low power WLAN &amp; WPAN chipsets</b>	
<b>Highly integrated GPON/EPON chipsets</b>	
<b>Digital Mobile TV Chips</b>	
<b>Blu-ray DVD Player Single Chip</b>	
<b>Highly integrated Smart TV Chips</b>	
<b>Large and Small Size Touch Panel Controller Chipsets</b>	

The Company's R&D projects all follow industry trends and are implemented in a highly integrated and economical way. R&D expenses in 2010 and 2011 are NT\$23,310,531 thousands and NT\$21,183,903 thousands, accounting for 20.53% and 24.39% respectively. The Company will continue to invest in R&D to develop products for next generation communication standard.

## 7.6.4. Risk Associated with Changes in the Political and Regulatory Environment

MediaTek's management team closely monitors political and regulatory developments that could have a material impact on the Company's business and operation. Pursuant to **the revised articles of Taiwan's Company Law** released on January 4, 2012, a profitable company is allowed to issue new **stock or cash using its legal reserve upon shareholder's approval** (only limit to the portion of legal reserve exceeding 25% of the paid-in capital). The Finance Division and the Legal and Intellectual Property Division are responsible for risk associated with changes in the political and regulatory environment.

### **7.6.5. Impact of New Technology and Industry Changes**

Technologies used in the electronics and semiconductor industries are constantly changing. New standards and applications continuously emerge in wireless communication, optical storage and digital home segments. The Company will continue to invest in research and development, to improve operating efficiency, and to monitor the latest trend of the market, in order to secure and expand our market share. The Company's Business Units are responsible for risks associated with new technology and industry changes.

### **7.6.6. Changes in Corporate Image and Impact on Company's Crisis Management**

MediaTek prides itself on its corporate image. The management has always maintained a humanistic philosophy toward management. MediaTek provides a working environment that is both challenging and nurturing for its employees, who are able to grow and realize their full potential. Those are some of the reasons that MediaTek has been able to attract the top talents in the industry and maintain its leading position in global IC Design. At the same time, **MediaTek's has maintained its core values, such as trust, respect, integrity, honesty, introspection, life-long learning, creativity, and team-work.** As of the **Annual Report's publication date**, there has been no event that adversely **impact in MediaTek's corporate image and impact on company's crisis management.** The business units are responsible for risks associated with corporate image and impact on company's crisis management.

### **7.6.7. Risks Associated with Mergers and Acquisitions**

In order to enhance the Company's human resources, technology, product, and customer portfolio, expand global business and further enhance the Company's industry position, MediaTek acquired Ralink Technology Corp. via a share swap on Oct 1, 2011. After the share swap, Ralink became a wholly-owned subsidiary of MediaTek. The deal was approved on June 15, **2011 by both companies' shareholders' meeting. Considering both companies' profitability, market price, technology, future development and other factors,** the share exchange ratio is 3.156 Ralink common stock to 1 MediaTek common stock. This acquisition has been approved by the authorities and completed the necessary process.

This deal is beneficial for the Company's development in networking and broadband communications products, and is expected to have great synergy. MediaTek expects to branch out to wire line and wireless home and corporate networking device product markets and this acquisition shall be beneficial to shareholders. The Finance Division and business units are responsible for managing the risks associated with mergers and acquisitions.

### **7.6.8. Risks Associated with Plant Expansion**

The Company started expanding the second office building in Hsinchu

Headquarters, which is located on No. 8, Dusing 1<sup>st</sup> Rd, Hsinchu City. The expected benefit of plant expansion is to provide employees with enough work space and meeting rooms. The plant expansion was funded with MediaTek's own funds. MediaTek will also reduce risks associated with the bidding process through carefully selection and adequate insurance. The Human Resources Division is responsible for managing the risks associated with plant expansion.

#### **7.6.9. Risks Associated with Purchase Concentration and Sales Concentration**

MediaTek's production allocation is flexible and diversified, and is able to deal with any emergencies from any of its production lines. Therefore there is no risk associated with purchase concentration. Sales concentration does not pose any risks since MediaTek's products are sold to many clients throughout Japan, Korea, Europe, Southeast Asia, and Greater China. The business units are responsible managing the risks associated with purchase concentration and sales concentration.

#### **7.6.10. Risks Associated with Sales of Significant Numbers of Shares by MediaTek's Directors and Major Shareholders Who Own 10% or More of MediaTek's Total Outstanding Shares**

In 2011, and as of the date of this Annual Report, there were no such risks for MediaTek.

#### **7.6.11. Risks Associated with Change in Management**

In 2011, and as of the date of this Annual Report, there were no such risks for MediaTek.

#### **7.6.12. Risks Associated with Litigations**

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

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

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

The Company and Rambus entered into a settlement and patent license agreement to settle all pending patent litigations and to dismiss all proceeding pending against each other including the above referenced

litigations on March 5, 2012. In accordance with the agreement, it grants the Company the option to use Rambus' patented innovations in a broad range of products offered by the Company.

(2) Freescale Semiconductor, Inc. ("Freescale") filed a Complaint with the U.S. International Trade Commission against the Company and two other Respondents on June 8, 2011 alleging infringement of United States Patents No. 5,467,455. Freescale is alleging against the patent infringement of DTV chips and asking to prevent certain products from being sold in the future. Freescale also filed a Complaint in the United States District Court for Western District of Texas against the Company and one other defendant on June 8, 2011 alleging infringement of United States Patent No. 5,467,455. Freescale is alleging against the patent infringement of DTV chips and asking for damages and to prevent certain products from being sold in the future. The Company filed a Complaint in the United States District Court for Northern District of California against Freescale on November 3, 2011 alleging infringement of United States Patent No. 6,738,845, 6,088,753, 6,311,244, and 6,889,331. The Company is alleging against the patent infringement of Freescale's multimedia application processors and micro-controller products, and asking for damages and to prevent certain products from being sold in the future. Additionally, Freescale filed a Complaint in the U.S. International Trade Commission against the Company and thirteen other Respondents on November 30, 2011 alleging infringement of United States Patent No. 5,467,455. Freescale is alleging against the patent infringement of DTV chips and asking to prevent certain products from being sold in the future.

The Company will handle these cases carefully.

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

The Company will defend the case vigorously.

(4) Lantiq Deutschland GMBH brought a complaint, alleging patent infringement against Trendchip Technology Corp.'s Client Billion Electric Co. Ltd. Trendchip Technology Corp. was liquidated because of the merged Ralink. Lantiq Deutschland GMBH alleged that infringement by DSL sold by Billion



Electric Co. Ltd. The subsidiary, **Ralink Technology Corp. (“Ralink”)** will assist Billion Electric Co. Ltd to deal with above issue. In addition, Ralink has filed a patent infringement litigation in Federal Patent Court of Germany. Subsequently, Ralink filed a complaint in Wisconsin against Lantiq Deutschland GMBH on November 8, 2010 alleging infringement of United States Patents No. 5,394,116. Lantiq Deutschland BmbH and Lantiq North **America, Inc. (“Lantiq”)** 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 Patents No. 6,351,799 and 7,061,904. Lantiq alleged the patent infringement of (networking and computing IC) sold, contracted, and imported by Ralink, and asked the court declare the infringement, which filed by Ralink, is not sustainable and the patent is invalidity. The infringement of District Court of Wisconsin has been transferred to District Court for the Northern District of California. The operation of the subsidiary Ralink Technology Corp. would not be affected by those patent infringements.

(5) MOSAID filed a complaint in the United States District Court, Eastern District of Texas against the subsidiary Ralink Technology Corp. on November 2011 alleging infringement of United States Patent No. 5,131,006, 5,151,920, 5,422,887, 5,706,428, 6,563,786, and 6,889,331. The Company has designated law firm to deal with, and the complaint would not influence the operating significantly.

(6) **Azure Networks, LLC (“Azure”)** and **Tri-County Excelsior Foundation (“TCEF”)** filed a complaint in the United States District Court, Eastern District of Texas against the subsidiaries Ralink Technology Corp, Ralink Technology Corporation (USA), and other defendants on March 2011 alleging infringement of United States Patent No. 7,756,129. The Company has designated law firm to deal with, and the complaint would not influence the operating significantly.

**7.6.13. Other Material Risk: None.**

**7.7. Other Material Events**

**7.7.1. Certificate Holding Status for Personnel Associated with Financial Transparency**

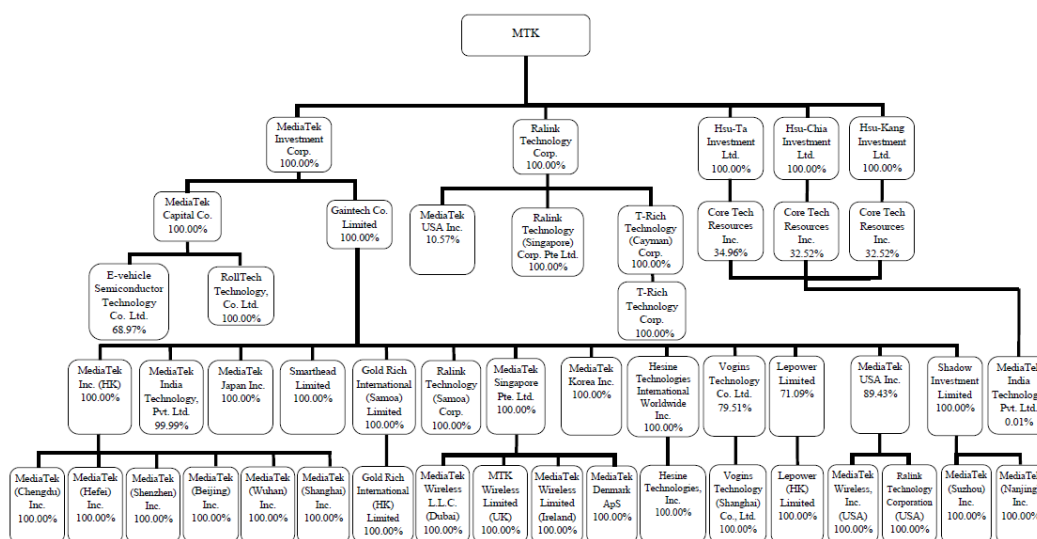
Headcount \ Certificate	CPA	US CPA	CICPA	Singapore CPA	CIA	CMA
Finance	7	1	-	1	3	1
Internal audit	1	-	1	-	-	-

# 8. Other Special Notes

## 8.1. MediaTek Affiliates

### 8.1.1. MediaTek Affiliated Companies Chart

Dec. 31, 2011



#### Definition of Affiliates:

All directly and indirectly majority owned subsidiaries of the Company, and the accounts of investees in which the Company's ownership percentage is less than 50% but the Company has a controlling interest.

## 8.1.2. MediaTek Affiliated Companies

As of Dec. 31, 2011. Unit: NT\$ thousands / Foreign Currency thousands

Company Name	Date of Incorporation	Place of Registration	Capital Stock	Major Business
<b>MediaTek Investment Co.</b>	July 2000	Taiwan	NTD 40,735,393	Investment
<b>MediaTek Capital Co.</b>	Sep. 2000	Taiwan	NTD 3,951,392	Investment
<b>Hsu-Ta Investment Ltd.</b>	Sep. 2002	Taiwan	NTD 3,913,808	Investment
<b>Hsu-Kang Investment Ltd.</b>	Sep. 2002	Taiwan	NTD 3,634,700	Investment
<b>Hsu-Chia Investment Ltd.</b>	Sep. 2002	Taiwan	NTD 3,634,418	Investment
<b>Gaintech Co. Limited</b>	Jul. 2000	Cayman Islands	USD 319,975	Investment
<b>CoreTech Resources Inc.</b>	Sep. 2002	B.V.I.	USD 57,200	Investment
<b>MediaTek Singapore Pte. Ltd.</b>	June 2004	Singapore	SGD 111,994	R&D, manufacturing and sales
<b>MediaTek India Technology Pvt. Ltd.</b>	May 2004	India	INR 55,000	R&D
<b>MediaTek Inc. China (Hong Kong)</b>	Sep. 2007	Hong Kong	HKD 2,213,960	Investment
<b>MediaTek (Heifei) Inc.</b>	Aug. 2003	China	USD 5,400	Customer support & service
<b>MediaTek (ShenZhen) Inc.</b>	Oct. 2003	China	USD 8,000	Customer support & service
<b>MediaTek (Chengdu) Inc.</b>	Sep. 2010	China	USD 14,800	Customer support & service
<b>MediaTek (Wuhan) Inc.</b>	Dec. 2010	China	USD 4,800	Customer support & service
<b>MediaTek (Beijing) Inc.</b>	Nov. 2006	China	USD 100,000	Customer support & service
<b>MTK Wireless Limited (UK)</b>	Aug. 2007	UK	GBP 4,414	R&D
<b>MediaTek Wireless Limited (Ireland)</b>	Oct. 2007	Ireland	EUR 1,970	R&D
<b>MediaTek Denmark ApS</b>	Oct. 2007	Denmark	DKK 20,000	R&D
<b>MediaTek USA Inc.</b>	May 1997	USA	USD 0.1	R&D
<b>MediaTek Wireless L.L. C. (Dubai)</b>	Sep. 2010	Dubai	AED 300	Customer support & service
<b>MediaTek USA Inc.</b>	May 1997	USA	USD 0.1	R&D
<b>MediaTek Japan Inc.</b>	June 1997	Japan	JPY 100,000	Customer support & service
<b>MediaTek Korea Inc.</b>	Feb. 2007	S. Korea	KRW 2,000,000	Customer support & service
<b>MediaTek Wireless, Inc. (USA)</b>	Aug. 2007	USA	USD 16,900	R&D
<b>Vogins Technology Co. Ltd.</b>	Dec. 2005	B.V.I.	USD 1,110	Investment
<b>Vogins (Shanghai)</b>	Mar. 2007	China	USD 5,770	Software development
<b>Hesine Technologies International Worldwide Inc.</b>	Oct. 2010	China	USD 213	Investment
<b>MediaTek (Shanghai) Inc.</b>	Jan. 2011	China	USD 3,000	Customer support & service
<b>RollTech Technology Co. Ltd.</b>	Mar. 2007	Taiwan	USD 35,100	Software development
<b>Gold Rich International (Samoa) Limited</b>	Mar. 2011	Samoa	USD 4,290	Investment
<b>Smarthead Limited</b>	Jan. 2011	Seychelles	USD 700	Investment
<b>E-vehicle Semiconductor Technology Co. Ltd.</b>	May 2011	Taiwan	NTD 116,000	R&D, Manufacturing and Sales
<b>Gold Rich International (HK) Limited</b>	Mar. 2011	Hong Kong	USD 4,190	Investment
<b>Lepower Limited</b>	Mar. 2011	Samoa	USD 2,166	Investment
<b>Hesine Technologies, Inc.</b>	Sep. 2008	China	CNY 10,000	Customer support & service
<b>Lepower (HK) Limited</b>	Mar. 2011	Hong Kong	USD 2,100	Investment
<b>Ralink Technology (Samoa) Corp.</b>	Mar. 2008	Samoa	USD 3,350	Investment
<b>Shadow Investment Limited</b>	Apr. 2002	Samoa	USD 15,000	Investment
<b>Ralink Technology Corp.</b>	Nov. 2001	Taiwan	NTD 1,752,640	R&D, manufacturing and sales
<b>Ralink Technology Corporation (USA)</b>	Nov. 2000	USA	USD 2,400	R&D

Company Name	Date of Incorporation	Place of Registration	Capital Stock	Major Business
<b>Ralink Technology (Singapore) Corporation Pte. Ltd.</b>	Jan. 2009	Singapore	USD 32,000	Investment
<b>T-Rich Technology (Cayman) Corp.</b>	Oct. 2009	Cayman Islands	USD 5,555	Investment
<b>MediaTek (Nanjing) Inc.</b>	Jun. 2008	China	USD 1,000	Customer support & service
<b>MediaTek (Suzhou) Inc.</b>	Dec. 2003	China	USD 1,500	Customer support & service
<b>T-Rich Technology Corp.</b>	Dec. 2008	Taiwan	NTD 170,000	R&D, Manufacturing and sales

### 8.1.3. Common Shareholders of MediaTek and Its Subsidiaries or Its Affiliates with Actual of Deemed Control

None.

### 8.1.4. Business Scope of MediaTek and Its Affiliated Companies

Business scope of MediaTek and its affiliates include the investment, R&D, promotion, after service for optical storage products, digital consumer products, wireless communication, digital TV, etc. MediaTek affiliates support the Company's core business by acquiring leading technology through investment.

## 8.1.5. List of Directors, Supervisors and Presidents of MediaTek's Affiliated Companies

December 31, 2011 (Unit: share / %)

Company Name	Title	Name or Representative	Shares	% of Holding
<b>MediaTek Investment Co.</b>	Chairman/Director	MediaTek Inc. Rep.: Ching-Jiang Hsieh	4,073,539,273	100%
	Director	MediaTek Inc. Rep.: David Ku		
	Director	MediaTek Inc. Rep.: Jane Chen		
	Supervisor	MediaTek Inc. Rep.: Kirin Liu		
<b>MediaTek Capital Co.</b>	Chairman/Director	MediaTek Investment Co. Rep.: Ching-Jiang Hsieh	395,139,163	100%
	Director	MediaTek Investment Co. Rep.: David Ku		
	Director	MediaTek Investment Co. Rep.: Jane Chen		
	Supervisor	MediaTek Investment Co. Rep.: Kirin Liu		
<b>RollTech Technology, Co. Ltd.</b>	Chairman/Director	MediaTek Capital Co. Rep. Liu Hui-Ling	3,510,000	100%
	Director	MediaTek Capital Co. Rep. Cheng-Te Chung		
	Director	MediaTek Capital Co. Rep. MT Hsieh		
	Supervisor	MediaTek Capital Co. Rep. Shouyen Liu		
<b>E-vehicle Semiconductor Technology Co. Ltd.</b>	Chairman/Director	MediaTek Capital Co. Rep. Ching-Chuan Hsu	8,000,000	68.97%
	Director	MediaTek Capital Co. Rep. James Liao		
	Director	Chao-Ting Ho	1,351,000	11.65%
	Supervisor	Pin-Ting Chung	-	-
<b>Hsu-Ta Investment Ltd.</b>	Director	MediaTek Inc. Rep.: David Ku	Not applicable	100%
<b>Hsu-Kang Investment Ltd.</b>	Director	MediaTek Inc. Rep.: David Ku	Not applicable	100%
<b>Hsu-Chia Investment Ltd.</b>	Director	MediaTek Inc. Rep.: David Ku	Not applicable	100%
<b>CoreTech Resources Inc.</b>	Director	Hsu-Ta Investment Ltd. Hsu-Chia Investment Ltd. Hsu-Kang Investment Ltd. Rep.: David Ku	57,200,000	100%
<b>Gaintech Co. Limited</b>	Director	MediaTek Investment Co. Rep.: David Ku	319,975,440	100%
<b>MediaTek India Technology Pvt. Ltd.</b>	Director	Gaintech Co. Limited Rep.: Grant Kuo	5,499,999	99.99%
	Director	Gaintech Co. Limited Rep.: David Ku		
	Director	Gaintech Co. Limited Rep.: Jane Chen		
<b>MediaTek Inc. China</b>	Director	Gaintech Co. Limited Rep.: David Ku	2,213,959,820	100%
<b>MediaTek (Heifei) Inc.</b>	Chairman/ Director	MediaTek Inc. China Rep.: Wen-Hsin Wang	Not applicable	100%
	Director	MediaTek Inc. China Rep.: David Ku		
	Director	MediaTek Inc. China Rep.: Wang Hai		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
<b>MediaTek (ShenZhen) Inc.</b>	Chairman/ Director	MediaTek Inc. China Rep.: Wen-Hsin Wang	Not applicable	100%
	Director	MediaTek Inc. China Rep.: C. C. Yeh		
	Director	MediaTek Inc. China Rep.: David Ku		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
<b>MediaTek (Beijing) Inc.</b>	Chairman/ Director	MediaTek Inc. China Rep.: Wen-Hsin Wang	Not Applicable	100%
	Director	MediaTek Inc. China Rep.: Cheng-Te Chung		

Company Name	Title	Name or Representative	Shares	% of Holding
	Director	MediaTek Inc. China Rep.: David Ku		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
<b>MediaTek (Chengdu) Inc.</b>	Chairman/ Director	MediaTek Inc. China Rep.: Wen-Hsin Wang	Not Applicable	100%
	Director	MediaTek Inc. China Rep.: C C Yeh		
	Director	MediaTek Inc. China Rep.: David Ku		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
<b>MediaTek (Wuhan) Inc.</b>	Chairman/ Director	MediaTek Inc. China Rep.: Wen-Hsin Wang	Not Applicable	100%
	Director	MediaTek Inc. China Rep.: David Ku		
	Director	MediaTek Inc. China Rep.: Wang Hai		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
<b>MediaTek (Shanghai) Inc.</b>	Chairman/ Director	MediaTek Inc. China Rep.: Wen-Hsin Wang	Not Applicable	100%
	Director	MediaTek Inc. China Rep.: C C Yeh		
	Director	MediaTek Inc. China Rep.: David Ku		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
<b>Smarthead Limited</b>	Director	Gaintech Co. Limited Rep.: Jane Chen	700,000	100%
<b>MediaTek Singapore Pte. Ltd.</b>	Director	Gaintech Co. Limited Rep.: CC Ku	111,993,960	100%
	Director	Gaintech Co. Limited Rep.: David Ku		
<b>MTK Wireless Limited (UK)</b>	Director	MediaTek Singapore Pte. Ltd. Rep.: David Ku	4,414,003	100%
<b>MediaTek Wireless Limited (Ireland)</b>	Director	MediaTek Singapore Pte. Ltd. Rep.: David Ku	1,969,707	100%
	Director	MediaTek Singapore Pte. Ltd. Rep.: Donald Bergin		
	Director	MediaTek Singapore Pte. Ltd. Rep.: Denis Murphy		
<b>MediaTek Denmark ApS</b>	Director	MediaTek Singapore Pte. Ltd. Rep.: David Ku	20,000,000	100%
<b>MediaTek Wireless L.L.C. (Dubai)</b>	Director	MediaTek Singapore Pte. Ltd. Rep.: Grant Kuo	300	100%
	Director	MediaTek Singapore Pte. Ltd. Rep.: David Ku		
	Director	MediaTek Singapore Pte. Ltd. Rep.: James Liao		
<b>MediaTek USA Inc.</b>	Director	Gaintech Co. Limited Rep.: David Ku	100,000	100%
<b>MediaTek Wireless, Inc. (USA)</b>	Director	MediaTek USA Inc. Rep.: David Ku	100,000	100%
<b>MediaTek Japan Inc.</b>	Chairman/ Director	Gaintech Co. Limited Rep.: David Ku	7,100	100%
	Director	Gaintech Co. Limited Rep.: Jeffrey Ju		
	Director	Gaintech Co. Limited Rep.: Yoshitaka Sakurai		
	Supervisor	Gaintech Co. Limited Rep.: Kirin Liu		
<b>MediaTek Korea Inc.</b>	Director	Gaintech Co. Limited Rep.: Ping-Hsing Lu	200,000	100%
	Director	Gaintech Co. Limited Rep.: John Lee		
	Director	Gaintech Co. Limited Rep.: David Ku		
	Supervisor	Gaintech Co. Limited Rep.: Kirin Liu		
<b>Vogins Technology Co. Ltd.</b>	Chairman/ Director	Wei Hua, Zhang	-	-
	Director	Vogins Investment Co., Ltd Rep.: Rong-Xia, Zhang	630,401	8.71%
	Director	Gaintech Co. Limited Rep.: Steven Yuen	7,063,693	79.51%

Company Name	Title	Name or Representative	Shares	% of Holding
	Director	Gaintech Co. Limited Rep.: David Ku		
	Director	Gaintech Co. Limited Rep.: Jane Chen		
	Director	Gaintech Co. Limited Rep.: Richard Wang		
	Director	Gaintech Co. Limited Rep.: Song Li		
<b>Vogins (Shanghai)</b>	Chairman/ Director	Vogins Technology Co. Ltd. Rep.: Song Li	Not applicable	100%
<b>Gold Rich International (Samoa) Limited</b>	Director	Gaintech Co. Limited Rep.: Jane Chen	4,290,000	100%
<b>Gold Rich International (HK) Limited</b>	Director	Gold Rich International (Samoa) Limited Rep.: Jane Chen	4,190,000	100%
	Director	Gold Rich International (Samoa) Limited Rep.: CC Yeh		
<b>Hesine Technologies International Worldwide Inc.</b>	Director	Gaintech Co. Limited Rep.: David Ku	850,000	100%
	Director	Gaintech Co. Limited Rep.: Richard Wang		
	Director	Gaintech Co. Limited Rep.: James Liao		
<b>Hesine Technologies, Inc.</b>	Representative	Hesine Technologies International Worldwide Inc. Rep.: Jianhui Tao	Not applicable	100%
<b>Lepower Limited</b>	Director	Gaintech Co. Limited Rep.: Jane Chen	1,540,000	71.09%
<b>Lepower (HK) Limited</b>	Director	Lepower Limited Rep.: Jane Chen	2,100,000	100%
<b>Ralink Technology (Samoa) Corp.</b>	Director	Gaintech Co. Limited Rep.: David Ku	3,350,000	100%
<b>Shadow Investment Limited</b>	Director	Gaintech Co. Limited Rep.: David Ku	15,000,000	100%
<b>MediaTek (Nanjing)</b>	Chairman/Director	Shadow Investment Limited Rep.: Michael Lu	Not applicable	100%
	Director	Shadow Investment Limited Rep.: David Ku	Not applicable	100%
	Director	Shadow Investment Limited Rep.: Chang-An Lin	Not applicable	100%
	Supervisor	Shadow Investment Limited Rep.: Kirin Liu	Not applicable	100%
<b>MediaTek (Suzhou)</b>	Chairman/Director	Shadow Investment Limited Rep.: Michael Lu	Not applicable	100%
	Director	Shadow Investment Limited Rep.: Kirin Liu	Not applicable	100%
<b>Ralink Technology Corp.</b>	Chairman/Director	MediaTek Inc. Rep.: Ching-Jiang Hsieh	175,264,005	100%
	Director	MediaTek Inc. Rep.: David Ku		
	Director	MediaTek Inc. Rep.: Jane Chen		
	Supervisor	MediaTek Inc. Rep.: Kirin Liu		
	Executive Officer	MediaTek Inc. Rep.: Ching-Jiang Hsieh		
<b>Ralink Technology Corporation (USA)</b>	Director	MediaTek USA Inc. Rep.: Jane Chen	30,000,000	100%
<b>Ralink Technology (Singapore) Corporation Pte. Ltd.</b>	Director	Ralink Technology Corp. Rep.: Jane Chen	32,000,000	100%
	Director	Ralink Technology Corp. Rep.: Poon Lee Seng		
<b>T-Rich Technology (Cayman) Corp.</b>	Director	Ralink Technology Corp. Rep.: Jane Chen	11,110,150	100%
<b>T-Rich Technology Corp.</b>	Chairman/Director	T-Rich Technology (Cayman) Corp. Rep.: Jane Chen	17,000,000	100%
	Director	T-Rich Technology (Cayman) Corp. Rep.: James Liao		
	Director	T-Rich Technology (Cayman) Corp. Rep.: Tracy Shih		
	Supervisor	T-Rich Technology (Cayman) Corp. Rep.: Shouyen Liu		

## 8.1.6. Operation Highlights of MediaTek Affiliated Companies

Dec. 31, 2011, Unit, NT\$ thousands

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income	EPS (after tax)
MediaTek Investment Co.	40,735,393	56,756,684	995	56,755,689	8,529,897	8,525,371	8,522,564	2.09
MediaTek Capital Co.	3,951,392	6,627,501	-	6,627,501	280,710	280,458	279,797	0.71
Gaintech Co. Limited	9,692,056	52,611,132	4,256,745	48,354,387	8,294,070	8,285,836	8,249,758	25.78
Hsu-Ta Investment Ltd.	3,913,808	3,727,893	1,429	3,726,464	42,844	42,737	39,215	Not applicable
Hsu-Kang Investment Ltd.	3,634,700	3,465,960	1,150	3,464,810	40,223	40,114	36,776	Not applicable
Hsu-Chia Investment Ltd.	3,634,418	3,454,770	54	3,454,716	37,033	36,927	36,927	Not applicable
CoreTech Resources Inc.	1,732,588	2,471,023	47	2,470,976	64,238	62,980	62,980	1.10
MediaTek (Heifei) Inc.	196,336	425,653	85,552	340,101	646,654	47,789	50,004	Not applicable
MediaTek (ShenZhen) Inc.	274,619	741,667	186,084	555,583	1,311,705	83,494	77,653	Not applicable
MediaTek India Technology Pvt. Ltd.	31,427	249,444	76,964	172,481	258,056	44,705	42,742	7.77
MediaTek Singapore Pte. Ltd.	2,362,093	20,263,296	2,662,418	17,600,878	31,481,514	7,085,390	7,360,501	65.72
MediaTek (Beijing) Inc.	3,294,363	3,751,225	149,855	3,601,370	1,508,741	146,063	131,550	Not applicable
MediaTek Korea Inc.	52,300	111,259	40,034	71,225	168,650	11,033	7,832	39.16
MediaTek USA Inc.	3	1,734,849	183,032	1,551,817	1,095,797	71,908	104,228	932.14
MediaTek Japan Inc.	39,373	88,667	29,921	58,746	198,907	13,013	3,185	448.56
MediaTek Inc. China (Hong Kong)	8,635,063	9,632,651	-	9,632,651	181,694	178,146	178,146	Not applicable
MediaTek Denmark ApS	105,496	231,076	61,990	169,086	203,979	13,353	5,134	0.26
MediaTek Wireless Limited (Ireland)	77,191	27,453	(274)	27,728	-	-	-	0.00
MediaTek Wireless, Inc. (USA)	511,901	971,243	128,738	842,505	893,523	58,446	10,342	103.42
MTK Wireless Limited (UK)	207,315	378,103	37,173	340,930	359,456	23,737	25,013	5.67
Vogins Technology Co. Ltd.	33,636	15,149	48,540	(33,391)	(17,625)	(20,382)	(20,382)	(2.29)
Vogins Shanghai	174,773	26,619	8,834	17,785	78,929	(17,246)	(17,246)	Not applicable
RollTech Technology Co. Ltd.	35,100	45,019	19,229	25,790	57,052	4,379	3,589	1.02
MediaTek (Chengdu) Inc.	470,462	461,423	50,558	410,865	142,319	(42,105)	(49,188)	Not applicable
MediaTek Wireless L.L.C. (Dubai)	2,474	29,646	-	29,646	10,465	685	675	2248.82
MediaTek (Wuhan) Inc.	153	112	10	102	37	(46)	(47)	Not applicable
Hesine Technologies International Worldwide Inc.	6,437	83,091	-	83,091	(1,412)	(20,599)	(20,599)	(24.23)
MediaTek (Shanghai) Inc.	94,844	74,499	29,043	45,456	53,317	(44,636)	(44,598)	Not applicable
Gold Rich International (Samoa) Limited	129,944	129,587	-	129,587	(303)	(351)	(351)	(0.08)
Smarthead Limited	21,203	18,706	-	18,706	(2,282)	(2,304)	(2,304)	(3.29)



Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income	EPS (after tax)
E-vehicle Semiconductor Technology Co. Ltd.	116,000	106,488	3,660	102,828	-	(13,800)	(13,172)	(1.14)
Gold Rich International (HK) Limited	126,915	126,607	-	126,607	3	(303)	(303)	(0.07)
Lepower Limited	66,638	66,600	-	66,600	3	(36)	(36)	(0.02)
Hesine Technologies, Inc.	48,126	71,653	37,695	33,958	60,255	(5,043)	(5,043)	Not applicable
Lepower (HK) Limited	63,609	63,612	-	63,612	3	3	3	Not applicable
Ralink Technology (Samoa) Corp.	101,472	55,326	-	55,326	-	(16,250)	(16,982)	(5.07)
Shadow Investment Limited	454,350	97,974	117	97,857	(25,787)	(94,507)	(94,507)	(6.30)
Ralink Technology Corp.	1,752,640	10,875,168	2,149,442	8,725,726	8,386,615	(134,079)	(1,878,301)	(10.72)
Ralink Technology Corporation (USA)	72,696	478,777	78,924	399,853	236,490	8,281	8,229	0.27
Ralink Technology (Singapore) Corporation Pte. Ltd.	969,280	43,107	118	42,989	644	(271,887)	(271,887)	(8.50)
T-Rich Technology (Cayman) Corp.	168,263	45,503	67	45,436	(66,660)	(59,010)	(59,010)	(5.31)
MediaTek (Nanjing) Inc.	32,860	44,858	35,494	9,364	37,575	(7,748)	(7,748)	Not applicable
MediaTek (Suzhou) Inc.	58,768	121,239	117,054	4,186	66,648	(26,537)	(26,145)	Not applicable
T-Rich Technology Corp.	170,000	33,481	150	33,331	16,601	(70,442)	(76,615)	(4.51)

Note: The amount of capital, asset, liabilities and net worth in this table were calculated using the exchange rate at end of 2011. The net sales, income from operation, net income and EPS numbers were calculated using the average exchange rate in 2011.

## 8.2. Private Placement Securities

None.

## 8.3. Holding or Disposition of MediaTek Stocks by Subsidiaries

Unit: NT\$ thousands / share / %

Subsidiary	Paid-in Capital	Source of Funding	% Owned by MediaTek	Transaction Date	Acquire Share & Amount	Disposal Shares	Investment Gain	Balance (share & amount) (Note)	Balance of Pledged Shares	Balance of Guarantee Provided by MediaTek	Balance of Financing Provided by MediaTek
MediaTek Capital Co.	3,951,392	None	100%	-	-	-	-	7,794,085 shares, NT\$55,970 thousands	-	-	-

Note: Stock dividend.

## 8.4. Other Significant Events

Any Events in 2011 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Rights or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

## 8.5. Other Necessary Supplement

None.

# 9. Financial Information

## 9.1. Condensed Balance Sheet

### 9.1.1. Condensed Balance Sheet – Parent Company

Unit: NT\$ thousands

Item	2007	2008	2009	2010	2011
<b>Current assets</b>	62,612,568	45,752,665	69,190,377	59,573,161	42,508,698
<b>Funds and investments</b>	27,579,761	35,131,777	48,207,732	59,535,407	81,168,558
<b>Fixed assets</b>	5,221,845	5,243,216	5,896,167	6,744,246	6,503,119
<b>Intangible assets</b>	1,478,649	10,259,038	9,380,709	8,623,090	7,714,627
<b>Other assets</b>	397,515	200,730	241,321	164,577	141,602
<b>Total assets</b>	97,290,338	96,587,426	132,916,306	134,640,481	138,036,604
<b>Current liabilities – Before distribution</b>	11,285,891	14,893,337	23,767,572	22,159,301	20,740,542
<b>Current liabilities – After distribution</b>	34,337,696	29,917,469	52,110,662	44,158,758	(Note)
<b>Long-term liabilities</b>	-	-	-	-	-
<b>Other liabilities</b>	67,390	83,188	279,249	768,070	1,018,046
<b>Total liabilities – Before distribution</b>	11,353,281	14,976,525	24,046,821	22,927,371	21,758,588
<b>Total liabilities – After distribution</b>	34,405,086	30,000,657	52,389,911	44,926,828	(Note)
<b>Capital stock</b>	10,408,538	10,731,523	10,901,189	10,999,682	11,475,191
<b>Capital reserve</b>	2,539,843	2,757,311	8,267,826	12,259,404	24,605,882
<b>Retained earnings – Before distribution</b>	72,636,319	68,451,526	90,111,571	92,708,116	82,463,225
<b>Retained earnings – After distribution</b>	49,261,529	53,405,931	61,746,679	70,708,659	(Note)
<b>Accumulated conversion adjustment</b>	(400,047)	(17,915)	(527,304)	(4,380,730)	(2,253,504)
<b>Unrealized gains from financial instruments</b>	808,374	(255,574)	172,173	182,608	43,192
<b>Treasury stock</b>	(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
<b>Total shareholders' equity – before distribution</b>	85,937,057	81,610,901	108,869,485	111,713,110	116,278,016
<b>Total shareholders' equity – after distribution</b>	62,885,252	66,586,769	80,526,395	89,713,653	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting on June 13, 2012

## 9.1.2. Condensed Balance Sheet – MediaTek & Subsidiaries

Unit: NT\$ thousands

Item	2007	2008	2009	2010	2011
<b>Current assets</b>	80,162,022	71,225,877	114,038,269	112,595,354	112,042,128
<b>Funds and investments</b>	7,646,960	8,969,627	6,661,594	7,734,457	9,416,963
<b>Fixed assets</b>	5,921,529	6,504,012	6,888,829	7,807,817	9,810,051
<b>Intangible assets</b>	4,351,857	12,029,070	10,622,893	9,572,335	16,150,659
<b>Other assets</b>	784,166	345,818	381,701	324,729	321,307
<b>Total assets</b>	98,866,534	99,074,404	138,593,286	138,034,692	147,741,108
<b>Current liabilities – Before distribution</b>	12,720,880	17,232,353	29,454,365	25,786,256	30,428,120
<b>Current liabilities – After distribution</b>	35,772,685	32,256,485	57,797,455	47,785,713	(Note)
<b>Long-term liabilities</b>	9,016	-	-	-	147,662
<b>Other liabilities</b>	67,390	83,188	248,318	535,101	836,999
<b>Total liabilities – Before distribution</b>	12,797,286	17,315,541	29,702,683	26,321,357	31,412,781
<b>Total liabilities – After distribution</b>	35,849,091	32,339,673	58,045,773	48,320,814	(Note)
<b>Capital stock</b>	10,408,538	10,731,523	10,901,189	10,999,682	11,475,191
<b>Capital reserve</b>	2,539,843	2,757,311	8,267,826	12,259,404	24,605,882
<b>Retained earnings – Before distribution</b>	72,636,319	68,451,526	90,111,571	92,708,116	82,463,225
<b>Retained earnings – After distribution</b>	49,261,529	53,405,931	61,746,679	70,708,659	(Note)
<b>Accumulated conversion adjustment</b>	(400,047)	(17,915)	(527,304)	(4,380,730)	(2,253,504)
<b>Unrealized gains from financial instruments</b>	808,374	(255,574)	172,173	182,608	43,192
<b>Treasury stock</b>	(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
<b>Minority Interest</b>	132,191	147,962	21,118	225	50,311
<b>Total shareholders' equity – before distribution</b>	86,069,248	81,758,863	108,890,603	111,713,335	116,328,327
<b>Total shareholders' equity – after distribution</b>	63,017,443	66,734,731	80,547,513	89,713,878	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting on June 13, 2012

## 9.2. Condensed Income Statement

### 9.2.1. Condensed Income Statement – Parent Company

Unit: NT\$ thousands

Item	2007	2008	2009	2010	2011
<b>Revenue</b>	74,778,579	68,015,543	77,310,752	71,988,340	53,842,366
<b>Gross profit</b>	42,226,397	35,876,812	46,119,674	39,262,273	22,069,130
<b>Income from operations</b>	31,426,760	17,090,396	21,446,596	17,267,046	4,839,781
<b>Non-operating income and gains</b>	3,573,546	4,605,861	15,845,255	14,971,580	9,257,428
<b>Non-operating expenses and losses</b>	(167,376)	(726,440)	(13,908)	(44,947)	(138,661)
<b>Income from operations of continued segments – before tax</b>	34,832,930	20,969,817	37,277,943	32,193,679	13,958,548
<b>Income from operations of continued segments – after tax</b>	33,592,702	19,189,997	36,705,640	30,961,437	13,623,070
<b>Accumulated adjustment due to change in accounting principle</b>	-	-	-	-	-
<b>Net income</b>	33,592,702	19,189,997	36,705,640	30,961,437	13,623,070
<b>Earnings per share</b>	32.59	18.01	34.12	28.44	12.35
<b>Earnings per share – adjusted</b>	31.54	17.98	34.05	28.44	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting on June 13, 2012

### 9.2.2. Condensed Income Statement – MediaTek & Subsidiaries

Unit: NT\$ thousands

Item	2007	2008	2009	2010	2011
<b>Revenue</b>	80,671,769	90,402,041	115,511,625	113,521,958	86,857,494
<b>Gross profit</b>	45,330,881	47,336,319	67,817,390	60,908,066	39,344,157
<b>Income from operations</b>	31,889,180	21,061,222	36,387,164	31,078,620	12,344,728
<b>Non-operating income and gains</b>	3,753,812	2,320,950	1,224,948	1,253,410	1,970,525
<b>Non-operating expenses and losses</b>	(790,707)	(2,284,042)	(192,026)	(44,113)	(112,002)

Item	2007	2008	2009	2010	2011
<b>Income from operations of continued segments – before tax</b>	34,852,285	21,098,130	37,420,086	32,287,917	14,203,251
<b>Income from operations of continued segments – after tax</b>	33,390,134	19,174,240	36,695,466	30,936,603	13,615,803
<b>Accumulated adjustment due to change in accounting principle</b>	-	-	-	-	-
<b>Net income – consolidated</b>	33,390,134	19,174,240	36,695,466	30,936,603	13,615,803
<b>Net income – parent company</b>	33,592,702	19,189,997	36,705,640	30,961,437	13,623,070
<b>Earnings per share</b>	32.59	18.01	34.12	28.44	12.35
<b>Earnings per share – adjusted</b>	31.54	17.98	34.05	28.44	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting on June 13, 2012

## 9.3. Independent Auditors' Opinions

Year	CPA Firm	Name of Auditors (CPA)	Audio Opinion
2007	Ernst & Young	Hsin-Ming Hsu, Chien-uo Yang	Unqualified Opinions
2008	Ernst & Young	Shou-Pin Kuo, Hsin-Ming Hsu	Revised Unqualified Opinions
2009	Ernst & Young	Shou-Pin Kuo, Hsin-Ming Hsu	Unqualified Opinions
2010	Ernst & Young	Shou-Pin Kuo, Hsin-Ming Hsu	Unqualified Opinions
2011	Ernst & Young	Shou-Pin Kuo, Hsin-Ming Hsu	Unqualified Opinions

## 9.4. Financial Statements for the Past 5 Years

### 9.4.1. Financial Statements – Parent Company

Item		2007	2008	2009	2010	2011
<b>Capital structure analysis</b>	Debt ratio (%)	11.67	15.51	18.09	17.03	15.76
	Long-term fund to fixed assets ratio (%)	1,645.72	1,556.50	1,846.45	1,656.42	1,788.03
<b>Liquidity analysis (%)</b>	Current ratio (%)	554.79	307.20	291.11	268.84	204.95
	Quick ratio (%)	468.90	282.85	269.13	230.82	173.21
	Times interest earned (Times)	N/A	N/A	N/A	N/A	3086.44
<b>Operating performance analysis</b>	Average collection turnover (Times)	15.21	16.20	27.74	20.03	14.17
	Average accounts receivable days (Days)	24	23	13	18	26
	Average inventory turnover (Times)	4.71	4.39	5.17	3.85	3.42
	Average payment turnover (Times)	5.96	6.15	5.50	4.73	4.84
	Average inventory turnover (Days)	77	83	71	95	107
	Fixed assets turnover (Times)	14.90	13.00	13.88	11.39	8.13
	Total assets turnover (Times)	0.86	0.70	0.67	0.54	0.39
<b>Profitability analysis</b>	Return on total assets (%)	38.62	19.80	31.99	23.14	9.99

Item		2007	2008	2009	2010	2011
	Return on equity (%)	43.78	22.91	38.54	28.07	11.95
	Operating income to paid-in capital (%)	301.93	168.64	196.74	156.98	42.18
	Pre-tax income to paid-in capital (%)	334.66	195.40	341.96	292.68	121.64
	Net profit margin (%)	44.92	28.21	47.48	43.01	25.30
	Basic earnings per share (NT\$)	32.59	18.01	34.12	28.44	12.35
	Earnings per share – adjusted (NT\$)	31.54	17.98	34.05	28.44	N/A
<b>Cash flow</b>	Cash flow ratio (%)	243.65	224.17	158.31	70.59	38.50
	Cash flow adequacy ratio (%)	170.33	151.35	174.03	127.62	104.22
	Cash flow reinvestment ratio (%)	14.06	14.27	22.16	-11.91	-12.41
<b>Leverage</b>	Operating leverage	1.71	2.77	2.71	2.94	7.52
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Changes that exceed 20% in the past two years and explanation for those changes:

- (1) Current ratio decreased by 24% and quick ratio decreased by 25%: Mainly due to decrease in cash and cash equivalents..
- (2) Average collection turnover decreased by 29% and average accounts receivable days increased by 44%: Mainly due to decrease in revenue.
- (3) Fixed assets turnover decreased by 29%, and total assets turnover decreased by 28%: Mainly due to decrease in revenue.
- (4) Return on total assets decreased by 57%, return on equity decreased by 57%, operating income to paid-in capital decreased by 73%, pre-tax income to paid-in capital decreased by 58%, net profit margin decreased by 41% and basic earnings per share decreased by 57%: Mainly due to decrease in operation profit and net profit.
- (4) Cash flow ratio decreased by 45%,: Mainly due to decrease in cash inflow from operating activities.
- (5) Operating leverage increased by 156%: Mainly due to decrease in revenue and gross margin.

## 9.4.2. Financial Statements – MediaTek & Subsidiaries

Item		2007	2008	2009	2010	2011
<b>Capital structure analysis</b>	Debt ratio (%)	12.94	17.48	21.43	19.07	21.26
	Long-term fund to fixed assets ratio (%)	1,453.65	1,257.05	1,580.68	1,430.79	1,187.31
<b>Liquidity analysis (%)</b>	Current ratio (%)	630.16	413.33	387.17	436.65	368.22
	Quick ratio (%)	545.23	379.12	358.50	391.83	335.08
	Times interest earned (Times)	533.70	2,101.36	59,873.14	N/A	1,515.53
<b>Operating performance analysis</b>	Average collection turnover (Times)	14.10	13.91	17.62	15.17	11.28
	Average accounts receivable days (Days)	26	26	21	24	32
	Average inventory turnover (Times)	4.74	4.71	5.37	4.35	3.57
	Average payment turnover (Times)	5.98	6.92	5.71	5.21	5.45
	Average inventory turnover (Days)	77	77	68	84	102
	Fixed assets turnover (Times)	14.70	14.55	17.25	15.45	9.86
	Total assets turnover (Times)	0.92	0.91	0.97	0.82	0.61
<b>Profitability analysis</b>	Return on total assets (%)	38.08	19.38	30.88	22.37	9.53
	Return on equity (%)	43.48	22.85	38.50	28.05	11.94
	Operating income to paid-in capital (%)	306.38	207.87	333.79	282.54	107.58
	Pre-tax income to paid-in capital (%)	334.84	196.60	343.27	293.54	123.77
	Net profit margin (%)	41.39	21.21	31.77	27.25	15.68
	Basic earnings per share (NT\$)	32.59	18.01	34.12	28.44	12.35



Item		2007	2008	2009	2010	2011
	Earnings per share – adjusted (NT\$)	31.54	17.98	34.05	28.44	N/A
<b>Cash flow</b>	Cash flow ratio (%)	206.28	206.58	187.55	114.04	54.91
	Cash flow adequacy ratio (%)	165.42	149.55	179.19	149.03	125.42
	Cash flow reinvestment ratio (%)	12.93	17.57	39.61	1.00	-4.99
<b>Leverage</b>	Operating leverage	1.87	2.94	2.42	2.68	5.27
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Changes that exceed 20% in the past two years and explanation for those changes:

- (1) Average collection turnover decreased by 26% and average account receivable days increased by 33%: Mainly due to decrease in revenue.
- (2) Average inventory turnover increased by 21%: Mainly due to decrease in cost of good sold.
- (3) Fixed assets turnover decreased by 36% and total assets turnover decreased by 26%: Mainly due to decrease in revenue.
- (4) Return on total assets decreased by 57%, return on equity decreased by 57%, operating income to paid-in capital decreased by 62%, pre-tax income to paid-in capital decreased by 58%, net profit margin decreased by 42% and basic earnings per share decreased by 57%: Mainly due to decrease in operating income and net income.
- (5) Cash flow ratio decreased by 52% and cash flow reinvestment ratio decreased by 599%: Mainly due to decrease in cash inflow from operating activities.
- (6) Operating leverage increased by 97%: Mainly due to decrease in revenue and gross margin.

## **Glossary:**

### **1. Capital Structure Analysis:**

- (1). Debt ratio = Total liabilities / Total assets
- (2). Long-term fund to fixed assets ratio = (Shareholders' Equity + Long-term liabilities) / Net fixed assets ratio

### **2. Liquidity Analysis:**

- (1). Current ratio = Current assets / Current liabilities
- (2). Quick ratio = (Current assets – Inventories – Prepaid Expenses) / Current liabilities
- (3). Times interest earned = Earnings before interest and taxes / Interest expenses

### **3. Operating Performance Analysis:**

- (1). Average collection turnover = Net sales / Average balance of receivable in all periods
- (2). Average accounts receivable days = 365 / Average collection turnover
- (3). Average inventory turnover = Cost of goods sold / Average inventory
- (4). Average payment turnover = Cost of goods sold / Average balance of payable
- (5). Average inventory turnover days = 365 / Inventory turnover
- (6). Fixed assets turnover = Net sales / Net fixed assets
- (7). Total assets turnover = Net sales / total assets

### **4. Profitability Analysis:**

- (1). Return on total assets = [Earnings + Interest expenses x (1 – tax rate)] / Average total assets
- (2). Return on shareholders' equity = Earnings / Net average shareholders' equity
- (3). Net profit margin = Earnings / Net sales
- (4). Earnings per share = (Earning - Preferred stock dividend) / Weighted average outstanding shares

### **5. Cash Flow:**

- (1). Cash flow ratio = Net cash flow from operation / Current Liabilities
- (2). Cash flow adequacy ratio = Net cash flow from operation over the last five years / (Capital spending + increase in inventory + cash dividend) in the last five years
- (3). Cash flow reinvestment ratio = (Net cash flow from operation – Cash dividend) / (Gross fixed assets + Long-term investment + other assets + working capital)

### **6. Leverage:**

- (1). Operation leverage = (Net income from operation – Variable operating cost and expenses) / Income from operation
- (2). Financial leverage = Income from operation / (Income from operation – Interest expenses)

## 9.5. Supervisors' Review Report

### **MediaTek Inc. Supervisors' Report**

The Financial Statements of MediaTek Inc. in fiscal year 2011 have been duly audited by Ernst & Young and are believed to fairly represent the financial standing, operation results and cash flows of MediaTek Inc. We, the Supervisors, have duly reviewed the Financial Statements along with the Business Report and proposal for profits distribution and hereby verify that they comply with the requirements of Company Law and relevant regulations. This report is duly submitted in accordance with Article 219 of the Company Law, and we hereby submit this report.

To MediaTek Inc. 2012 Annual General Shareholders' Meeting

MediaTek Inc.

Supervisor: Paul Wang (MediaTek Capital Corp., representative)

Supervisor: Chung-Lang Liu (National Tsing Hua University, representative)

Supervisor: Yan-Kuin Su (National Cheng Kung University, representative)

March 21, 2012

## **9.6. Financial Statements and Independent Auditors' Report – Parent Company**

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

**MEDIATEK INC.  
FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORT  
AS OF DECEMBER 31, 2011 AND 2010  
AND FOR THE YEARS THEN ENDED**

English Translation of a Report Originally Issued in Chinese  
**Independent Auditors' Report**

To the Board of Directors and Shareholders  
of MediaTek Inc.

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

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

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

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

Ernst & Young  
CERTIFIED PUBLIC ACCOUNTANTS  
March 21, 2012  
Taipei, Taiwan  
Republic of China

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the R.O.C. and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the R.O.C.

English Translation of Financial Statements Originally Issued in Chinese  
**MEDIA TEK INC.**  
**BALANCE SHEETS**  
As of December 31, 2011 and 2010  
(Amounts in thousands of New Taiwan Dollars)

	2011	2010	Notes	LIABILITIES AND SHAREHOLDERS' EQUITY	2011	2010
<b>ASSETS</b>				<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current assets</b>				<b>Current liabilities</b>		
Cash and cash equivalents	\$ 27,137,268	\$ 43,169,400	2, 4(1)	Accounts payable	\$ 6,696,357	\$ 5,944,114
Held-for-trading financial assets-current	-	46,271	2, 4(2)	Payables to related parties	119,190	378,408
Financial assets designated as at fair value through profit or loss-current	393,510	122,100	2, 4(3)	Income tax payable	470,032	940,351
Available-for-sale financial assets-current	1,622,536	2,236,473	2, 4(4)	Accrued expenses	12,856,882	14,503,360
Bond portfolios with no active market-current	1,000,000	-	2, 4(8)	Other current liabilities	598,081	393,068
Accounts receivable, net	3,200,385	3,970,346	2, 4(5)	Total current liabilities	20,740,542	22,159,301
Receivables from related parties, net	61,418	45,165	5			
Other receivables	2,156,836	985,513	4(6)	<b>Other liabilities</b>		
Inventories, net	6,278,630	6,442,692	2, 4(7), 5	Accrued pension liabilities	190,538	107,227
Prepayments	305,418	1,981,284	2, 4(7), 5	Deposits received	5,969	876
Other current assets	265,275	492,113	2, 4(20)	Deferred income tax liabilities-noncurrent	821,539	659,967
Deferred income tax assets-current	72,475	71,887	6	Total other liabilities	1,018,046	768,070
Restricted assets-current	9,947	9,917	6	Total liabilities	21,758,588	22,927,371
Total current assets	42,508,698	59,573,161				
<b>Funds and investments</b>				<b>Shareholders' equity</b>		
Financial assets designated as at fair value through profit or loss-noncurrent	-	879,477	2, 4(8)	Capital		
Available-for-sale financial assets-noncurrent	1,592,572	1,489,399		Common stock	11,475,108	10,999,317
Bond portfolios with no active market-noncurrent	-	1,000,000		Capital collected in advance	83	365
Investments accounted for using the equity method	79,575,986	56,166,531		Capital reserve	23,161,573	11,051,733
Total funds and investments	81,168,558	59,535,407		Additional paid-in capital in excess of par	941,301	785,420
<b>Property, plant and equipment</b>				Treasury stock transaction	1,260	1,260
Land	888,722	888,722	2, 4(9), 5	Donated assets	225,366	207,315
Buildings and facilities	5,768,329	5,609,034		Long-term investment transaction	276,382	213,676
Machinery and equipment	98,833	99,449		Employee stock option		
Computer and telecommunication equipment	798,950	643,376		Total capital reserve	24,605,882	12,259,404
Testing equipment	2,014,374	1,905,310		Retained earnings		
Miscellaneous equipment	158,006	157,549		Legal reserve	21,710,122	18,613,978
Total cost	9,727,214	9,303,440		Special reserve	4,198,121	355,131
Less : Accumulated depreciation	(3,325,826)	(2,758,795)		Undistributed earnings	56,554,982	73,739,007
Add : Construction in progress	54,736	116,079		Other adjustments		
Prepayments for equipment	46,995	83,522		Cumulative translation adjustments	(2,253,504)	(4,380,730)
Property, plant and equipment, net	6,503,119	6,744,246	2, 4(10)	Unrealized gain (loss) on financial instruments	43,192	182,608
<b>Intangible assets</b>				Treasury stock	(55,970)	(55,970)
Patents	121,990	265,526		Total shareholders' equity	116,278,016	111,713,110
Software	126,410	221,684				
Goodwill	6,817,211	6,817,211		<b>Total liabilities and shareholders' equity</b>	\$ 138,036,604	\$ 134,640,481
IPs and others	649,016	1,318,669				
Total intangible assets	7,714,627	8,623,090				
<b>Other assets</b>						
Refundable deposits	141,602	164,577				
Total other assets	141,602	164,577				
<b>Total assets</b>	\$ 138,036,604	\$ 134,640,481				

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

Chairman : Ming-Kai Tsai

President : Ching-jiang Hsieh

Chief Financial Officer : David Ku

## MEDIATEK INC.

## STATEMENTS OF INCOME

For the years ended December 31, 2011 and 2010

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

Description	Notes	2011		2010	
<b>Gross sales</b>		\$	57,285,540	\$	79,274,483
Less : Sales returns			(26,338)		(670)
Sales discounts			(3,416,836)		(7,285,383)
Net sales	2, 4(18), 5		53,842,366		71,988,430
<b>Cost of goods sold</b>	4(19), 5		(31,773,236)		(32,726,157)
<b>Gross profits</b>			22,069,130		39,262,273
<b>Operating expenses</b>	2, 4(19)				
Selling expenses			(2,065,159)		(2,645,089)
General and administrative expenses			(1,715,355)		(2,362,311)
Research and development expenses			(13,448,835)		(16,987,827)
Total operating expenses			(17,229,349)		(21,995,227)
<b>Operating income</b>			4,839,781		17,267,046
<b>Non-operating income and gains</b>					
Interest income			397,139		347,417
Gain on equity investments, net	2, 4(8)		8,662,095		14,445,432
Foreign exchange gain, net	2		19,498		92,380
Reversal of bad debts			87,757		-
Others			90,939		86,351
Total non-operating income and gains			9,257,428		14,971,580
<b>Non-operating expenses and losses</b>					
Interest expenses			(4,524)		-
Loss on disposal of property, plant and equipment	2		(14,847)		(27,465)
Loss on disposal of investments	4(8)		(7,890)		-
Valuation loss on financial assets	2, 4(2)		(58,295)		(17,482)
Others			(53,105)		-
Total non-operating expenses and losses			(138,661)		(44,947)
<b>Income from continuing operations before income tax</b>			13,958,548		32,193,679
<b>Income tax expense</b>	2, 4(20)		(335,478)		(1,232,242)
<b>Net income</b>		\$	13,623,070	\$	30,961,437
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(21)	Before tax	After tax	Before tax	After tax
Net income		\$ 12.65	\$ 12.35	\$ 29.57	\$ 28.44
<b>Pro-forma data: (Assuming that the Company's shares owned by its subsidiary were not treated as treasury stock)</b>					
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(21)				
Net income		\$ 12.71	\$ 12.40	\$ 29.55	\$ 28.42
Diluted Earnings Per Share (in New Taiwan Dollars)	2, 4(21)				
Net income		\$ 12.51	\$ 12.21	\$ 29.01	\$ 27.90

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese  
**MEDIA TEK INC.**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the years ended December 31, 2011 and 2010**

(Amounts in thousands of New Taiwan Dollars)

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

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

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

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku



## MEDIATEK INC.

## STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011 and 2010

(Amounts in thousands of New Taiwan Dollars)

Description	2011	2010
<b>Cash flows from operating activities :</b>		
Net income	\$ 13,623,070	\$ 30,961,437
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	678,986	691,378
Amortization	1,027,349	1,406,083
Bad debt (reversal) provision	(87,757)	129,666
Amortization of financial assets discount or premium	(85)	296
Cash dividends from equity investees	166,503	123,710
(Gain) loss on (recovery) decline in market value and obsolescence of inventories	(588,362)	969,798
Net loss on disposal of property, plant and equipment	14,847	27,465
Net loss on disposal of intangible assets (included in other losses)	74	-
Net gain on equity investments	(8,662,095)	(14,445,432)
Adjustment of valuation on financial assets and liabilities	69,128	(53,306)
Loss on disposal of investments	7,890	-
Deferred income tax	160,984	543,032
Employees' bonuses	1,714,243	3,863,296
Changes in operating assets and liabilities:		
Financial assets designated as at fair value through profit or loss	585,210	(978,500)
Accounts receivable	(126,761)	(1,874,645)
Receivables from related parties	(16,253)	15,416
Other receivables	(186,844)	407,673
Inventories	752,424	(2,342,737)
Prepayments	1,675,866	(1,827,506)
Other current assets	226,838	(190,152)
Accounts payable	752,243	(1,156,899)
Payables to related parties	(259,218)	(49,168)
Income tax payable	(470,319)	93,123
Accrued expenses	(3,360,721)	(781,777)
Other current liabilities	205,013	91,115
Accrued pension liabilities	83,311	19,812
Net cash provided by operating activities	<u>7,985,564</u>	<u>15,643,178</u>
<b>Cash flows from investing activities :</b>		
Increase in restricted deposits	(30)	(3,000)
Increase in available-for-sale financial assets	(1,190,681)	(563,917)
Purchase of property, plant and equipment	(454,463)	(1,573,425)
Proceeds from disposal of property, plant and equipment	-	894
Proceeds from disposal of available-for-sale financial assets	1,822,490	621,000
Increase in intangible assets	(117,203)	(642,855)
Decrease in refundable deposits	22,975	76,744
Net cash provided by (used in) investing activities	<u>83,088</u>	<u>(2,084,559)</u>
<b>Cash flows from financing activities :</b>		
Proceeds from exercise of employee stock options	3,494	68,713
Increase in deposits received	5,093	-
Cash dividends	(21,999,457)	(28,343,090)
Treasury stock acquired	(2,109,914)	-
Net cash used in financing activities	<u>(24,100,784)</u>	<u>(28,274,377)</u>
Net decrease in cash and cash equivalents	(16,032,132)	(14,715,758)
Cash and cash equivalents at the beginning of the year	43,169,400	57,885,158
Cash and cash equivalents at the end of the year	<u>\$ 27,137,268</u>	<u>\$ 43,169,400</u>
<b>Supplemental disclosures of cash flow information :</b>		
Income tax paid during the year	\$ 644,813	\$ 596,087
Interest paid during the year	\$ 4,524	\$ -
<b>Non-cash activities :</b>		
Stock dividends and employees' bonuses capitalized(including additional paid-in capital)	\$ -	\$ 3,689,763
Change in unrealized (loss) gain on financial instruments	\$ (139,416)	\$ 10,435
Cumulative translation adjustments	\$ 2,127,226	\$ (3,853,426)
Adjustments arising from changes in percentage of ownership in investees	\$ 844	\$ 37,893
Adjustments of cash dividends distributed to subsidiaries holding the Company's stock	\$ 155,881	\$ 202,226
Shares issued to acquire a subsidiary	\$ 12,814,375	\$ -

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC.**

**NOTES TO FINANCIAL STATEMENTS**

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

**1. Organization and Operation**

Since its incorporation on May 28, 1997 at the Hsinchu Science-based Industrial Park, MediaTek Inc.'s (the "Company") main areas of focus includes R&D, production, manufacturing and marketing of multimedia integrated circuits (ICs), computer peripherals oriented ICs, high-end consumer-oriented ICs and other ICs of extraordinary application. Meanwhile, it has rendered design, test runs, maintenance and repair and technological consultation services for software & hardware of the aforementioned products, import and export trades for the aforementioned products, sale and delegation of patents and circuit layout rights for the aforementioned products.

As of December 31, 2011 and 2010, total numbers of employees of the Company were 3,205 and 2,829, respectively.

**2. Summary of Significant Accounting Policies**

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

Cash Equivalents

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

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

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

**MEDIATEK INC.**

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

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

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

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

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

*Financial Assets and Financial Liabilities*

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

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

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

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

**MEDIATEK INC.**

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

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

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

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

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

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

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

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

b. Bond portfolios with no active market

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

**MEDIATEK INC.**

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

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

c. Financial assets carried at cost

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

d. Held-to-maturity financial assets

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

e. Available-for-sale financial assets

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

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

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

**MEDIATEK INC.**

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

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

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

*Evaluation of Impairment of Accounts Receivable*

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

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

*Inventories*

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

*Investment Accounted for Using the Equity Method*

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

**MEDIATEK INC.**

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

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

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

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

Property, Plant and Equipment

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

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

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

**MEDIATEK INC.**

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

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

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

Intangible Assets

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

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

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

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

Asset Impairment

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



**MEDIATEK INC.**

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

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

Capital Expenditures vs. Operating Expenditures

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

Revenue Recognition

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

Employee Retirement Benefits

- A. In accordance with the Labor Standards Law (the "Law") of the R.O.C., the Company makes a monthly contribution equal to 2% of the wages and salaries paid during the period to a pension fund maintained with the Central Trust of China. The fund is administered by the Employees' Retirement Fund Committee and is deposited in the committee's name. Therefore, the pension fund is not included in the financial statements of the Company.
- B. The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Law can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of the employer monthly contribution to the pension fund should be at least 6% of the employee's monthly wages.
- C. The Company also has a defined benefit pension plan which is accounted for in accordance with the R.O.C. SFAS No. 18, "Accounting for Pensions". Pension assets or liabilities are recognized based on an actuarial report. The minimum pension liability was recorded for the excess of accumulated pension obligations over the fair value of plan assets. Net transition obligations from the plan assets are amortized using the straight-line method over the employees' expected average remaining service period. For employees under defined contribution pension plans, pension costs are expensed in the period based on the actual contributions made to employees' individual pension accounts.

**MEDIATEK INC.**

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

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

*Income Tax*

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

*Employee Stock Option*

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

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

**MEDIATEK INC.**

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

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

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

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

*Employee Bonuses and Remunerations Paid to Directors and Supervisors*

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

*Earnings Per Share*

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

**MEDIATEK INC.**

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

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

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

Treasury Stock

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

Derivative Financial Instruments-Held for Trading

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

Operating Segments Information

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

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

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

- B. whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- C. for which discrete financial information is available.

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

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

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

**4. Contents of Significant Accounts**

- (1) Cash and Cash Equivalents

	As of December 31,	
	2011	2010
Savings and checking accounts	\$3,537,268	\$5,002,100
Time deposits	23,600,000	38,167,300
Total	<u>\$27,137,268</u>	<u>\$43,169,400</u>

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

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

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

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

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

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

Held-for-trading financial assets:

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

For the years ended December 31, 2011 and 2010, losses arising from the forward exchange contracts and the cross currency swap contracts were NT\$35,438 thousand and NT\$40,559 thousand, respectively.

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

	As of December 31,	
	<u>2011</u>	<u>2010</u>
Convertible bonds	\$103,510	\$122,100
Interest rate-linked deposits	290,000	-
Total	<u>\$393,510</u>	<u>\$122,100</u>

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

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

	As of December 31,	
	<u>2011</u>	<u>2010</u>
Funds	\$1,571,100	\$1,923,944
Bonds	-	312,529
Depository receipts	56,436	-
Total	<u>\$1,627,536</u>	<u>\$2,236,473</u>

## (5) Accounts Receivable-Net

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

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

The Company entered into several factoring agreements without recourse with financial institutions. According to those agreements, the Company does not take the risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related accounts receivable after deducting the estimated value of commercial disputes. The Company has not withdrawn cash entitled by the factoring agreements from banks as of December 31, 2011 and 2010. Receivables from banks due to factoring agreement were NT\$1,588,941 thousand and NT\$604,462 thousand, respectively.

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

As of December 31, 2011:

The Factor (Transferee)	Interest rate	Accounts receivable derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International					
Bank	-	31,601	-	31,601	123,830
BNP Paribas	-	20,857	-	20,857	65,000
		<u>52,458</u>	<u>-</u>	<u>52,458</u>	<u>188,830</u>

As of December 31, 2010:

The Factor (Transferee)	Interest rate	Accounts receivable derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International					
Bank	-	20,477	-	20,477	95,310
DBS Bank	-	309	-	309	20,000
		<u>20,786</u>	<u>-</u>	<u>20,786</u>	<u>115,310</u>

**(6) Other Receivables**

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

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

## MEDIATEK INC.

## NOTES TO FINANCIAL STATEMENTS-(Continued)

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

## (7) Inventories-Net

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

- a. As of December 31, 2011, the circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed. As a result, the Company recognized a reversal gain which was included in cost of goods sold in the amount of NT\$588,362 thousand. Write-down of inventories to net realizable value in the amount of NT\$969,798 thousand was included in the cost of goods sold for the year ended December 31, 2010.
- b. Inventories were not pledged as of December 31, 2011 and 2010.

## (8) Funds and Investments

Investee Company	Type	As of December 31, 2011		Ownership
		Share/unit	Amount	
<u>Available-for-sale financial assets-noncurrent</u>				
Cathay No. 1 Real Estate Investment Trust	Mutual fund	68,400,000	\$963,072	-
Cathay No. 2 Real Estate Investment Trust	Mutual fund	50,000,000	629,500	-
Subtotal			1,592,572	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
<u>Bond portfolios with no active market-noncurrent</u>				
Chinatrust Financial Holding Co. Ltd.	Series B Preferred stock	25,000,000	1,000,000	-
Less : Current portion			(1,000,000)	
Subtotal			-	

(To be Continued)



## MEDIATEK INC.

## NOTES TO FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Investee Company	Type	As of December 31, 2011		
		Share/unit	Amount	Ownership
<u>Investments accounted for using the equity method</u>				
MediaTek Investment Corp.	Common share	4,073,539,273	54,592,840	100.00%
Hsu-Ta Investment Limited	Capital	-	3,726,464	100.00%
Hsu-Chia Investment Limited	Capital	-	3,451,920	100.00%
Hsu-Kang Investment Limited	Capital	-	3,464,810	100.00%
Ralink Technology Corp.	Common share	175,264,005	12,920,344	100.00%
ALi Corporation	Common share	64,098,383	1,422,648	21.09%
Subtotal			79,579,026	
Add : Unrealized (gain) loss on disposal of long-term equity investments			(3,040)	
Subtotal			79,575,986	
Total			\$81,168,558	

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

(To be Continued)

## MEDIATEK INC.

## NOTES TO FINANCIAL STATEMENTS-(Continued)

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

(Continued)

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

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

**MEDIATEK INC.**

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

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

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

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

	For the year ended December 31, 2011		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$2,436,050	\$7,307,142	\$9,743,192
Increase - separately acquired	116,613	590	117,203
Decrease - elimination and others	(2,047,122)	(3,665,713)	(5,712,835)
Balance at end of period	505,541	3,642,019	4,147,560
Accumulated amortization			
Balance at beginning of period	(2,214,366)	(5,722,947)	(7,937,313)
Increase - amortization	(213,862)	(813,487)	(1,027,349)
Decrease - elimination and others	2,049,097	3,665,421	5,714,518
Balance at end of period	(379,131)	(2,871,013)	(3,250,144)
Net	\$126,410	\$771,006	\$897,416
	For the year ended December 31, 2010		
	Software (Design software)	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$1,897,512	\$7,201,886	\$9,099,398
Increase - separately acquired	527,926	114,929	642,855
Decrease - elimination and others	10,612	(9,673)	939
Balance at end of period	2,436,050	7,307,142	9,743,192
Accumulated amortization			
Balance at beginning of period	(1,629,718)	(4,906,182)	(6,535,900)
Increase - amortization	(589,318)	(816,765)	(1,406,083)
Decrease - elimination and others	4,670	-	4,670
Balance at end of period	(2,214,366)	(5,722,947)	(7,937,313)
Net	\$221,684	\$1,584,195	\$1,805,879

**(11) Accrued Pension Liabilities**

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

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

## a. The components of net pension cost under the Labor Standards Law

	For the year ended December 31,	
	2011	2010
Service cost	\$2,990	\$2,134
Interest cost	11,604	8,260
Expected return on plan assets	(935)	(1,023)
Amortization and deferral	18,476	11,035
Net pension cost	\$32,135	\$20,406

## b. The funded status of the Company's pension plans under the Labor Standards Law

	As of December 31,	
	2011	2010
Benefit obligations		
Vested benefit obligation	\$-	\$-
Non-vested benefit obligation	(213,579)	(205,873)
Accumulated benefit obligation	(213,579)	(205,873)
Effect of projected future salary increase	(241,578)	(374,304)
Projected benefit obligation	(455,157)	(580,177)
Fair value of plan assets	49,558	47,038
Funded status of pension plan	(405,599)	(533,139)
Unrecognized net transitional obligation	530	618
Unrecognized loss	268,241	425,766
Others	(53,710)	(472)
Accrued pension liabilities	\$(190,538)	\$(107,227)

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

## d. The underlying actuarial assumptions

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

**MEDIATEK INC.**

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

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

(12) Common Stock

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

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

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

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

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

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

(13) Legal Reserve

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

## MEDIATEK INC.

## NOTES TO FINANCIAL STATEMENTS-(Continued)

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

## (14) Capital Reserve

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

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

- a. The Company had paid cash dividends in the amount of NT\$155,881 thousand and NT\$202,226 thousand to the subsidiary who owned the Company's common shares for the years ended December 31, 2011 and 2010, respectively. Since the Company's shares held by the subsidiary are treated as treasury stocks, the cash dividends paid to the Company's subsidiary are accounted for as an adjustment to capital reserve; under the category of treasury stock transactions.
- b. For the year ended December 31, 2010, based on the resolution of shareholders' general meeting, the Company resolved to issue 7,485,481 new shares at par value of NT\$10 for the capitalization of employees' bonus of NT\$3,667,961 thousand. The issuance resulted in an increase in additional paid-in capital in the amount of NTS3,593,106 thousand. Please refer to Note 4(12).

## (15) Employee Stock Options

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

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

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

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2008.03.31	1,134,119	477,971	477,971	\$374.7
2008.08.28	1,640,285	804,209	804,209	358.9
2009.08.18	1,382,630	790,614	790,614	460.6
2010.08.27	1,605,757	1,069,770	1,069,770	429.8
2010.11.04	65,839	17,714	17,714	397.0
2011.08.24	2,109,871	2,038,515	2,038,515	280.0

Note: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash or the appropriations of earnings) in accordance with the plan.

The compensation cost was recognized under the fair value method and the Black-Scholes Option Pricing model was used to estimate the fair value of options granted. For the years ended December 31, 2011 and 2010, compensation costs recognized were NT\$88,803 thousand and NT\$91,476 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

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

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

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



## MEDIATEK INC.

## NOTES TO FINANCIAL STATEMENTS-(Continued)

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

The information regarding the Company's outstanding stock options as of December 31, 2011 is disclosed as follows:

	Range of Exercise Price(NTD)	Outstanding Stock Options			Exercisable Stock Options	
		Options (Unit)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Stock option plan of 2007	\$358.9~374.7	1,282,180	3.01	\$365	750,692	\$365
Stock option plan of 2009	460.6	790,614	4.13	461	241,674	461
Stock option plan of 2010	397~429.8	1,087,484	5.17	429	-	-
Stock option plan of 2011	280.0	<u>2,038,515</u>	6.17	280	-	-
		<u>5,198,793</u>		<u>\$360</u>	<u>992,366</u>	

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

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

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

Note: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash or the appropriations of earnings) in accordance with the plan.

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

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

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

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

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

Other information is disclosed as follows:

	Range of Exercise Price (NTD)	<u>Outstanding Stock Options</u>		<u>Exercisable Stock Options</u>	
		Options (Unit)	Weighted- average Expected Remaining Years	Weighted- average Exercise Price per Share (NTD)	Options (Unit)
Authorized issue date					
2006.01.17	\$14.30	4,838	-	\$14.30	4,838 \$14.30
2007.01.29	15.70	52,400	0.33	15.70	52,400 15.70
2007.10.30	16.70	87,497	0.50	16.70	87,497 16.70
		<u>144,735</u>		\$16.26	<u>144,735</u>

**MEDIATEK INC.**

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

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

(16) Earnings Distribution and Dividends Distribution Policy

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

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

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

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

During the years ended December 31, 2011 and 2010, the amounts of the employee' bonuses were estimated to be NT\$1,714,243 thousand and NT\$3,863,296 thousand, respectively. During the years ended December 31, 2011 and 2010, the amounts of remunerations to directors and supervisors were estimated to be NT\$24,687 thousand and NT\$71,628 thousand, respectively. Employee bonuses were estimated based on a specific rate of net income for the years ended December 31, 2011 and 2010, respectively (excluding the impact of employees' bonuses) while remunerations to directors and supervisors were estimated based on the Company's Articles of Incorporation. Estimated amount of employee bonuses and remunerations paid to directors and supervisors were charged to current income. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, the Company shall recognize the change as an adjustment to income of next year.

## MEDIATEK INC.

## NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

Note: The original estimated expense and the proposed appropriation were based on different calculating basis. The difference would be considered as changes in accounting estimate after resolved by the shareholders' meeting and would be included in the profit or loss in 2012.

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

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

## (17) Treasury Stock

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

(a) For the year ended December 31, 2011

(In thousands of shares)

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

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

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

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

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

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

Note : Stock dividends

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

## (18) Net Operating Revenue

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

## (19) Personnel, Depreciation and Amortization Expenses

	For the year ended December 31,					
	2011			2010		
	Recorded under cost of goods sold	Recorded under operating expense	Total	Recorded under cost of goods sold	Recorded under operating expense	Total
Personnel Expense						
Salaries & wages	\$212,146	\$9,032,206	\$9,244,352	\$170,479	\$12,775,491	\$12,945,970
Insurance	10,630	320,790	331,420	6,895	225,098	231,993
Pension	10,601	332,272	342,873	5,977	191,875	197,852
Other expenses	4,288	156,252	160,540	4,473	163,343	167,816
Total	\$237,665	\$9,841,520	\$10,079,185	\$187,824	\$13,355,807	\$13,543,631
Depreciation	\$4,944	\$674,042	\$678,986	\$2,327	\$689,051	\$691,378
Amortization	\$777	\$1,026,572	\$1,027,349	\$935	\$1,405,148	\$1,406,083

## (20) Income Tax

a.

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

	For the year ended December 31,	
	2011	2010
Income tax payable	\$59,998	\$733,526
10% surtax on undistributed earnings	202,285	458,854
Investment tax credits	(202,285)	(596,190)
Deferred income tax effects		
Investment tax credits	2,144,566	404,118
Valuation allowance	(2,286,930)	24,617
Others	303,348	114,297
Others	114,496	93,020
Income tax expense from continuing operations	\$335,478	\$1,232,242

## MEDIATEK INC.

## NOTES TO FINANCIAL STATEMENTS-(Continued)

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

b.

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

	As of December 31,			
	2011		2010	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets				
Recognition of unrealized allowance				
for inventory obsolescence	\$2,639,157	\$448,657	\$3,227,519	\$548,678
Allowance for doubtful debt in excess				
of deductible limit	83,999	14,280	161,814	27,509
Unrealized technology license fee	1,520,254	258,443	1,307,624	222,296
Unrealized foreign exchange loss	19,812	3,368	33,502	5,695
Unrealized loss on asset impairment	12,126	2,061	12,126	2,061
Investment tax credits		6,760,767		8,905,333
Deferred income tax assets		7,487,576		9,711,572
Valuation allowance for deferred				
income tax assets		(7,309,499)		(9,596,430)
Net deferred income tax assets		178,077		115,142
Deferred income tax liabilities				
Unrealized gain on valuation of				
financial assets	-	-	(46,271)	(7,866)
Unrealized amortization of intangible				
assets	(5,453,769)	(927,141)	(4,090,327)	(695,356)
Deferred income tax liabilities		(927,141)		(703,222)
Net deferred income tax assets and				
liabilities		\$(749,064)		\$(588,080)

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

## MEDIATEK INC.

## NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

- c. Pursuant to Article 9-2 of the "Statute for Upgrading Industries", the Company is qualified as a technical service industry and is therefore entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. The Company has elected the tax exemption periods from January 1, 2007 through December 31, 2011, January 1, 2009 through December 31, 2013, January 1, 2010 through December 31, 2014 and January 1, 2011 through December 31, 2015.
- d. The Company's income tax returns for all the fiscal years up to 2008 have been assessed by the tax authorities.
- e. The Company's available investment tax credits as of December 31, 2011 are as follows:

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

f.

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

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

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



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

## (21) Earnings Per Share

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

	<u>Amount (Numerator)</u>		<u>Shares (Denominator)</u>	<u>Earnings per share</u>	
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2011</u>					
Basic EPS					
Net income	\$13,958,548	\$13,623,070	1,103,110,322	\$12.65	\$12.35
Effect of dilutive potential common shares:					
Bonus to employees	-	-	12,326,822		
Stock option to employees	-	-	133,816		
Diluted EPS	\$13,958,548	\$13,623,070	1,115,570,960	\$12.51	\$12.21

	<u>Amount (Numerator)</u>		<u>Shares (Denominator)</u>	<u>Earnings per share</u>	
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2010</u>					
Basic EPS					
Net income	\$32,193,679	\$30,961,437	1,088,689,895	\$29.57	\$28.44
Effect of dilutive potential common shares:					
Bonus to employees	-	-	20,532,897		
Stock option to employees	-	-	445,854		
Diluted EPS	\$32,193,679	\$30,961,437	1,109,668,646	\$29.01	\$27.90

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

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

## MEDIATEK INC.

## NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

**5. Related Party Transactions**

## (1) Related parties and relations with the Company

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

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

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

## (2) Major transactions with related parties

## a. Sales

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

For the years ended December 31, 2011 and 2010, the trade credit terms for related parties and third-party customers were both 45 to 60 days. Third-party customers may prepay their accounts in advance. The Company's sales to MSL and ALi were royalty revenues, which were charged based on an agreed percentage of the Company's net sales.

## b. IC testing, experimental services and manufacturing technology services

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

## c. Rental Income

	Rental Income		Other Receivables	
	For the year ended December 31,		As of December 31,	
	2011	2010	2011	2010
Airoha	\$-	\$9,147	\$-	\$-
JMicron	8,969	6,703	327	-
RollTech	480	-	168	-
MIC	34	34	-	-
MCC	34	34	-	-
Hsu-Ta	34	34	-	-
Hsu-Chia	34	34	-	-
Hsu-Kang	34	34	-	-
Total	\$9,619	\$16,020	\$495	\$-

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

## MEDIATEK INC.

## NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

- e. Significant fixed asset transaction

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

## (3) Receivables and payables resulted from the above transactions

- a. Receivables from related parties

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

- b. Payables to related parties

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

- c. Remunerations paid to major managers

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

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

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

**MEDIATEK INC.****NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****6. Assets Pledged As Collateral****(1) As of December 31, 2011**

	Amount	Party to which assets was pledged	Purpose of pledge
Restricted deposits-current	\$6,917	Administrative Bureau of HSIP	Land lease guarantee Tariff execution
Restricted deposits-current	3,030	Customs Office	deposits
Total	<u>\$9,947</u>		

**(2) As of December 31, 2010**

	Amount	Party to which assets was pledged	Purpose of pledge
Restricted deposits-current	\$6,917	Administrative Bureau of HSIP	Land lease guarantee Tariff execution
Restricted deposits-current	3,000	Customs Office	deposits
Total	<u>\$9,917</u>		

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

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

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

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

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

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

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

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

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

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

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

The Company will handle these cases carefully.

**(2) Operating Lease:**

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

<u>Lease Period</u>	<u>Amount</u>
2012.01.01~2012.12.31	\$30,371
2013.01.01~2013.12.31	30,371
2014.01.01~2014.12.31	30,371
2015.01.01~2015.12.31	30,371
2016.01.01~2016.12.31	30,371
2017.01.01~2027.12.31	214,048
Total	<u><u>\$365,903</u></u>

## MEDIATEK INC.

## NOTES TO FINANCIAL STATEMENTS-(Continued)

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

## 8. Significant Casualty Loss

None

## 9. Significant Subsequent Events

None

## 10. Others

## (1) Financial Instruments

## a. Fair value of financial instruments

	As of December 31,			
	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
Assets				
Cash and cash equivalents	\$27,137,268	\$27,137,268	\$43,169,400	\$43,169,400
Financial assets designated as at fair value through profit or loss	\$393,510	\$393,510	\$1,001,577	\$1,001,577
Receivables (including related parties)	\$3,261,803	\$3,261,803	\$4,015,511	\$4,015,511
Other receivables	\$2,156,836	\$2,156,836	\$985,513	\$985,513
Available-for-sale financial assets	\$3,220,108	\$3,220,108	\$3,725,872	\$3,725,872
Bond portfolios with no active market	\$1,000,000	\$1,059,128	\$1,000,000	\$1,078,925
Investments accounted for using the equity method				
-with market value	\$1,422,648	\$1,919,747	\$1,449,996	\$2,829,944
-without market value	\$78,153,338	\$-	\$54,716,535	\$-
Refundable deposits	\$141,602	\$141,602	\$164,577	\$164,577
Restricted assets	\$9,947	\$9,947	\$9,917	\$9,917
Liabilities				
Payables (including related parties)	\$6,815,547	\$6,815,547	\$6,322,522	\$6,322,522
Accrued expenses	\$12,856,882	\$12,856,882	\$14,503,360	\$14,503,360
Deposits received	\$5,969	\$5,969	\$876	\$876
<u>Derivative</u>				
Assets				
Held-for-trading financial assets	\$-	\$-	\$46,271	\$46,271

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

- (i) The fair values of the Company's short-term financial instruments approximate their carrying values at the reporting date due to their short maturities. This method was applied to cash and cash equivalents, receivables, other receivables, payables and accrued expenses.
- (ii) The fair values of the Company's refundable deposits, deposits received and restricted assets approximate their carrying value because the Company predicts the future cash inflows or outflows will be of similar amounts to the carrying values.

**MEDIATEK INC.**

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

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

- (iii) The fair values of held-for-trading financial assets and available-for-sale financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
  - (iv) The bond portfolios with no active market have no quoted price from active market but have fixed or determinable payments. Fair values are estimated using the discounted cash flow method.
  - (v) The fair values of the Company's investments accounted for under the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.
  - (vi) The fair values of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
- (b) (Loss) gain recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$(23,367) thousand and NT\$67,847 thousand for the years ended December 31, 2011 and 2010, respectively.
- (c) As of December 31, 2011 and 2010, financial assets exposed to fair value risk from fixed interest rate were NT\$23,703,660 thousand and NT\$38,692,278 thousand, respectively, and financial assets exposed to cash flow risk from variable interest rate were NT\$299,797 thousand and NT\$899,044 thousand, respectively.
- (d) Interest income recognized from financial assets that are not at fair value through profit or loss amounted to NT\$390,100 thousand and NT\$347,417 thousand for the years ended December 31, 2011 and 2010, respectively. Interest expense recognized from financial liabilities that are not at fair value through profit or loss amounted to NT\$4,524 thousand and nil for the years ended December 31, 2011 and 2010, respectively. The Company recognized unrealized gains of NT\$125,960 thousand and NT\$80,791 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2011 and 2010, respectively, and the amounts that were recycled from equity to losses were NT\$7,890 thousand and nil for the years ended December 31, 2011 and 2010, respectively. The Company also recognized unrealized losses of NT\$273,266 thousand and NT\$70,356 thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for under the equity method for the years ended December 31, 2011 and 2010, respectively. Please refer to Note 4.(8) to the financial statements for details.



**MEDIATEK INC.**

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

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

(e) For the years ended December 31, 2011 and 2010, the Company did not have impairment loss on financial assets.

b.

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

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

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

(b) Information of financial risks

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

Market risk

Market risk mainly includes currency risk. It comes from purchase or sale activities which are not denominated in the Company's functional currency. The Company reviews its assets and liabilities denominated in foreign currency and enters into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Had the USD moved against NTD by increasing 1 cent, the fair value of the forward exchange contracts would decrease by nil and NT\$450 thousand as of December 31, 2011 and 2010, respectively. Credit-linked deposits and interest rate-linked deposits are affected by interest rates. When interest rate increases, the market value may decrease and may even be below the initial investment cost, and vice versa. The fair value of exchange rate-linked deposits is affected by interest rate fluctuation. The fair value of mutual fund, government bonds and corporate bonds will be exposed to fluctuations from other market factors as well as movement in interest rates.

**MEDIATEK INC.**

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

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

Credit risk

The Company's exposure to credit risk arises from potential default of the counter-party or other third-party. The level of exposure depends on several factors including concentrations of credit risk, components of credit risk, the price of contract and other receivables of financial instruments.

Since the counter-party or third-party to the foregoing forward exchange contracts are all reputable financial institutions, management believes that the Company's exposure to default by those parties is minimal. The Company's credit risk mainly comes from the collectibility of accounts receivable while receivable balances are monitored on an ongoing basis and an allowance for doubtful receivables is provided. Thus, the net book values of accounts receivable are properly evaluated and reflect the credit risk the Company exposes to. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk, which arises when the counter-party or the third-party to a financial instrument fails to discharge an obligation and the Company suffers a financial loss as a result. Credit risk of credit-linked deposits, exchange rate-linked deposits and convertible bond arises if the issuing banks breached the contracts or the debt issuer could not pay off the debts; the maximum exposure is the carrying value of credit-linked deposits. Therefore, the Company minimized the credit risk by only transacting with counter-party who is reputable, transparent and in good financial standing.

Liquidity risk

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

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

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

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

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

**(2) Business combinations**

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

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

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

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

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

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

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

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

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

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

	For the year ended December 31,	
	2011	2010
Net sales	\$53,842,366	\$71,988,430
Net Income	\$13,465,638	\$31,874,615
Basic earnings per share (in NTD)	\$11.76	\$27.86

**(3) Other Information**

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

	As of December 31,					
	2011			2010		
	Foreign Currency (thousand)	Exchange rate	NTD (thousand)	Foreign Currency (thousand)	Exchange rate	NTD (thousand)
<u>Financial assets</u>						
Monetary item						
USD	\$252,855	\$30.29	\$7,658,970	\$246,266	\$29.08	\$7,161,413
Non-monetary item						
USD	\$-	\$-	\$-	\$9,000	\$29.08	\$261,720
<u>Financial liabilities</u>						
Monetary item						
USD	\$243,966	\$30.29	\$7,389,724	\$227,399	\$29.08	\$6,612,764
JPY	\$-	\$-	\$-	\$500,000	\$0.37	\$186,700

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

**11. Operating Segment Information**

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

**12. The Authorization of Financial Statements**

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

**13. IFRSs Adoption Information**

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

## **9.7. Financial Statements and Independent Auditors' Report – MediaTek & Subsidiaries**

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

**MEDIATEK INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**WITH**  
**INDEPENDENT AUDITORS' REPORT**  
**AS OF DECEMBER 31, 2011 AND 2010**  
**AND FOR THE YEARS THEN ENDED**

## REPRESENTATION LETTER

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

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

March 21, 2012

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders  
of MediaTek Inc.

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

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

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

Ernst & Young  
CERTIFIED PUBLIC ACCOUNTANTS  
March 21, 2012  
Taipei, Taiwan  
Republic of China

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the R.O.C. and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the R.O.C.

English Translation of Financial Statements Originally Issued in Chinese  
**MEDIA TEK INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
As of December 31, 2011, and 2010  
(Amounts in thousands of New Taiwan Dollars)

	Notes	2011	2010	Notes	2011	2010
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	2, 4(1)	\$ 85,821,438	\$ 85,927,337	4(13)	\$ 4,089,150	\$ 7,389,644
Field-for-trading financial assets-current	2, 4(2)	66	46,271		8,062,967	7,389,644
Financial assets designated as at fair value through profit or loss-current	2, 4(3)	1,617,350	510,422	5	958,936	1,029,160
Available-for-sale financial assets-current	2, 4(4)	2,545,354	5,588,972	2, 4(23)	681,003	1,068,950
Field-to-maturity financial assets-current	2, 4(5)	48,126	-	2, 4(19)	15,714,465	15,668,939
Bond portfolios with no active market-current	2, 4(9)	1,000,000	-		151,121	16,688
Accounts receivable, net	2, 4(6)	7,360,317	-	4(14)	18,081	-
Receivables from related parties, net	5	23,567	7,164,346		752,407	612,875
Other receivables	4(7)	3,027,004	1,174,831		30,428,120	25,786,256
Inventories, net	2, 4(8)	9,392,282	9,387,649		-	-
Prepayments		689,987	2,169,960		-	-
Other current assets		282,585	493,288		-	-
Deferred income tax assets-current	2, 4(23)	220,940	119,215	4(14)	147,662	-
Restricted assets-current	6	13,112	13,043		-	-
Total current assets		112,042,126	112,595,354			
<b>Financial assets</b>						
Financial assets designated as at fair value through profit or loss-noncurrent	2, 4(9)	1,739,337	2,233,070	2, 4(12)	190,538	107,227
Available-for-sale financial assets-noncurrent		2,810,668	1,720,495		6,176	973
Field-to-maturity financial assets-noncurrent		828,422	-	2, 4(23)	590,934	426,901
Financial assets carried at cost-noncurrent		2,203,872	1,083,608		49,351	-
Bond portfolios with no active market-noncurrent		-	1,000,000		836,999	535,101
Investments accounted for using the equity method		1,834,664	1,658,511		31,412,781	26,321,357
Prepayments for long-term investments		-	38,773		-	-
Total funds and investments		9,416,963	7,734,457			
<b>Property, plant and equipment</b>						
Land	2, 4(10)	1,055,184	888,722	4(15)	11,475,108	10,999,317
Buildings and facilities		6,135,210	5,738,474		83	365
Machinery and equipment		159,305	204,516		23,161,573	11,051,733
Computer and telecommunication equipment		1,952,134	1,436,518	4(17)	941,301	785,420
Testing equipment		2,817,023	2,439,091	4(17)	1,260	1,260
Miscellaneous equipment		1,126,343	689,195	4(17)	225,366	207,315
Total cost		13,245,199	11,397,416	4(17)	276,382	213,676
Less: Accumulated depreciation		(4,963,794)	(3,833,975)	4(17), 4(18)	24,605,882	12,259,404
Add: Construction in progress		76,242	125,951		-	-
Prepayments for equipment		-	116,425		-	-
Property, plant and equipment, net		9,810,051	7,807,817			
<b>Intangible assets</b>						
Trademarks	2, 4(11)	27,448	-	4(16)	21,710,122	18,613,978
Patents		256,844	267,490	4(19)	4,198,121	355,131
Software		279,424	333,053	4(19)	56,554,982	73,739,007
Goodwill		13,428,387	6,863,129		(2,253,504)	(4,380,730)
IPs and others		2,158,556	2,108,663	2	43,192	182,688
Total intangible assets		16,150,655	9,572,325	4(20)	(53,970)	(53,970)
<b>Other assets</b>						
Refundable deposits	2	265,431	261,488		116,278,016	111,713,110
Deferred charges	6	51,379	46,897		50,311	223
Restricted assets-noncurrent	2, 4(12)	671	17,344		116,328,327	111,713,335
Other assets		3,826	-		-	-
Total other assets		321,307	324,729			
<b>Total assets</b>		\$ 147,741,108	\$ 138,034,692		\$ 147,741,108	\$ 138,034,692
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>Current liabilities</b>						
Short-term loans		-	-		-	-
Accounts payable		46,271	46,271		8,062,967	7,389,644
Payables to related parties	5	510,422	510,422		958,936	1,029,160
Income tax payable	2, 4(23)	2,545,354	5,588,972		681,003	1,068,950
Accrued expenses	2, 4(19)	48,126	-		15,714,465	15,668,939
Other payables	4(14)	1,000,000	-		151,121	16,688
Current portion of long-term payables		7,360,317	-		18,081	-
Other current liabilities		23,567	7,164,346		752,407	612,875
Total current liabilities		3,027,004	1,174,831		30,428,120	25,786,256
<b>Long-term liabilities</b>						
Long-term payables	4(14)	9,392,282	9,387,649		-	-
Deferred income tax liabilities-noncurrent		689,987	2,169,960		-	-
Other liabilities		282,585	493,288		-	-
Deposits received	2, 4(12)	119,215	119,215		147,662	-
Deferred income tax liabilities-noncurrent		220,940	119,215		-	-
Other liabilities-others		13,112	13,043		-	-
Total other liabilities		112,042,126	112,595,354			
Total liabilities		9,416,963	7,734,457		31,412,781	26,321,357
<b>Shareholders' equity</b>						
Equity attributable to shareholders of the parent						
Capital						
Common stock	4(15)	888,722	888,722		11,475,108	10,999,317
Capital collected in advance		5,738,474	5,738,474		83	365
Capital reserve		204,516	204,516		23,161,573	11,051,733
Additional paid-in capital in excess of par		1,436,518	1,436,518		941,301	785,420
Treasury stock transaction		2,439,091	2,439,091		1,260	1,260
Donated assets		689,195	689,195		225,366	207,315
Long-term investment transaction		11,397,416	11,397,416		276,382	213,676
Employee stock option		(3,833,975)	(3,833,975)		-	-
Total capital reserve		125,951	125,951		24,605,882	12,259,404
Retained earnings		116,425	116,425		-	-
Legal reserve		7,807,817	7,807,817		-	-
Special reserve		-	-		21,710,122	18,613,978
Undistributed earnings		267,490	267,490		4,198,121	355,131
Cumulative translation adjustments		333,053	6,863,129		56,554,982	73,739,007
Unrealized gain(loss) on financial instruments		2,108,663	2,108,663		(2,253,504)	(4,380,730)
Treasury stock		9,572,325	9,572,325		43,192	182,688
Total shareholders' equity attributable to parent company		261,488	261,488		(53,970)	(53,970)
Minority interests		46,897	46,897		116,278,016	111,713,110
Total shareholders' equity		17,344	17,344		50,311	223
Total liabilities and shareholders' equity		\$ 147,741,108	\$ 138,034,692		\$ 147,741,108	\$ 138,034,692

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku



**MEDIATEK INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

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

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

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

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

**MEDIATEK INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the years ended December 31, 2011 and 2010**

(Amounts in thousands of New Taiwan Dollars)

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

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

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

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

Description	2011	2010
<b>Cash flows from operating activities :</b>		
Consolidated net income	\$ 13,615,803	\$ 30,936,603
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,179,541	1,107,081
Amortization	1,549,783	1,870,604
Bad debt provision	(62,871)	46,388
Reversal of sales returns and discounts	(152,716)	-
Employee stock options distributed	88,803	91,476
Amortization of financial assets discount or premium	2,524	296
(Gain) loss on (recovery) decline in market value and obsolescence of inventories	(1,202,475)	2,113,727
Net gain on equity investments	(124,047)	(180,041)
Net loss on disposal of property, plant and equipment	15,409	44,113
Net loss on disposal of intangible assets (included in other losses)	74	-
Gain on disposal of investment	(66,760)	(7,917)
Adjustment of valuation on financial assets and liabilities	95,474	(106,455)
Cash dividends from equity investees	166,506	123,713
Deferred income tax	186,387	409,696
Employees' bonuses	1,714,243	3,863,296
Changes in operating assets and liabilities:		
Financial assets designated as at fair value through profit or loss	(577,460)	(1,683,443)
Accounts receivable	(50,626)	(181,042)
Receivables from related parties	(23,567)	-
Other receivables	(292,975)	406,563
Inventories	2,587,862	(3,536,726)
Prepayments	1,479,973	(1,896,674)
Other current assets	258,227	(202,897)
Accounts payable	175,012	(2,620,019)
Payables to related parties	(70,224)	(756,334)
Income taxes payable	(408,335)	83,751
Accrued expenses	(3,675,369)	(807,962)
Other payables	48,656	-
Current portion of long-term payables	2,953	-
Other current liabilities	119,852	270,071
Long-term payables	(5,126)	-
Accrued pension liabilities	83,490	19,812
Other liabilities-others	49,351	-
Net cash provided by operating activities	<u>16,707,372</u>	<u>29,407,680</u>
<b>Cash flows from investing activities :</b>		
Decrease in restricted assets	16,604	2,868
Increase in available-for-sale financial assets	(4,546,205)	(3,697,357)
Proceeds from disposal of available-for-sale financial assets	6,432,441	649,486
Increase in held-to-maturity financial assets	(876,548)	-
Increase in financial assets carried at cost	(1,058,547)	(221,354)
Proceeds from disposal of financial assets carried at cost	5,735	3,325
Proceeds from disposal of investments accounted for using the equity method	-	13,081
Increase in investments accounted for using the equity method	(201,769)	-
Net cash outflows from acquisition of subsidiaries	-	(114,214)
Increase in prepayment for long-term investments	(15,145)	(38,773)
Purchase of property, plant and equipment	(2,584,699)	(2,122,234)
Proceeds from disposal of property, plant and equipment	2,198	9,661
Decrease in refundable deposits	10,248	67,101
Increase in intangible assets and deferred assets	(209,200)	(825,939)
Net cash provided by business combination	4,040,514	-
Net cash provided by (used in) investing activities	<u>1,015,627</u>	<u>(6,274,349)</u>
<b>Cash flows from financing activities :</b>		
Increase in short-term loans	3,975,608	-
Increase (decrease) in deposits received	5,176	(10)
Proceeds from exercise of employee stock options	3,494	68,713
Cash dividends	(21,999,457)	(28,343,090)
Cash dividends distributed to subsidiaries holding the Company's stock	155,881	202,226
Treasury stock acquired	(2,109,914)	-
Change in minority interests	52,343	(815)
Net cash used in financing activities	<u>(19,916,869)</u>	<u>(28,072,976)</u>
Effect of exchange rate	2,087,951	(3,780,890)
Net decrease in cash and cash equivalents	(105,919)	(8,720,535)
Cash and cash equivalents at the beginning of the year	85,927,357	94,647,892
Cash and cash equivalents at the end of the year	<u>\$ 85,821,438</u>	<u>\$ 85,927,357</u>
<b>Supplemental disclosures of cash flow information :</b>		
Interest paid during the year	\$ 4,811	\$ -
Income tax paid during the year	\$ 939,988	\$ 688,054
<b>Activities partially affected cash flows :</b>		
Purchase of property, plant and equipment	\$ 2,577,504	\$ 2,129,074
Add: decrease (increase) in payables to contractors and equipment suppliers	7,195	(6,840)
Cash paid for the purchase of property, plant and equipment	<u>\$ 2,584,699</u>	<u>\$ 2,122,234</u>
<b>Non-cash activities :</b>		
Stock dividends and employees' bonuses capitalized (including additional paid-in capital)	\$ -	\$ 3,689,763
Shares issued to acquire a subsidiary	\$ 12,814,375	\$ -
Change in unrealized (loss) gain on financial instruments	\$ (139,416)	\$ 10,435

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**1. Organization and Operation**

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

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

**2. Summary of Significant Accounting Policies**

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

General Descriptions of the Consolidated Entities

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

Company	Main Business	Percentage of Ownership		Note
		As of December 31,		
		2011	2010	
MediaTek Investment Corp.	General investing	100.00%	100.00%	1
Hsu-Chung Investment Corp.	General investing	-	100.00%	1
Hsu-Xin Investment Corp.	General investing	-	100.00%	1
Hsu-Ta Investment Limited	General investing	100.00%	100.00%	-
Hsu-Chia Investment Limited	General investing	100.00%	100.00%	-
Hsu-Kang Investment Limited	General investing	100.00%	100.00%	-
Core Tech Resources Inc.	General investing	100.00%	100.00%	-
MediaTek Capital Corp.	General investing	100.00%	100.00%	-
RollTech Technology, Co. Ltd.	Software development	100.00%	100.00%	2
E-vehicle Semiconductor Technology Co. Ltd.	Research, manufacturing and sales	68.97%	-	3
Gaintech Co. Limited	General investing	100.00%	100.00%	-
MediaTek (HK) Inc.	General investing	100.00%	100.00%	-
MediaTek (Hefei) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Beijing) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Shenzhen) Inc.	Technology services	100.00%	100.00%	-

(To be continued)

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)	Company	Main Business	Percentage of Ownership		Note
			As of December 31,		
			2011	2010	
	MediaTek (Chengdu) Inc.	Technology services	100.00%	100.00%	4
	MediaTek (Wuhan) Inc.	Technology services	100.00%	100.00%	5
	MediaTek (Shanghai) Inc.	Technology services	100.00%	-	6
	MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100.00%	100.00%	-
	MTK Wireless Limited (UK)	Research	100.00%	100.00%	-
	MediaTek Wireless Limited (Ireland)	Research	100.00%	100.00%	-
	MediaTek Denmark ApS	Research	100.00%	100.00%	-
	MTK Wireless L.L.C. (Dubai)	Technology services	100.00%	100.00%	7
	Zena Technologies International Inc. (BVI)	General investing	48.63%	48.63%	8
	Zena Technologies, Inc. (USA)	Research	100.00%	100.00%	8
	MediaTek USA Inc.	Research	100.00%	100.00%	-
	MediaTek Wireless, Inc. (USA)	Research	100.00%	100.00%	9
	MediaTek Japan Inc.	Technology services	100.00%	100.00%	-
	MediaTek India Technology Pvt. Ltd.	Research	100.00%	100.00%	-
	MediaTek Korea Inc.	Technology services	100.00%	100.00%	-
	Vogins Technology Co., Ltd.	General investing	79.51%	79.51%	-
	Vogins Technology (Shanghai) Co., Ltd.	Software development	100.00%	100.00%	-
	Hesine Technologies International Worldwide Inc.	General investing	100.00%	100.00%	10
	Hesine Technologies, Inc.	Technology services	100.00%	-	11
	Gold Rich International (Samoa) Limited	General investing	100.00%	-	12
	Smarthead Limited	General investing	100.00%	-	13
	Gold Rich International (HK) Limited	General investing	100.00%	-	14
	Lepower Limited	General investing	71.09%	-	15
	Lepower (HK) Limited	General investing	100.00%	-	16
	Ralink Technology Corp.	Research, manufacturing and sales	100.00%	-	17
	Ralink Technology (Singapore) Corp. Pte. Ltd.	General investing	100.00%	-	17
	T-Rich Technology (Cayman) Corp.	General investing	100.00%	-	17
	T-Rich Technology Corp.	Research, manufacturing and sales	100.00%	-	17
	Ralink Technology (Samoa) Corp.	General investing	100.00%	-	17
	Ralink Technology Corporation (USA)	Research	100.00%	-	9&17
	Shadow Investment Limited	General investing	100.00%	-	17
	MediaTek (Suzhou) Inc.	Technology services	100.00%	-	17
	MediaTek (Nanjing) Inc.	Technology services	100.00%	-	17

1. Hsu-Chung Investment Corp. and Hsu-Xin Investment Corp. were merged into MediaTek Investment Corp. on January 1, 2011.

2. MediaTek Capital Corp. acquired RollTech Technology, Co. Ltd. in July 2010.

3. MediaTek Capital Corp. acquired E-vehicle Semiconductor Technology Co. Ltd. in May 2011.

4. MediaTek (HK) Inc. established MediaTek (Chengdu) Inc. in July 2010.

**MEDIATEK INC.**

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

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

5. MediaTek (HK) Inc. established MediaTek (Wuhan) Inc. in December 2010.
6. MediaTek (HK) Inc. established MediaTek (Shanghai) Inc. in January 2011.
7. MediaTek Singapore Pte. Ltd. established MTK Wireless L.L.C. (Dubai) in September 2010.
8. Gaintech Co. Limited lost control over Zena Technologies International Inc. (BVI) and its subsidiary - Zena Technologies, Inc. (USA) due to the fact that direct and indirect shareholding was under 50% and therefore excluded these two companies from MTK's consolidated financial statements since the 4<sup>th</sup> quarter of 2010.
9. MediaTek USA Inc. issued new shares to acquire all shares of Ralink Technology Corporation's subsidiary - Ralink Technology Corporation (USA).
10. Gaintech Co. Limited established Hesine Technologies International Worldwide Inc. in December 2010.
11. Hesine Technologies International Worldwide Inc. invested in Hesine Technologies, Inc. in July 2011.
12. Gaintech Co. Limited established Gold Rich International (Samoa) Limited in May 2011.
13. Gaintech Co. Limited established Smarthead Limited in April 2011.
14. Gold Rich International (Samoa) Limited established Gold Rich International (HK) Limited in May 2011.
15. Gaintech Co. Limited established Lepower Limited in July 2011.
16. Lepower Limited established Lepower (HK) Limited in July 2011.
17. MTK issued new shares to exchange 100% shares of Ralink Technology Corp. in October 2011 and acquired all its subsidiaries: T-Rich Technology (Cayman) Corp., T-Rich Technology Corp., Ralink Technology (Singapore) Corp. Pte. Ltd, Ralink Technology Corporation (USA), Ralink Technology (Samoa) Corp., Shadow Investment Limited, MediaTek (Suzhou) Inc., and MediaTek (Nanjing) Inc. The record date of shares exchange was set on October 1, 2011, and accordingly Ralink Technology Corp. and its subsidiaries were included in MTK's 2011 consolidated financial statement. After the acquisition, the Company conducted a group reorganization by attaching Ralink Technology (Samoa) Corp., Shadow Investment Limited, MediaTek (Suzhou) Inc. and MediaTek (Nanjing) Inc. to Gaintech Co. Limited as its subsidiaries.



**MEDIATEK INC.**

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

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

Principles of Consolidation

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



**MEDIATEK INC.**

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

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

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

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

*Cash Equivalents*

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

b. Bond portfolios with no active market

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

c. Financial assets carried at cost

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

d. Held-to-maturity financial assets

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

**MEDIATEK INC.**

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

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

e. Available-for-sale financial assets

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

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

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

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

**MEDIATEK INC.**

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

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

*Evaluation of Impairment of Accounts Receivable*

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

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

*Inventories*

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

*Investment Accounted for Using the Equity Method*

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

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Property, Plant and Equipment

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

**MEDIATEK INC.**

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

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

*Intangible Assets*

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

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

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

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

*Deferred Assets*

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

*Asset Impairment*

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

**MEDIATEK INC.**

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

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

Capital Expenditures vs. Operating Expenditures

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

Revenue Recognition

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

Employee Retirement Benefits

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



**MEDIATEK INC.**

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

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

Income Tax

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

Employee Stock Option

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

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

Employee Bonuses and Remunerations Paid to Directors and Supervisors

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

Earnings Per Share

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

**MEDIATEK INC.**

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

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

*Treasury Stock*

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

*Derivative Financial Instruments-Held for Trading*

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

*Operating Segments Information*

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

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

**4. Contents of Significant Accounts**

- (1) Cash and Cash Equivalents

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

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

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

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

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

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

(a) As of December 31, 2011:

Held-for-trading financial assets:

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

(b) As of December 31, 2010:

Held-for-trading financial assets:

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

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

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

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

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

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

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

## (6) Accounts Receivable-Net

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

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

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

As of December 31, 2011:

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of December 31, 2010:

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

## (7) Other Receivables

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

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

## (8) Inventories-Net

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

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

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

## (9) Funds and Investments

a.

Investee Company	As of December 31, 2011			Ownership
	Type	Share/unit	Amount	
<u>Financial assets designated as at fair value through</u>				
<u>profit or loss-noncurrent</u>				
Dynamic Credit Protection Notes	Credit-linked deposit	-	\$47,858	-
Csi Best of 3 Cppi Portfolios USD 5yrs Principal Protected Note	Credit-linked deposit	-	236,011	-
GS 3 Year USD Denominated Note Linked to MH	Credit-linked deposit	-	230,543	-
3Y Collared Floater EMTN (6MLibor)	Interest rate-linked deposit	-	117,828	-
3Y Collared Floater EMTN (3MLibor)	Interest rate-linked deposit	-	235,414	-
4Y Floating Rate Note with Cap & Floor	Interest rate-linked deposit	-	262,851	-
3Y Floating Rate Note with Floor	Interest rate-linked deposit	-	262,851	-
3Y Denominated FX Linked Notes	Exchange rate-linked deposit	-	226,981	-
Seti Co., Ltd.	Bond	16	119,000	-
Subtotal			<u>1,739,337</u>	
<u>Available-for-sale financial assets-noncurrent</u>				
Cathay No.1 Real Estate Investment Trust	Mutual fund	68,400,000	963,072	-
Cathay No.2 Real Estate Investment Trust	Mutual fund	50,000,000	629,500	-
Hui Xian Real Estate Investment CMN	Mutual fund	13,540,000	227,417	-
Hutchison Port Holdings Singapore Trust CMN	Mutual fund	10,534,000	201,017	-
Tencent Holding Ltd.	Bond	6,450,000	190,926	-
Gevcr II 36-Month Debentures	Bond	850	182,608	-
Anstock Ltd.	Bond	60,000,000	277,205	-

(To be continued)



## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Investee Company	As of December 31, 2011			
	Type	Share/unit	Amount	Ownership
Commonwealth Bank of Australia	Bond	-	19,652	-
HK Mortgage CPN	Bond	-	19,585	-
Agricultural Bank of China HK	Bond	-	19,521	-
ICBCHK CPN	Bond	-	19,648	-
MTRC(C.I) CPN	Bond	-	19,702	-
CLP Power	Bond	-	21,208	-
Swire HKD FRN Hibor	Bond	-	19,607	-
Subtotal			2,810,668	
<u>Held-to-maturity financial assets-noncurrent</u>				
UBS USD 4Y FRN with Cap/Floor	Interest rate-linked deposit	-	272,610	-
GS Group 3Y USD Floating-Rate Note	Interest rate-linked deposit	-	302,900	-
Beijing Enterprises Water Grou CPN	Bond	54,000,000	252,912	-
Subtotal			828,422	
<u>Financial assets carried at cost-noncurrent</u>				
Yuantonix, Inc.	Common share	300,000	-	3.75%
Browave Corporation	Common share	380,000	-	0.69%
Communication V.C. Corp.	Common share	4,000,000	(420) (Note)	14.41%
Legend Tech. V.C. Inc. Corp.	Common share	427,168	(2,620) (Note)	6.33%
Alpha Imaging Technology Corp.	Common share	8,498,926	186,259	15.01%
Andes Technologies, Inc.	Common share	8,749,710	81,662	18.74%
Prime Sensor Technology Inc.	Common share	2,250,000	22,500	12.10%
Indigo Mobile Technologies Corp.	Common share	4,791,000	297	6.88%
Synerchip Co., Ltd.	Preferred share	2,850,175	97,741	6.93%
V Web Corp.	Preferred share	1,250,000	-	3.39%
Wi Harper Inc Fund Vi Ltd.	Preferred share and common share	29,445	74,298	2.44%
Imera Systems, Inc.	Preferred share	536,382	24,371	5.13%
Mcube, Inc.	Preferred share	2,762,487	181,740	10.88%

(To be continued)

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

(To be continued)

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

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

(To be continued)

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

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

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

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

**MEDIATEK INC.**

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

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

- f. During 2011, the Company sold Cathay No. 1 Real Estate Investment Trust and other financial assets which were classified as available-for-sale financial assets at the aggregate price of NT\$201,305 thousand and recognized an investment disposal gain of NT\$80,019 thousand. In 2010, the Company sold Chinatrust 2006-1 Collateralized Loan Obligation-E and other financial assets which were classified as available-for-sale financial assets at the aggregate price of NT\$296,000 thousand.
- g. In 2011, the Company invested in Beijing Enterprises Water Group CPN bond which was classified as held-to-maturity financial asset. The investment cost amounted to NT\$828,422 thousand.
- h. During 2011, the Company invested in Shanghai Walden Venture Capital and other financial assets which were classified as financial assets carried at cost in the aggregate amount of NT\$1,058,547 thousand. In 2010, the Company invested in Pacific Growth Ventures, L.P. and other financial assets which were classified as financial assets carried at cost in the aggregate amount of NT\$221,354 thousand.
- i. In 2011, the Company received the funds of capital reduction in the amount of NT\$5,735 thousand from Wi Happer Inc Fund Wi Ltd. which was classified as financial assets carried at cost. In 2010, the Company sold shares of Browave Corporation and other financial assets which were classified as financial assets carried at cost at the aggregate price of NT\$3,325 thousand and recognized an investment disposal gain of NT\$1,296 thousand.
- j. In 2011, the Company invested in CMC Capital Investments, L.P. and other financial assets which were classified as investments accounted for using the equity method. The investment cost amounted to NT\$202,613 thousand.
- k. In 2010, the Company sold shares of Airoha Technology, Inc. which were classified as investments accounted for using the equity method at the price of NT\$13,081 thousand and recognized an investment disposal gain of NT\$6,621 thousand.
- l. In December 2005, the Company acquired series B preferred stocks (“Preferred B”) of Chinatrust Financial Holding Company by NT\$1,000,000 thousand. Terms and conditions of the stock are listed as follows:

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (a) Duration : 7 years  
 (b) Par value : \$10 per share  
 (c) Issuing price : \$40 per share  
 (d) Dividends:  
 Dividend is at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.  
 (e) Redemption at maturity:  
 Preferred B is a 7-year preferred stock. Redemption price at maturity is at 100% of the issuing price, i.e. NT\$40 per share.

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

## (10) Property, Plant and Equipment

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

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

## (11) Intangible Assets

	For the year ended December 31, 2011			
	Trademarks	Software (Design software)	Patents, IPs and Others	Total
<b>Original cost</b>				
Balance at beginning of period	\$-	\$2,712,581	\$9,034,111	\$11,746,692
Increase - separately acquired	-	136,319	57,387	193,706
Increase - through business combination	32,300	89,390	1,240,595	1,362,285
Decrease - elimination and others	-	(2,046,290)	(3,661,370)	(5,707,660)
Balance at end of period	32,300	892,000	6,670,723	7,595,023
<b>Accumulated amortization</b>				
Balance at beginning of period	-	(2,379,528)	(6,657,958)	(9,037,486)
Increase - amortization	(4,852)	(282,145)	(1,262,786)	(1,549,783)
Decrease - elimination and others	-	2,049,097	3,655,421	5,714,518
Balance at end of period	(4,852)	(612,576)	(4,255,323)	(4,872,751)
Net	\$27,448	\$279,424	\$2,415,400	\$2,722,272

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

## (12) Accrued Pension Liabilities

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

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

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

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



## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

(e) The underlying actuarial assumptions

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

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

## (13) Short-Term Loans

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

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

## (14) Long-Term Payables

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

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

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

## (15) Common Stock

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

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

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

## (16) Legal Reserve

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

## (17) Capital Reserve

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

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- a. MTK had paid cash dividends in the amount of NT\$155,881 thousand and NT\$202,226 thousand to the subsidiary who owned MTK's common shares for the years ended December 31, 2011 and 2010, respectively. Since MTK's shares held by the subsidiary are treated as treasury stocks, the cash dividends paid to MTK's subsidiary are accounted for as an adjustment to capital reserve; under the category of treasury stock transactions.
- b. For the year ended December 31, 2010, based on the resolution of shareholders' general meeting, MTK resolved to issue 7,485,481 new shares at par value of NT\$10 for the capitalization of employees' bonus of NT\$3,667,961 thousand. The issuance resulted in an increase in additional paid-in capital in the amount of NT\$3,593,106 thousand. Please refer to Note 4(15).

## (18) Employee Stock Options

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

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

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2008.03.31	1,134,119	477,971	477,971	\$374.7
2008.08.28	1,640,285	804,209	804,209	358.9
2009.08.18	1,382,630	790,614	790,614	460.6
2010.08.27	1,605,757	1,069,770	1,069,770	429.8
2010.11.04	65,839	17,714	17,714	397.0
2011.08.24	2,109,871	2,038,515	2,038,515	280.0

Note: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash or the appropriations of earnings) in accordance with the plan.

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The compensation cost was recognized under the fair value method and the Black-Scholes Option Pricing model was used to estimate the fair value of options granted. For the years ended December 31, 2011 and 2010, compensation costs recognized were NT\$88,803 thousand and NT\$91,476 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

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

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

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The information regarding MTK's outstanding stock options as of December 31, 2011 is disclosed as follows:

	Range of Exercise Price (NTD)	Outstanding Stock Options			Exercisable Stock Options	
		Options (Unit)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Stock option plan of 2007	\$358.9~374.7	1,282,180	3.01	\$365	750,692	\$365
Stock option plan of 2009	460.6	790,614	4.13	461	241,674	461
Stock option plan of 2010	397~429.8	1,087,484	5.17	429	-	-
Stock option plan of 2011	280.0	<u>2,038,515</u>	6.17	280	-	-
		<u>5,198,793</u>		\$360	<u>992,366</u>	

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

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

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

Note: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash or the appropriations of earnings) in accordance with the plan.

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

Other information is disclosed as follows:

	Range of Exercise Price (NTD)	Outstanding Stock Options		Exercisable Stock Options	
		Options (Unit)	Weighted- average Expected Remaining Years	Weighted- average Exercise Price per Share (NTD)	Options (Unit)
Authorized issue date					
2006.01.17	\$14.30	4,838	-	\$14.30	4,838 \$14.30
2007.01.29	15.70	52,400	0.33	15.70	52,400 15.70
2007.10.30	16.70	87,497	0.50	16.70	87,497 16.70
		144,735		\$16.26	144,735

**MEDIATEK INC.**

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

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

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

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

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

During the years ended December 31, 2011 and 2010, the amounts of the employee' bonuses were estimated to be NT\$1,714,243 thousand and NT\$3,863,296 thousand, respectively. During the years ended December 31, 2011 and 2010, the amounts of remunerations to directors and supervisors were estimated to be NT\$24,687 thousand and NT\$71,628 thousand, respectively. Employee bonuses were estimated based on a specific rate of net income for the years ended December 31, 2011 and 2010, respectively (excluding the impact of employees' bonuses) while remunerations to directors and supervisors were estimated based on MTK's Articles of Incorporation. Estimated amount of employee bonuses and remunerations paid to directors and supervisors were charged to current income. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, MTK shall recognize the change as an adjustment to income of next year.



MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

Note: The original estimated expense and the proposed appropriation were based on different calculating basis. The difference would be considered as changes in accounting estimate after resolved by the shareholder' meeting and would be included in the profit or loss in 2012.

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

(20) Treasury Stock

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

(a) For the year ended December 31, 2011

(In thousands of shares)

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

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

Note : Stock dividends

## (21) Net Operating Revenue

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

## (22) Personnel, Depreciation and Amortization Expenses

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

## (23) Income Tax

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

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

(To be continued)

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

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

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

h. Integrated income tax information

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

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

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

## (24) Earnings Per Share

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

## 5. Related Party Transactions

## (1) Related parties and relations

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

## (2) Major transactions with related parties

## a. Sales

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

For the years ended December 31, 2011 and 2010, the trade credit terms for related parties and third-party customers were both 45 to 60 days. Third-party customers may prepay their accounts in advance. The Company's sales to ALi were royalty revenues, which were charged based on an agreed percentage of the Company's net sales.

## b. IC testing, experimental services and manufacturing technology services

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

## c. Rental Income

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

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



## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

## (3) Receivables and payables resulted from the above transactions

## a. Receivables from related parties

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

## b. Payables from related parties

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

## c. Remunerations paid to major managers

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

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

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

**6. Assets Pledged As Collateral**(1) As of December 31, 2011

	Amount	Party to which assets	
		was pledged	Purpose of pledge
Restricted deposits-current	\$6,917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,030	Customs Office	Tariff execution deposits
Restricted deposits-current	3,165	Danske Bank	Credit guarantee
Restricted deposits-noncurrent	71	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	600	Citibank	Tariff execution deposits
Total	\$13,783		

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(2) As of December 31, 2010

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

**7. Commitments and Contingencies**

## (1) Lawsuit:

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

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

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

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

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

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

**MEDIATEK INC.**

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

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

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

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

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

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

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

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

The Company will handle these cases carefully.

**(2) Operating Lease:**

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

Lease Period	Amount
2012.01.01~2012.12.31	\$30,371
2013.01.01~2013.12.31	30,371
2014.01.01~2014.12.31	30,371
2015.01.01~2015.12.31	30,371
2016.01.01~2016.12.31	30,371
2017.01.01~2027.12.31	214,048
Total	\$365,903

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

Lease Period	Amount
2012.01.01~2012.12.31	\$111,056
2013.01.01~2013.12.31	78,870
2014.01.01~2014.12.31	65,037
2015.01.01~2015.12.31	66,794
2016.01.01~2016.12.31	14,180
2017.01.01~2020.12.31	35,228
Total	\$371,165

**8. Significant Casualty Loss**

None

**9. Significant Subsequent Events**

None

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

## 10. Others

## (1) Financial Instruments

## a. Fair value of financial instruments

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

**MEDIATEK INC.**

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

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

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (b) Gains (loss) recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$(48,038) thousand and NT\$104,995 thousand for the years ended December 31, 2011 and 2010, respectively.
- (c) As of December 31, 2011 and 2010, financial assets exposed to fair value risk from fixed interest rate were NT\$75,320,431 thousand and NT\$60,905,429 thousand, respectively, and financial liabilities were NT\$4,254,893 thousand and nil, respectively. As of December 31, 2011 and 2010, financial assets exposed to cash flow risk from variable interest rate were NT\$4,955,777 thousand and NT\$5,801,157 thousand, respectively.
- (d) Interest income recognized from financial assets that are not at fair value through profit or loss amounted to NT\$947,698 thousand and NT\$558,844 thousand for the years ended December 31, 2011 and 2010, respectively. Interest expenses recognized from financial liabilities that are not at fair value through profit or loss amounted to NT\$9,378 thousand and nil for the years ended December 31, 2011 and 2010, respectively. The Company recognized unrealized gains of NT\$125,960 thousand and NT\$80,791 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2011 and 2010, respectively, and the amounts that were recycled from equity to losses were NT\$7,890 thousand and nil for the years ended December 31, 2011 and 2010, respectively. The Company also recognized unrealized losses of NT\$273,266 thousand and NT\$70,356 thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for under the equity method for the years ended December 31, 2011 and 2010, respectively.
- (e) For the years ended December 31, 2011 and 2010, the Company did not have impairment loss on financial assets.
- b.
- (a) Risk management policy and hedge strategy for financial instruments  
The Company held certain non-derivative financial instruments, including cash and cash equivalents, short-term loans, held-for-trading financial assets and available-for-sale financial assets-mutual fund, government bonds, corporate bonds and financial debentures. The Company held the financial instruments to meet operating cash needs. The Company also held other financial instruments such as receivables, payables, financial assets designated as at fair value through profit or loss, held-to-maturity financial assets, financial assets carried at cost, bond portfolios with no active market and investments accounted for using the equity method.

**MEDIATEK INC.**

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

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

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

(b) Information of financial risks

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

Market risk

Market risk mainly includes currency risk. It comes from purchase or sale activities which are not denominated in the Company's functional currency. The Company reviews its assets and liabilities denominated in foreign currency and enters into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Had the USD moved against NTD by increasing 1 cent, the fair value of the forward exchange contracts would decrease by NT\$140 thousand and NT\$450 thousand as of December 31, 2011 and 2010, respectively. Credit-linked deposits and interest rate-linked deposits are affected by interest rates. When interest rate increases, the market value may decrease and may even be below the initial investment cost, and vice versa. The fair value of exchange rate-linked deposits is affected by interest rate fluctuation. The fair value of mutual fund, government bonds and corporate bonds will be exposed to fluctuations from other market factors as well as movement in interest rates.



**MEDIATEK INC.**

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

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

Credit risk

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

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

Liquidity risk

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

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

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Cash flow risk from variable interest rate

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

(2) Business combinations

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

a. Background of the acquired company:

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

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

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

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

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

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

## (3) Other Information

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

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

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

**MEDIA TEK INC.**

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

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

- c. Inter-company relationships and significant inter-company transactions for the year ended December 31, 2011 are as follows: (For MTK's shares owned by the subsidiary, please refer to the Note 4.(20) to the consolidated financial statements.)

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

(To be continued)

**MEDIA TEK INC.**

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

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

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction				Percentage of consolidated operating revenue or total assets (Note 3)
				Account	Amount	Terms		
2	MediaTek Singapore Pre. Ltd	MTK Wireless Limited (UK)	3	Payables to related parties	\$26,707	Based on contract	0.02%	
			3	Research and development expenses	\$359,639		0.41%	
		MediaTek USA Inc.	3	Payables to related parties	\$1,110		0.00%	
			3	Research and development expenses	\$1,095,797		1.26%	
		MediaTek Japan Inc.	3	Payables to related parties	\$21,855		0.01%	
			3	Research and development expenses	\$199,263		0.23%	
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$19,306		0.01%	
			3	Research and development expenses	\$258,723		0.30%	
		MediaTek Korea Inc.	3	Payables to related parties	\$18,305		0.01%	
			3	Research and development expenses	\$167,918		0.19%	
		MediaTek Wireless L.L.C. (Dubai)	3	Accrued expenses	\$1,028		0.00%	
			3	Selling expenses	\$10,465		0.01%	
		MediaTek (Shenzhen) Inc.	3	Prepayment	\$1,765		0.00%	
			3	Research and development expenses	\$1,295,900		1.49%	
MediaTek (Hefei) Inc.	3	Prepayment	\$4,050	0.00%				
	3	Research and development expenses	\$645,725	0.74%				

(To be continued)

**MEDIA TEK INC.**

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

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

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction				Percentage of consolidated operating revenue or total assets (Note 3)
				Account	Amount	Terms		
2	MediaTek Singapore Pte. Ltd	MediaTek (Beijing) Inc.	3	Prepayment	\$15,660		0.01%	
			3	Research and development expenses	\$1,506,742		1.73%	
		Hesine Technologies, Inc.	3	Prepayments	\$36,199		0.02%	
			3	Research and development expenses	\$67,045		0.08%	
		MediaTek (Suzhou) Inc.	3	Prepayments	\$72,747		0.05%	
			3	Research and development expenses	\$13,737		0.02%	
		MediaTek (Chengdu) Inc.	3	Prepayment	\$3,529		0.00%	
			3	Research and development expenses	\$140,289		0.16%	
		MediaTek (Wuhan) Inc.	3	Prepayments	\$5,612		0.00%	
			3	Research and development expenses	\$37,308	Based on contract	0.04%	
MediaTek (Shanghai) Inc.	3	Prepayments	\$8,393		0.01%			
	3	Research and development expenses	\$53,339		0.06%			
3	Shadow Investment Limited	Rollech Technology, Co. Ltd.	3	Selling Expenses	\$1,945		0.00%	
		MediaTek (Nanjing) Inc.	3	Prepayments	\$36,348		0.02%	
		MediaTek (Suzhou) Inc.	3	Prepayments	\$36,348		0.02%	
3	Ralink Technology Corporation (USA)	Ralink Technology (Singapore) Corp.	3	Payables to related parties	\$23,278		0.02%	
		Pte. Ltd.	3	Research and development expenses	\$23,264		0.03%	

**MEDIA TEK INC.**

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

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

Inter-company relationships and significant inter-company transactions for the year ended December 31, 2010 are as follows:

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

(To be continued)

**MEDIA TEK INC.**

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

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

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction			Percentage of consolidated operating revenue or total assets (Note 3)
				Account	Amount	Terms	
2	MediaTek Singapore Pte. Ltd	MediaTek Korea Inc.	3	Payables to related parties	\$11,420	Based on contract	0.01%
				Research and development expenses	\$156,625		0.14%
				Payables to related parties	\$87,218		0.06%
				Research and development expenses	\$1,021,748		0.90%
				Payables to related parties	\$19,624		0.01%
				Research and development expenses	\$455,311		0.40%
3	MediaTek Investment Corp.	MediaTek (Beijing) Inc.	3	Payables to related parties	\$140,541		0.10%
				Research and development expenses	\$1,335,660		1.18%
				Financial assets carried at cost - noncurrent	\$122,535		0.09%



**MEDIATEK INC.**

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

Note 1: MTK and subsidiaries are coded as follows:

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

Note 2: Transactions are categorized as follows:

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

Note 3: The percentage with respect to the consolidated asset for transactions of balance sheet items is based on each item's balance at period-end. The percentage with respect to the consolidated net sales for profit or loss items and cumulative balance is used as basis.

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

**11. Operating Segment Information**

## (1) General information

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

## (2) Geographical information

## a. Sales to other than consolidated entities

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

Sales are presented by billed regions.

## b. Non-current assets

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

## (3) Major customers

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

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

**12. The Authorization of Financial Statements**

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

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

**13. IFRSs Adoption Information**

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

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

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

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)

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

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

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

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

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)

## MEDIATEK INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

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