

MEDIA/TEK

Annual Report 2012



Stock code : 2454 Date : May 10, 2013

This Annual Report is accessible through the websites below :

Market Observation Post System website of Taiwan Stock Exchange Corporation - http://emops.twse.com.tw/emops_all.htm
Annual Report website of Mediatek Inc. - http://www.mediatek.com/_en/04_IR/financial03.php

Contact Information

Spokesperson:

Name: David Ku
Title: Chief Financial Officer
TEL: +886-(0)3-567-0766
Email: ir@mediatek.com

Deputy Spokesperson:

Name: Sophia Liang
Title: Director, Investor Relations Division
TEL: +886-(0)3-567-0766
Email: ir@mediatek.com

MediaTek Inc. Headquarters:

Address: No. 1, Dusing Rd. 1, Hsinchu Science Park, Hsinchu, Taiwan, R.O.C., 300
TEL: +886-(0)3-567-0766
Fax: +886-(0)3-578-7610

MediaTek Inc. Taipei Office:

Address: No. 15, Lane 91, Sec. 1, Neihu Rd., Neihu District, Taipei, Taiwan, R.O.C., 114
TEL: +886-(0)2-2659-8088

Transfer Agent:

Company: Chinatrust Commercial Bank, Corporate Trust Service Department
Address: 5F, No. 83, Chungching S. Rd., Sec. 1, Taipei, Taiwan, R.O.C.
TEL: +886-(0)2-2181-1911
Website: <http://www.chinatrust.com.tw>

Independent Auditor:

Company: Ernst & Young
Auditors: Shao-Pin Kuo, Hsin-Min Hsu
Address: 9F, No.333, Keelung Rd., Sec. 1, Taipei, Taiwan, R.O.C.
TEL: +886-(0)2-2720-4000
Website: www.ey.com/tw

MediaTek Inc. Website:

Website: www.mediatek.com

2012 MediaTek Annual Report

Table of Contents

1. Letter to Shareholders	5
2. Company Profile.....	6
2.1. MediaTek Company Profile.....	6
2.2. Milestones.....	6
3. Corporate Governance	9
3.1. Organization	9
3.2. Directors and Supervisors.....	11
3.3. Management Team	17
3.4. Corporate Governance Report.....	20
3.5. Information Regarding MediaTek's Independent Auditors	30
3.6. Net Changes in Shareholding	31
3.7. Top 10 Shareholders Who are Related Parties to Each Other.....	32
3.8. Long-Term Investment Ownership.....	32
4. Capital and Shares	33
4.1. Capital and Shares.....	33
4.2. Status of Corporate Bonds.....	38
4.3. Status of Preferred Stocks	38
4.4. Status of GDR/ADR.....	38
4.5. Status of Employee Stock Option Plan	39
4.6. Status of Restricted Employee Rights.....	40
4.7. Status of New Shares Issuance in Connection with Mergers and Acquisitions	41
4.8. Financing Plans and Implementation	42
5. Business Activities	43
5.1. Business Scope.....	43
5.2. Market, Production, and Sales Outlook.....	50
5.3. Employees	56
5.4. Important Contracts.....	57
6. Corporate Social Responsibility	59
6.1. Corporate Promise	59
6.2. Social Participation.....	62
6.3. Environmental Efforts.....	65
7. Financial Status, Operating Results and Status of Risk Management	67
7.1. Financial Status	67

7.2. Operating Results	69
7.3. Cash Flow Analysis	71
7.4. Major Capital Expenditure.....	72
7.5. Investment Policies	72
7.6. Risk Management	72
7.7. Other Material Events.....	78
8. Other Special Notes	79
8.1. MediaTek Affiliates	79
8.2. Private Placement Securities	86
8.3. Holding or Disposition of MediaTek Stocks by Subsidiaries	86
8.4. Any Events in 2012 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:.....	86
8.5. Other Necessary Supplement.....	86
9. Financial Information	87
9.1. Condensed Balance Sheet	87
9.2. Condensed Income Statement	89
9.3. Independent Auditors' Opinions	90
9.4. Financial Statements for the Past 5 Years.....	90
9.5. Supervisors' Review Report.....	93
9.6. Financial Statements and Independent Auditors' Report – Parent Company	94
9.7. Financial Statements and Independent Auditors' Report – MediaTek & Subsidiaries	172
9.8. The Impact on the Company's Financial Status in Cases where the Company or its Affiliates have Financial Difficulties: None.....	223

1. Letter to Shareholders

Dear Shareholders:

2012 was a year of both challenges and opportunities for MediaTek and indeed the entire IC design industry. Demand from emerging markets experienced rapid changes; penetration of smartphones increased sharply while the popularity of new applications, such as tablets, continued to expand. Consumer electronics manufacturers relentlessly launched new products that incorporated upgraded end-product specifications, simultaneously stimulating market demand and resulting in fierce market competition. MediaTek — in order not only to succeed in these competitive conditions, but to thrive — continued to launch smartphone products that met the demands of the market by utilizing our in-depth understanding of the emerging markets, solid technology and execution capabilities. Thanks to our employees' dedication, MediaTek achieved a net consolidated revenue of NT\$99.3 billion and an earnings per share of NT\$12.9 for the fiscal year of 2012.

To respond to the increasingly heated demand for smartphones from consumers in emerging markets, MediaTek launched a series of solutions with high performance-cost ratio, supporting WCDMA, TD-SCDMA, and EDGE smartphones in 2012. The specifications and performance of the new series captured the attention of the market and helped contribute to a substantial year-on-year growth in shipments. Moreover, our smartphone platform was included in Wi-Fi alliance's Wi-Fi Certified Passpoint™ program test bed as the sole mobile benchmark platform. Our unwavering commitments in other product lines also resulted in us launching pioneering products that further strengthened our product mix, such as the world's first 120Hz Smart TV supported single chip, the world's first Bluetooth 4.0 and 802.11ac Wireless mobile combo chip for mobile devices, the world's first 802.11ac dual-band concurrent Wi-Fi router platform for home use and so on.

In addition to our achievements in product development, MediaTek received high praise from institutions both in Taiwan and overseas in 2012. Chairman Mr. Ming-Kai Tsai was awarded the first "Academician of ITRI (Industrial Technology Research Institute), R.O.C." and included in the Harvard Business Review's list of "The 100 Best-Performing CEOs in the World". Moreover, MediaTek was awarded the "Outstanding Asia-Pacific Semiconductor Company Award" by GSA (Global Semiconductor Alliance) and published 2 research papers at the ISSCC, setting yet another new industry record in Taiwan for consecutively published research papers.

In a move that will pave the way for long-term strategic development and enhance overall competitiveness of the Company, in 2012, MediaTek announced a plan to merge with MStar Semiconductor Inc. (Cayman), and also acquired the Swedish company Coresonic AB, a global leader in Digital Signal Processor (DSP) technology. These critical initiatives were taken in order to strengthen MediaTek's product mix and technology as well as acquire top R&D teams and talents around the world, thereby intensively integrating valuable resources over the mid to long term which will shore up MediaTek's competitiveness on a global scale.

As we go forward, the smartphone conversion trend is expected to expand beyond China and into other emerging markets while tablets continue to be one of the new applications with great growth potential. Moving beyond 3G toward 4G technology, MediaTek is well-positioned to continue to expand and enhance the width and depth of product lines and work closely with customers to win market opportunities and create win-win results. MediaTek is confident in the future growth of the company and in generating fruitful results for our shareholders, customers, and employees. Once again, we would like to thank you — our shareholders — for your continued support and generosity.

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. provides innovative chip integration system solutions in 4 areas: Optical Storage solutions, Digital Home Solutions such as Digital TV and DVD players (including Blu-Ray related products), mobile communication solutions and wireless home networking and broadband access solutions. The company is the only firm among fabless semiconductor companies that can deliver solutions across the fields of IT, consumer electronics and communications. MediaTek Inc. is one of the 10 largest IC design companies in the world, and no.1 in Asia. It has successfully made itself a vital part of the global supply chain through the constant innovation, in particular Taiwan's whole mobile industry.

2.2. Milestones

Year	Milestones
2013	<ul style="list-style-type: none"> Published 6 papers in ISSCC, the most among Taiwan technology companies-- 「 A Wideband Fractional-N Ring PLL with Fractional Suppression using Spectrally Shaped Segmentation 」 · 「 A 0.27mm², 13.5dBm, 2.4GHz All-digital Polar Transmitter with 34%-Efficiency Class-D DPA in 40nm CMOS 」 · 「 An AC-Coupled Hybrid Envelope Modulator for HSUPA Transmitters with 80% Modulator Efficiency 」 · 「 A 24.7dBm All-Digital RF Transmitter for Multimode Broadband Applications in 40nm CMOS 」 · 「 A 28fj/conv-step CT Modulator with 78dB DR and 18MHz BW in 28nm CMOS Using a Highly Digital Multibit Quantizer 」 and 「 A Universal GNSS (GPS/Galileo/Glonass/Beidou) SoC 10:15 AM with a 0.25mm² Radio in 40nm CMOS 」
2012	<ul style="list-style-type: none"> MediaTek Android smartphone platform has been included in the Wi-Fi CERTIFIED Passpoint™ test bed as the first and only mobile benchmark platform Ralink Technology, a wholly owned subsidiary of MediaTek Inc, was selected to be in the Wi-Fi CERTIFIED WMM@-Admission Control test bed as the benchmark for advanced Wi-Fi performance and interoperability 2012 SIPA Innovative Product Award, MT6620 Highly Integrated WiFi/BT/FM/GPS 4-in-1 SOC The winner of "Outstanding Asia-Pacific Semiconductor Company Award" selected by GSA (Global Semiconductor Alliance) Awarded "2012 Top 10 Taiwan Innovative Corporations" by Ministry of Economic Affairs, China Productivity Center and Boston Consulting Group 2012 Thomson Reuters Taiwan Innovation Awards : Top 5 Corporate Innovators in Taiwan Awarded "2012 Most Admired Company in Taiwan Top 3" by "Common Wealth Magazine" Awarded "2012 INFO TECH TOP 100 in Asia" by "Business Next" magazine Awarded 6th National Telecom Award 2012 - "Best Innovation in Mobile Video Technology" by "CMAI Association of India" Mr. Ming-Kai Tsai, Chairman & CEO of MediaTek Inc, awarded "Academician of ITRI (Industrial Technology Research Institute), R.O.C." Mr. Ming-Kai Tsai, Chairman & CEO of MediaTek Inc, awarded as "The Best-Performing CEOs in the World" by Harvard Business Review MediaTek papers selected for presentation at 2012 Symposium on VLSI Circuits- the only fabless semiconductor company to have more than two papers selected for presentation at the 2012 Symposium Published papers in ISSCC - "A 4-in-1 (WiFi/BT/FM/GPS) Connectivity SoC with Enhanced Co-Existence Performance in 65nm CMOS" - "Near Independently Regulated 5-Output Single-Inductor DC-DC Buck Converter Delivering 1.2W/mm² in 65 nm CMOS"
2011	<ul style="list-style-type: none"> 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"

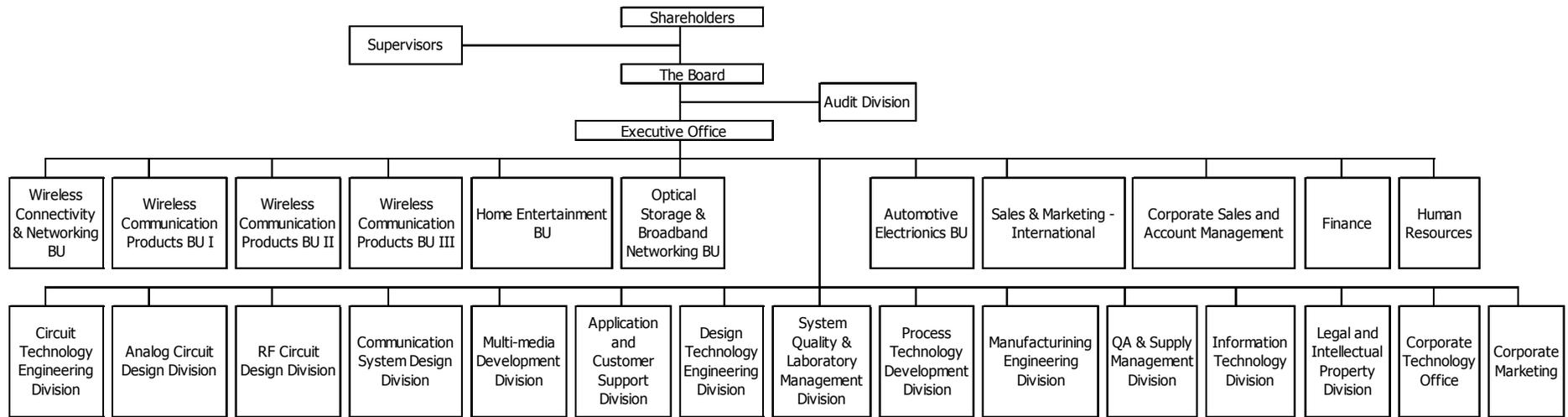
Year	Milestones
2011	<ul style="list-style-type: none"> ■ Awarded "2011 The Best Telecommunication Technology" by CMAI Association of India) ■ Awarded "The Boldness in Business" by UK Financial Times ■ Awarded Top 10 Most Admired Companies in Taiwan" by CommonWealth Magazine for 9 continuous years ■ Awarded "2011 The Most Innovative Product" by Science Park ((MT5395 highly-integrated 3D/Internet TV SoC)
2010	<ul style="list-style-type: none"> ■ 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" ■ MediaTek's "WiMAX 802.16e device chipset project" awarded "Outstanding Contribution Award" by Ministry of Economic Affairs ■ Awarded "Top 50 Corporate Citizens" by CommonWealth Magazine for four continuous years ■ Awarded "Top 10 Most Admired Companies in Taiwan" by CommonWealth Magazine for 8 continuous years ■ Ranked Top 10 of "2010 Asia's 200 most-admired companies" by The Wall Street Journal ■ Awarded no. 12 of "Global Top 100 High-Tech Companies" by Bloomberg Business Week ■ Awarded "2010 Corporate Social Responsibility Top 65" by Global Views Monthly ■ Awarded "Best Annual Report in Taiwan" and "Best One-on-One Meetings in Taiwan" by IR Magazine
2009	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's High Sensitivity GPS SoC by Science-based Industrial Park Administration (SIPA) ■ Published four research papers in the ISSCC – "A Multi-Format Blu-ray Player SoC in 90nm CMOS", "A 1.2V 2MHz BW 0.084mm² CT ΔΣ 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" ■ Awarded "Asia Pacific Leadership Council Award" by Global Semiconductor Alliance (GSA) ■ Awarded "Best Investor Relations by a CEO Award" and "Best Investor Relations for a Corporate Transaction" by IR Magazine ■ Awarded "Best Corporate Governance in Taiwan and in Asia" by Asiamoney Magazine ■ Awarded the third annual "Top 50 Corporate Citizens" by CommonWealth Magazine
2008	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's Full-HD ATSC DTV SoC, by Science-based Industrial Park Administration (SIPA) ■ Launched Blu-ray DVD player chipset, GSM/GPRS/EDGE handset baseband chip, and next-generation ATSC and DVB-T digital TV single-chip ■ 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" ■ Awarded "Best Financially Managed Company" by Global Semiconductor Alliance (GSA) ■ Awarded "Corporate Social Responsibility Award" by Global View Magazine ■ Awarded the second annual "Top 50 Corporate Citizens" by CommonWealth Magazine
2007	<ul style="list-style-type: none"> ■ Awarded "Distinguished Innovation Accomplishment" at the 15th ITA Award by the Ministry of Economic Affairs ■ Launched high-performance GPS signal receiver single-chip, first generation Bluetooth chip, and next-generation 120Hz video processing chip ■ Published research paper in the ISSCC – "RTL-based Clock recovery architecture with all-digital duty-cycle correction" ■ Published research paper in the IEEE IRPS (International Reliability Physics Symposium) "A New Device Reliability Evaluation Method for Overdrive Voltage Circuit Application." ■ Awarded "Best Financially Managed Company" by Global Semiconductor Alliance (GSA) ■ Awarded "The Asian Top 50" by Forbes Asia ■ Awarded "Corporate Social Responsibility Award" by Global View Magazine ■ Awarded the 12th annual "Most Admired Company in Taiwan" by CommonWealth Magazine ■ Awarded "Top 50 Corporate Citizens" by CommonWealth Magazine
2006	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's Blu-ray DVD player chipset, by SIPA ■ Launched GSM/GPRS/EDGE high-resolution camcorder chipset for mobile phones ■ Published research paper in the ISSCC – "Fully Integrated CMOS SoC for 56/18/16 CD/DVD-dual/RAM Applications" ■ Awarded "Best Financially Managed Company" by Fabless Semiconductor Association (FSA, now renamed as GSA) ■ Awarded "The Asian Top 50" by Forbes Asia
2005	<ul style="list-style-type: none"> ■ Awarded "Innovative Product Award" for the company's multimedia GSM/GPRS mobile phone chipset, by SIPA

Year	Milestones
2005	<ul style="list-style-type: none"> ■ Launched ATSC and DVB-T high-resolution LCD TV chipset ■ 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” ■ Awarded “The Asian Top 50” by Forbes Asia ■ Awarded the 10th annual “Most Admired Company in Taiwan” by Commonwealth Magazine
2004	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s DVD-Recorder Backend single-chip, by SIPA. ■ Launched GSM/GPRS baseband handset chips ■ Ranked no.3 in the high-tech industry in Taiwan as part of Euromoney’s “Best Corporate Governance” survey in 2004 ■ Awarded the 9th annual “Most Admired Company in Taiwan” by Commonwealth Magazine
2003	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s 8x DVD-read/write (DVD-R/W) optical storage chipset, by SIPA ■ Awarded “National Quality Award” by the Executive Yuan of Taiwan R.O.C. ■ Launched DVD-Dual chipset ■ Awarded Top High-Tech Company in Taiwan by “Business Next Magazine”
2002	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s high-speed COMBI optical storage chipset by SIPA ■ Launched 48x CD-R/W chipset ■ Launched CD/DVD COMBI chipset
2001	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s high-integration DVD-Player chipset by SIPA ■ Awarded the 9th annual MOEA Award for Industrial Technology Advancement ■ Listed on the Taiwan Stock Exchange (TSE) under ticker of “2454”
2000	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s high-speed CD-R/RW chipset by SIPA ■ Launched 12x DVD-ROM chipset
1999	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s 12x DVD-ROM chipset by SIPA ■ Launched 12-x DVD-ROM chipset
1998	<ul style="list-style-type: none"> ■ Awarded “Innovative Product Award” for the company’s CD-ROM digital data/servo processor by SIPA ■ Launched the highest performance 48x CD-ROM chipset in the world
1997	<ul style="list-style-type: none"> ■ Founded on May 28th

3. Corporate Governance

3.1. Organization

3.1.1. Organization Chart



As of April 30, 2013

3.1.2. Functions of Key Divisions

Division	Functions
Wireless Connectivity & Networking BU	Research, design and promotion of wireless local area network (LAN) and personal area network (PAN) chips
Wireless Communication BU I&II&III	Research, design and promotion of mobile communication chips
Home Entertainment BU	Research, design and promotion of digital consumer and digital TV chips
Optical Storage & Broadband Networking BU	Research, design and promotion of optical storage and broadband networking chips
Automotive Electronics BU	Research, design and promotion of automotive electronics chips.
Sales & Marketing- International	Leverage products from all BUs; enhance relationship with customers and partners to develop market opportunities
Corporate Sales and Account Management	Product sales, market development, customer relations, sales operations and management, etc.
Finance	Finance and accounting, tax, treasury and asset management, strategic investment, and investor relations
Human Resources	Human resource management and organization development, general affairs, plant administration, and labor safety
Circuit Technology Engineering Division	Research and development of cell libraries, packaging design, computer aided design (CAD), printed circuit board (PCB), circuit layout, etc.
Analog Circuit Design Division	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
RF Circuit Design Division	Research and design of radio frequency technologies for wireless communication
Communication System Design Division	Research and development of communication system architecture and design
Multimedia Development Division	Research and development of multimedia technologies for video and imaging applications
Application and Customer Support Division	Wireless and mobile communications product and customer applications services
Design Technology Engineering Division	Design services and technical platform development
System Quality & Laboratory Management Division	Home entertainment BU and optical storage & broadband networking BU related products' system, software quality and laboratory management
Process Technology Development Division	Advanced process research and development, high-end product pilot run production and device technology development
Manufacturing Engineering Division	Pilot run of newly developed products and technology development
Quality Assurance and Supply Management Division	Product quality and reliability management, customer satisfaction management, production planning and procurement
Information Technology Division	Information system architecture, e-commerce strategy, information system development and operation
Legal & Intellectual Property Division	Corporate legal affairs, contracts, patents, and the management of other intellectual property rights
Corporate Technology Office	Advanced technology development and industry/academy collaboration management
Corporate Marketing	Corporate image, industry value chain partnership, market surveys and promotion/communication
Audit Division	Internal audit and operation procedure management

3.2. Directors and Supervisors

3.2.1. Information Regarding Board Members & Supervisors

As of April 30, 2013. 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	%		
Chairman Ming-Kai Tsai	June 13, 2012	3	May 21, 1997	40,873,162	3.56%	41,006,187	3.04%	48,206,145	3.57%	- Master, Electrical Engineering, University of Cincinnati, USA - President of the 2 nd Business Group, UMC	- CEO, MediaTek, Inc. - Chairman, Andes Technology, and JMicro Technology - Director, Mobitek Communication Corp.
Vice Chairman Jyh-Jer Cho	June 13, 2012	3	May 21, 1997	30,281,447	2.64%	30,325,222	2.25%	10,784,414	0.80%	- Master, Electronics Engineering, National Chiao Tung University - Manager, Multimedia R&D Team, UMC	- None
Director Ching-Jiang Hsieh	June 13, 2012	3	June 13, 2005	4,203,271	0.37%	4,134,921	0.31%	1,469,489	0.11%	- Master, Electrical Engineering, National Taiwan University - Engineer, Multimedia R&D Team, UMC	- President, MediaTek, Inc. - Director/Chairman, MediaTek's Affiliates
Director Cheng-Yaw Sun	June 13, 2012	3	June 13, 2012	49,244	0.00%	29,244	0.00%	0	0.00%	- B.S., Chung Yuan Christian University of Taiwan - Managing Director, HP China	- Chairman, ZX Talent Development Co., Ltd. - Consultant, MediaTek Inc.
Director Kenneth Kin	June 13, 2012	3	June 13, 2012	-	-	-	-	-	-	- Ph.D., Nuclear Engineering and Applied Physics, Columbia University, USA - Senior VP, Worldwide Sales & Services, TSMC	- Consultant, Oak Hill Capital Partners and MediaTek Inc. - Independent director, eMemory Technology Inc., AzureWave Technologies Inc. and Vanguard International Semiconductor Corp. - Vice Dean, College of Technology Management, National Tsing Hua University
Independent Director Chung-Yu Wu	June 13, 2012	3	June 13, 2012	-	-	-	-	964,118	0.07%	- Ph.D., Electronics Engineering, National Chiao Tung University - President, National Chiao Tung University	- Chair Professor, National Chiao Tung University - Director, National Program on Nano Technology - Independent director, Global Unichip Corp. - President, Taiwan Engineering Medicine Biology Association
Independent Director Peng-Heng Chang	June 13, 2012	3	June 13, 2012	-	-	-	-	-	-	- Ph.D., Materials Engineering, Purdue University - VP, Material Management & Risk Management and Human Resource, TSMC	- President & CEO, Motech Industries Inc.
Supervisor Paul Wang	June 13, 2012	3	June 13, 2012	-	-	-	-	-	-	- 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
Supervisor MediaTek Capital Co. Representative: Chung-Lang Liu	June 13, 2012	3	June 21, 2006	7,794,085	0.68%	7,794,085	0.58%	-	-	- Ph.D., (E.E.), MIT, USA - President, National Tsing Hua University	- Chairman, Dramexchange Technology Inc. - Independent Director, Richtek Technology Corp., United Microelectronics Corp., and Powerchip Technology Corp. - Director, CMSC Inc., Macronix Intl. Co. Ltd - Supervisor, Andes Technology Corp.
Supervisor National Taiwan University Representative: Ming-Je Tang	June 13, 2012	3	June 13, 2012	2,873	0.00%	2,873	0.00%	-	-	- Ph.D., Business Management, MIT, USA	- Vice President, National Taiwan University - Director, Trend Technology and Education Foundation

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		
Ming-Kai Tsai			✓				✓	✓	✓	✓	✓	✓	✓	✓	0
Jyh-Jer Cho			✓				✓	✓	✓	✓	✓	✓	✓	✓	0
Ching-Jiang Hsieh			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Cheng-Yaw Sun			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Kenneth Kin	✓		✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Chung-Yu Wu	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Peng-Heng Chang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Paul Wang			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	1
MediaTek Capital Co. Representative: Chung-Lang Liu	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		3
National Taiwan University Representative: Ming-Je Tang	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		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. Remunerations Paid to Directors and Supervisors

3.2.4.1. Remunerations Paid to Directors (Note 1)

Unit: Share/NT\$1,000

Title/Name	Remunerations Paid to Directors								(A+B+C+D) as % of 2012 Net Income		Compensations Earned as Employee of MediaTek or of MediaTek Affiliates								(A+B+C+D+E+F+G) as % of 2012 Net Income (Note 5)		Other compensations from non-subsidiary affiliates			
	Salary (A)		Pension (B)		Profit Sharing (C) (Note 2)		Business Expense (D)				Salary, Bonus, etc. (E)		Pension (F) (Note 3)		Employee Profit Sharing (G) (Note 4)							Employee Option (H)		
	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek		Consolidated Entities		MediaTek	Consolidated Entities		MediaTek	Consolidated Entities	
															Cash	Stock	Cash	Stock						
Chairman Ming-Kai Tsai																								
Vice Chairman Jyh-Jer Cho																								
Director Ching-Jiang Hsieh																								
Director Cheng-Yaw Sun (Note 6)																								
Director Kenneth Kin (Note 6)	-	-	-	-	20,101	20,101	285	285	0.13	0.13	44,762	44,762	216	216	32,580	-	32,580	-	-	-	-	0.62	0.62	None.
Independent Director Chung-Yu Wu (Note 6)																								
Independent Director Peng-Heng Chang (Note 6)																								
Director National Taiwan University (Rep: Ming-Je Tang) (Note 6)																								
Director National Chiao Tung University (Rep: Ching-Teng Lin) (Note 6)																								

Note: 1. 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.

2. The Board of Directors resolved on May 6, 2013 meeting that NT\$20,101 thousands to be allocated as remunerations to Directors. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting. The updated information shall be posted on the Company's website.

3. The Company's didn't have pension payment in 2012. The total pension expense provision in 2012 was NT\$216 thousands.

4. The Board of Directors resolved on May 6, 2013 meeting that NT\$895,875 thousands to be allocated as employee profit sharing. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting. The updated information shall be posted on the Company's website. Before this report is put in printing, distribution of profit sharing to employees was still unresolved. The above figures were only estimation.

5. Remunerations of the Company and its consolidated entities paid to directors in 2011, including their employee bonus, totaled NT\$74,202 thousands, which was 0.54% of 2011 net profit.

6. Directors Mr. Cheng-Yaw Sun / Mr. Kenneth Kin and independent directors Mr. Chung-Yu Wu / Mr. Peng-Heng Chang are newly-elected on June 13, 2012. National Taiwan University and National Chiao Tung University resigned from the director position on June 13, 2012.

3.2.4.2. Remunerations Paid to Directors

	Compensation Paid to Directors (A + B + C + D)		Total Compensation Paid to Directors (A + B + C + D + E + F + G)	
	MediaTek	Consolidated Entities of MediaTek	MediaTek	Consolidated Entities of MediaTek
Less than NT\$2 million	National Taiwan University, National Chiao Tung University, Chung-Yu Wu		National Taiwan University, National Chiao Tung University, Chung Yu Wu	
NT\$2 million ~ \$5 million	Ming-Kai Tsai, Jyh-Jer Cho, Ching-Jiang Hsieh, Cheng-Yaw Sun, Kenneth Kin, Peng-Heng Chang		Cheng-Yaw Sun, Kenneth Kin, Peng-Heng Chang	
NT\$5 million ~ \$10 million	-	-	-	-
NT\$10 million ~ \$15 million	-	-	-	-
NT\$15 million ~ \$30 million	-	-	Jyh-Jer Cho	
NT\$30 million ~ \$50 million	-	-	Ming-Kai Tsai, Ching-Jiang Hsieh	
NT\$50 million ~ \$100 million	-	-	-	-
Above NT\$100 million	-	-	-	
Total	9		9	

3.2.4.3. Remunerations Paid to Supervisors (Note 1)

Unit: NT\$ thousands

Title/Name	Remunerations Paid to Supervisors						(A+B+C) as % of 2012 Net Income (Note 3)		Other compensations from non-subsidiary affiliates
	Salary (A)		Profit Sharing (B) (Note 2)		Business Expense (C)		MediaTek	Consolidated Entities	
	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities			
Supervisor Paul Wang (Note 4)									
Supervisor MediaTek Capital Co. (Note 4) Representative: Chung-Lang Liu									
Supervisor National Taiwan University (Note 4) Representative: Ming-Je Tang									
Supervisor MediaTek Capital Co. (Note 4) Rep: Paul Wang	-	-	8,040	8,040	180	180	0.05	0.05	None.
Supervisor National Tsing Hua University (Note 4) Rep: Chung-Lang Liu									
Supervisor National Cheng Kung University (Note 4) Rep: Yan-Kuin Su									

Note: 1. 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.

2. The Board of Directors resolved on May 6, 2013 meeting that NT\$8,040 thousands to be allocated as remunerations to Supervisors. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting. The updated information shall be posted on the Company's website.

3. Remunerations of the Company and its consolidated entities paid to supervisors totaled NT\$10,791 thousands, which was 0.07% of 2011 net profit.

4. Effectively on June 13, 2012: MediaTek Capital Co. representative was changed to Mr. Chung-Lang Liu from Mr. Paul Wang; National Taiwan University and Mr. Paul Wang were newly-elected as supervisors; National Tsing Hua University and National Cheng Kung University resigned from the supervisor position.

3.2.4.4. Remunerations Paid to Supervisors

	Compensation Paid to Supervisors	
	MediaTek	Consolidated Entities of MediaTek
Less than NT\$2 million	Paul Wang, National Tsing Hua University, National Cheng Kung University, National Taiwan University	
NT\$2 million ~ \$5 million	MediaTek Capital Co., Ltd.	
NT\$5 million ~ \$10 million	-	-
NT\$10 million ~ \$15 million	-	-
NT\$15 million ~ \$30 million	-	-
NT\$30 million ~ \$50 million	-	-
NT\$50 million ~ \$100 million	-	-
Above NT\$100 million	-	-
Total	5	

3.3. Management Team

3.3.1. Profiles of Key Managers

As of April 30, 2013. Unit: Shares

Title/Name	Date on Board	Current Shareholding		Spouse & Minor Shareholding		Shareholding under the title of a 3 rd party		Selected Education & Past Positions	Current Positions at Other Companies
		Shares	%	Shares	%	Shares	%		
Chairman & CEO Ming-Kai Tsai	May 21, 1997	41,006,187	3.04%	48,206,145	3.57%	-	-	- Master, Electrical Engineering, University of Cincinnati, USA - President of the 2 nd Business Group, UMC	- Chairman, Andes Technology and JMico Technology - Director, of Mobitek Communication Corp.
Vice Chairman Jyh-Jer Cho	Sep. 15, 2005	30,325,222	2.25%	10,784,414	0.80%	-	-	- Master, Electronics Engineering, National Chiao Tung University - Manager, Multimedia R&D Team, UMC	(None)
President Ching-Jiang Hsieh	Sep. 15, 2005	4,134,921	0.31%	1,469,489	0.11%	-	-	- Master, Electrical Engineering, National Taiwan University - Engineer, Multimedia R&D Team, UMC	- Chairman/Director, MediaTek's affiliates
Vice President Ping-Hsing Lu	Jan. 1, 2006	309,474	0.02%	212,177	0.02%	-	-	- Ph.D., Electronics, National Chiao Tung University - President, ALI Corp. -Chairman, Alpha Imaging Technology Corp.	(None)
Vice President Chwei-Huang Chang	July 1, 2006	803,110	0.06%	674,318	0.05%	-	-	- Master, Electrical Engineering, Polytechnic University, USA - Engineer, Multimedia R&D Team, UMC	(None)
Vice President Kou-Hung Loh	July 1, 2006	-	-	-	-	-	-	- Ph.D., Electrical Engineering, Texas A&M University - CEO and founder of Silicon Bridge	(None)
Vice President Cheng-Te Chuang	April 7, 2009	1,154,207	0.09%	609,077	0.05%	-	-	- Master, Electronics Engineering, National Chiao Tung University - Engineer, UMC	- Director, MediaTek's affiliates
Vice President (Note 1) Jeffrey Ju	May 1, 2012	97,401	0.01%	28,744	0.00%	-	-	- Master, Electronics Engineering, National Chiao Tung University - Engineer, Winbond	- Director, MediaTek's affiliates
Vice President (Note 2) Joe Chen	July 1, 2012	177,787	0.01%	30,414	0.00%	-	-	- Master, Electronics Engineering, National Chiao Tung University - Engineer, SIS Corp.	(None)
Vice President & CTO Kevin Jou	May 30, 2011	-	-	-	-	-	-	- Ph.D, Electrical Engineering, University of Southern California - Vice President, Qualcomm Inc.	(None)
Vice President & General Counsel WF Hsu	May 12, 2010	-	-	30	0.00%	-	-	- Ph.D., Law School, University of Washington - Lawyer, Johns Day	- Director, Asia Pacific Intellectual Property Association
Vice President & Chief Marketing Officer (Note 3) Johan Erik Lodenius	December 20, 2012	-	-	-	-	-	-	- Bachelor, Electronics and Computer Technology, Lund Institute of Technology - Founder & CEO, Coresonic AB	- Director, MediaTek's affiliates
Vice President & CFO & Spokesman David Ku	Jan. 1, 2011	37,842	0.00%	-	-	-	-	- MBA, University of Illinois at Urbana Champaign - Vice President of JPMorgan Investment bank	- Director,MediaTek's affiliates and Alpha Imaging Technology Corp.

Note: 1. Mr. Jeffrey Ju was appointed as Vice President on May 1, 2012

2. Mr. Joe Chen was appointed as Vice President on July 1, 2012

3. Mr. Johan Erik Lodenius was appointed as Vice President & Chief Marketing Officer on December 20, 2012

4. 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 2)		Bonus (C)		Employee Profit Sharing (D)				(A+B+C+D) as % of 2012 Net Income (Note 4)		Employee Stock Options		Restricted Stock		Remuneration from non-subsidiary affiliates
	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek (Note 3)		Consolidated Entities		MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	MediaTek	Consolidated Entities	
							Cash	Stock	Cash	Stock							
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 Kou-Hung Loh																	
Vice President Cheng-Te Chuang																	
Vice President (Note 5) Jeffrey Ju	59,917	71,333	1,179	2,099	98,811	132,382	87,110	-	87,110	-	1.57	1.87	-	-	-	-	None
Vice President (Note 6) Joe Chen																	
Vice President & CTO Kevin Jou																	
Vice President & General Counsel WF Hsu																	
Vice President & Chief Strategy Officer (Note 7) Oliver Chow																	
Vice President & Chief Marketing Officer (Note 8) Johan Erik Lodenius																	
Vice President & CFO & Spokesman David Ku																	

Note: 1. 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.

2. The company did not have pension payment in 2012. The provision for pension expense in 2012 at MediaTek and the consolidated entities were NT\$1,179 thousands and NT\$2,099 thousands respectively.

3. The Board of Directors resolved on May 6, 2013 meeting that NT\$895,875 thousands to be allocated as bonus to employees. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting. 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.

4. Remunerations and bonus of the Company and its consolidated entities paid to key managers in 2011 was NT\$169,702 thousands and 232,671 thousands respectively which was 1.25% and 1.71% of 2011 net income respectively.

5. Mr. Jeffrey Ju was appointed as Vice President on May 1, 2012. To increase the relevance of the information, 2012 full year remunerations and employee bonus paid to him were disclosed in the above figure.

6. Mr. Joe Chen was appointed as Vice President on July 1, 2012. To increase the relevance of the information, 2012 full year remunerations and employee bonus paid to him were disclosed in the above figure.

7. Mr. Oliver Chow resigned from the position of Vice President & Chief Strategy Officer on November 30, 2012 so the remunerations and employee bonus paid to him in 2012 was from Jan. 1 to November 30 2012.

8. Mr. Johan Erik Lodenius was appointed as Vice President & Chief Marketing Officer on December 20, 2012 so the remunerations and employee bonus paid to him in 2012 was from April 18 (Coresonic acquisition effective date) to December 31 2012.

3.3.2. Key Managers Remunerations Scaling (Note 1)

	Compensation Paid to Key Managers (Note2)	
	MediaTek	Consolidated Entities of MediaTek
Less than NT\$2 million	-	-
NT\$2 million ~ \$5 million	-	-
NT\$5 million ~ \$10 million	Johan Erik Lodenius	
NT\$10 million ~ \$15 million	Ping-Hsing Lu, Jyh-Jer Cho	
NT\$15 million ~ \$30 million	Cheng-Te Chuang, Chwei-Huang Chang, WF Hsu, David Ku , Kevin Jou, Jeffrey Ju, Joe Chen	
NT\$30 million ~ \$50 million	Ming-Kai Tsai, Ching-Jiang Hsieh, Kuo-Hung Loh,	
NT\$50 million ~ \$100 million	-	-
Above NT\$100 million	-	-
Total	13	

Note: 1. Key managers as of April 30, 2013

2. The Board of Directors resolved on May 6, 2013 meeting that NT\$895,875 thousands to be allocated as bonus to employees. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting. 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.

3.3.3. Key Managers Employee Bonus Scaling (Note 1)

Unit: Share / NT\$ thousands

Title/Name	Cash Bonus	Stock Bonus	Total Bonus	% of 2012 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				
Vice President Cheng-Te Chuang	87,110	-	87,110	0.56
Vice President Jeffrey Ju				
Vice President Joe Chen				
Vice President & CTO Kevin Jou				
Vice President & General Counsel WF Hsu				
Vice President & CMO Johan Erik Lodenius				
Vice President & CFO & Spokesman David Ku				

Note: 1. Key managers as of April 30, 2013

2. The numbers are based on estimation. The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting.

3.4. Corporate Governance Report

3.4.1. Operation of the Board

3.4.1.1 Board of Directors' Meeting Status

The Company's shareholders elected the 6th Board of Directors and Supervisors in Annual General Meeting on June 13, 2012, effective immediately.

The 5th Board of Directors (from June 10, 2009 to June 12, 2012) held 4 sessions in 2012, before the Directors and Supervisors re-election on June 13, 2012. The attendance of the Directors is shown in the following table:

Title/Name	Attend in Person	By Proxy	Attendance Rate in Person (%)	Note
Chairman: Ming-Kai Tsai	4	-	100%	Re-elected
Vice Chairman: Jyh-Jer Cho	3	1	75%	Re-elected
Director: Ching-Jiang Hsieh	4	-	100%	Re-elected
Director National Taiwan University Representative: Ming-Je Tang	3	-	75%	Retired
Director National Chiao-Tung University Representative: Ching-Teng Lin	4	-	100%	Retired

The 6th Board of Directors (from June 13, 2012 to June 12, 2015) held 5 sessions in 2012, after the Directors and Supervisors re-election on June 13, 2012. The attendance of the Directors is shown in the following table:

Title/Name	Attend in Person	By Proxy	Attendance Rate in Person (%)	Note
Chairman: Ming-Kai Tsai	5	-	100%	Re-elected
Vice Chairman: Jyh-Jer Cho	5	-	100%	Re-elected
Director: Ching-Jiang Hsieh	5	-	100%	Re-elected
Director Cheng-Yaw Sun	5	-	100%	Newly-elected
Director Kenneth Kin	5	-	100%	Newly-elected
Independent Director Chung-Yu Wu	5	-	100%	Newly-elected
Independent Director Peng-Heng Chang	5	-	100%	Newly-elected

3.4.1.2. Other Required Notes for the Board of Directors Meetings:

A. Items listed in Article 14-3 in Securities and Exchange Act or Board resolutions independent directors have dissenting opinions or qualified opinions with notes in minutes of the directors meetings: None.

B. Execution status for Article 206 of the Company Act regarding matters bearing on the personal interests of directors: No such conditions.

C. Goals to enhance the Board's operations:

a. Establishment of the remuneration committee and independent directors: the Company established remuneration committee on Aug 24, 2011 and elected 2 seats of independent directors in 2012 AGM to enhance the Board's execution.

b. Information transparency improvement: the Company's Board approved "Procedures for handling Material Inside Information" on December 29, 2011.

3.4.2. Operation of Supervisors' Participation on the Board of Directors

3.4.2.1 Supervisors' Participation on the Board of Directors' Meeting

The Company's shareholders elected the 6th Board of Directors and Supervisors in Annual General Meeting on June 13, 2012, effective immediately.

The 5th Board of Directors (from June 10, 2009 to June 12, 2012) held 4 sessions in 2012, before the Directors and Supervisors re-election on June 13, 2012. The attendance of the Supervisors is shown in the following table:

Title/Name	Attend in Person	Attendance Rate in Person (%)	Note
Supervisor MediaTek Capital Co. Representative: Paul Wang	3	75%	Re-elected
Supervisor National Tsing-Hua University Representative: Chung-Lang Liu	3	75%	Retired
Supervisor National Cheng-Kung University Representative: Yan-Kuin Su	3	75%	Retired

The 6th Board of Directors (from June 13, 2012 to June 12, 2015) held 5 sessions in 2012, after the Directors and Supervisors re-election on June 13, 2012. The attendance of the Supervisors is shown in the following table:

Title/Name	Attend in Person	Attendance Rate in Person (%)	Note
Supervisor Paul Wang	4	80%	Newly-elected
Supervisor MediaTek Capital Co. Representative: Chung-Lang Liu	3	60%	Re-elected
Supervisor National Taiwan University Rep: Ming-Je Tang	3	60%	Newly-elected

3.4.2.2. Other Required Notes for Supervisors' Participation on the Board of Directors Meetings

A. Supervisors and responsibilities:

a. Communication between Supervisors and employees, shareholders: The Company reports to Supervisors on a regular basis. Supervisors' information is made public, employees, shareholders, and interested parties are able to contact them freely.

b. 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.

B. 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
1. Shareholding Structure & Shareholders' Rights (1). Method of handling shareholder suggestions or complaints (2). The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders (3). Risk management mechanism and "firewall" between the Company and its affiliates	<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.
2. Organization & Responsibilities of the Board: (1). Independent Directors (2). Regular evaluation of external auditors' independence	<p>The Company currently has two Independent Directors (Mr. Chung-Yu Wu and Peng-Heng Chang)</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.</p>	None.
3. Communication Channels with Stakeholders	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.
4. Information Disclosure: (1). Establishment of a corporate website to disclose information regarding the Company's financial, business, and corporate governance status (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)	<ol style="list-style-type: none"> MediaTek discloses information through its website: www.mediatek.com MediaTek has designated appropriate persons to handle information collection and disclosure. Contact person: Sophia Liang, TEL: +886-(0)3-567-0766 ext.26568 MediaTek has established the spokesperson system. Spokesperson: David Ku; Deputy Spokesperson: Sophia Liang. MediaTek webcasts live investor conferences through its website MediaTek discloses all information to shareholders and stakeholders through the Company's website and the MOPS website. 	None.
5. Operations of the Company's Nomination Committee, Remuneration Committee, or other committees of the Board of Directors	Mediatek has remuneration committee in place. Please refer to the "Corporate Governance" section in this annual report.	None.
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. 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.		
7. Other important information to Facilitate Better Understanding of the Company's Corporate Governance Practices: <ol style="list-style-type: none"> MediaTek discloses its financial and corporate governance information on the Chinese and English versions of its website (www.mediatek.com). The Company aims to provide free access to transparent information for employees, investors, suppliers and stakeholders. 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. 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. All Directors of the Company have avoided conflict of interest for related issues. MediaTek maintains D&O insurance for its Directors, Supervisors, and key officers. 		
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: MediaTek was awarded "2012 The most reputable Taiwan Corporation – Across industries TOP3" by Common Wealth Magazine.		

3.4.4. Operation of the Company's Remuneration Committee

3.4.4.1. 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.

3.4.4.2. Composition of the Company's remuneration committee:

Established on August 24, 2011, the Company's remuneration committee has three members as of March 31, 2013:

Title / 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		
Independent Director Chung-Yu Wu		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Other Wen-Tsuen Chen		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Independent Director Peng-Heng Chang				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	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; and
8. Not been a person of any conditions defined in Article 30 of the Company Law.

3.4.4.3. Remuneration Committee Meeting Status

The convener of the Company's remuneration committee, Mr. Chung-Yu Wu, held 2 sessions in 2012. The tenure of the Company's 1st remuneration committee is from August 24, 2011 to June 9, 2012. The convener, Mr. Chung-Yu Wu held one session in 2012 and the attendance of members is shown in the following table:

Title	Name	Attend in Person	Attendance Rate in Person (%)	Note
Convener	Chung-Yu Wu	1	100%	Re-elected
Member	Wen-Tsuen Chen	1	100%	Re-elected
Member	Ching-Jiang Hsieh	1	100%	Retired

The tenure of the Company's 2nd remuneration committee is from June 22, 2012 to June 12, 2015. The convener, Mr. Chung-Yu Wu held one session in 2012 and the attendance of members is shown in the following table:

Title	Name	Attend in Person	Attendance Rate in Person (%)	Note
Convener	Chung-Yu Wu	1	100%	Re-elected
Member	Wen-Tsuen Chen	1	100%	Re-elected
Member	Peng-Heng Chang	1	100%	Newly-elected

3.4.4.4. Other Required Notes for Remuneration Committee:

A. In cases the Board doesn't adopt or revise remuneration committee's proposals, the Company shall list date/number of the Board meeting, agenda, the Board's resolution and the Company's response to remuneration committee's proposal:

None.

B. In cases remuneration committee members have dissenting opinions or qualified opinions against the resolution and recorded with notes in paper, the Company shall list date/number of the remuneration committee meeting and agenda: None.

3.4.5. Status of Fulfilling Corporate Social Responsibility

Item	Implementation Status	Reason for Non-implementation
1. Implementation of Corporate Governance (1) Corporate social responsibility policy and performance evaluation (2) Dedicated organization for the promotion and execution of corporate social responsibility (3) Regular training and promotion of corporate ethics among employees and the Board of Directors, and integration with the employee performance appraisal system	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. The company aggressively participated in social responsibility events. The company has a periodical performance review and evaluation system which is integrated with the employee performance appraisal system	Will implement in the future, depending on the company's operation and scale
2. Sustainable Environment Development (1) Commitment to improving resources utilization and the use of renewable materials (2) Environmental management system designed to industry characteristics. (3) Dedicated environmental management unit or personnel (4) Company strategy for climate change, energy conservation and greenhouse gas reduction	Please see "Section 6, Social Responsibility" section in this report	None.
3. Promotion of social welfare (1) Compliance with labor regulations, protection of employee rights, and appropriate management measures and procedures (2) Safety and health in working environment (3) Regular employee internal communication channels establishment to ensure efficient communication for major company events (4) Disclosure of consumer rights policy, and official channel for consumer complaints (4) Collaboration with suppliers (5) Participation in community development and charities through commercial activities, donations or volunteers	Please see "Section 6, Social Responsibility" section in this report	None.
4. Enhancement of Information Disclosure (1) Disclosure of corporate social responsibility related information with significance and reliability. (2) Published corporate social responsibility report and disclosure of implementation of corporate social responsibility	The company disclosed social responsibility related information in the annual report, please refer to "Section 6, Social Responsibility" for more details. The company started studied the trend of social responsibility report and currently has no social responsibility report.	None.
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 Please see "Section 6, Social Responsibility" section in this report		
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): Please refer to the company's web page at http://mediatek.com/tw/foundation/social_welfare.php		
7. Other information regarding products or "Corporate Social Responsibility Report" which are verified by certification bodies: None.		

3.4.6. Status of Fulfilling Operational Integrity

Item	Implementation Status
1. Set up operational integrity policy and programs (1) Operational integrity policy (2) Plans and procedures to prevent anti-integrity behaviors (3) Measures to avoid operation activities with higher anti-integrity risks such as bribery , illegal political donations	<p>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.</p> <p>The company has the following corporate governance guidelines and regulations in place:</p> <p>(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</p> <p>Available on the Company's website http://www.mediatek.com</p> <p>Integrity is highly-valued and is the major principal for the Company's Board of Directors and key managements. Board of Directors and key management can't vote in cases where having conflicts of interests.</p>
2. Fulfill operational integrity Measures to avoid business transactions with parties having anti-integrity records and include integrity behavior rules in business agreements	<p>Maximizing shareholders and employees' values has been the Company's top management's principle. The Company follows Company Acts, Securities and Exchange Acts, Business Entity Accounting Act, Political Donations Act, Law Against Accepting Bribes Act, Government Procurement Act, Act on Recusal of Public Servants Due to Conflicts of Interest and other relevant regulations for listed companies. The Company also conduct due diligence before trading with upstream and downstream companies to minimize the risks.</p>
3. Channels to report anti-integrity behaviors and punishment	<p>The Company has not established relevant policy and will consider adopting this in the further.</p>
4. Enhancement of information disclosure	<p>The Company's website and annual report disclose operational integrity relevant information under corporate governance section.</p>
5. If the Company hasn't established internal policy based on the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies", please disclose the discrepancy between its operation and the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies": No major discrepancy and please refer to the corporate governance section for more details.	
6. Other important disclosure for operational integrity: Please refer to the corporate governance section for more details.	

3.4.7. Corporate Governance Guidelines and Regulations

3.4.7.1 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

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

Please refer to the Company's website at www.mediatek.com

3.4.8. Other Important Corporate Governance Information

The Company continues to add more resources to enhance corporate governance including adding corporate governance session and attaching corporate governance guidelines and regulations for download on the company website, disclosing material information in a timely matter and host regular investor conferences.

3.4.8.1 Directors and Supervisors Profession Enhancement Status

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

3.4.8.2. Key Management Profession Enhancement Status

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

3.4.9. Status of the Internal Control System Implementation

3.4.9.1. Declaration of Internal Control

MediaTek Inc.

Statement of Declaration of Internal Control

Date: March 29th, 2013

MediaTek Inc. has conducted internal audits in accordance with its Internal Control Regulations covering the period from January 1st to December 31st, 2012, 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 29th 2013 with all Directors in session under unanimous consent.

MediaTek Inc.

Ming-Kai Tsai
Chairman

Ching-Jiang Hsieh
President

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

None.

3.4.10. 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.

3.4.11. Major Resolutions of Shareholders' Meeting and Board Meetings

3.4.11.1. Major Resolutions of Shareholders' Meeting and Implementation Status

Meeting date	Meeting	Major Resolutions	Implementation Status
June 13, 2012	2012 Annual General Meeting	<p>Acknowledgement Items: (1) Adoption of the 2012 Business Report and Financial Statements (2) Adoption of the Proposal for Distribution of 2012 Profits</p> <p>Discussion Items: (1) Amendment to the Company's "Articles of Incorporation" (2) Amendment to the Company's "Rules for Election of Directors and Supervisors" (3) Amendment to the Company's "Procedures Governing the Acquisition or Disposition of Assets" (4) Election of the 6th Board of Directors and Supervisors (5) To suspend the Non-competition Restriction on the Company's Newly Elected Directors</p>	<p>All of the resolutions of the Shareholders' Meeting had been fully implemented in accordance with the resolutions.</p> <p>(4) Board of Directors and Supervisors election result: Board of Directors: Ming-Kai Tsai, Jyh-Jer Cho, Ching-Jiang Hsieh, Cheng-Yaw Sun and Kenneth Kin Independent Directors: Cheng-Yu Wu and Peng-Heng Chang Supervisors: MediaTek Capital Co. Rep: Mr. Chung-Lang Liu, National Taiwan University Rep: Ming-Je Tang and Paul Wang.</p>
October 12, 2012	2012 Extraordinary Shareholders' meeting	<p>Shareholders present in person or by proxy approved the following resolutions: (1) Proposal for issuance of new shares for the merger of MStar Semiconductor, Inc.</p>	<p>Subject to domestic and overseas regulatory approvals.</p>

3.4.11.2. Major Resolutions of Board Meetings

During the 2012 calendar year, and through the period of January 1st to the printing date of this annual report, 13 Board Meetings were convened. Major resolutions approved at these meetings are summarized below:

Approved the company's 2012 operating budget plan, convened 2011 annual general shareholders' meeting; approved 2011 operation report, financial statements, proposal of profit distribution, capitalization of 2011 dividend; approved the proposal to amend the company's "Article of Incorporation"; approved the proposal to amend the company's Procedures Governing the Acquisition or Disposition of Assets"; approved the proposal to amend the company's "Rules for Election of Directors and Supervisors"; re-election of directors and supervisors; approved the proposal to acquire Coresonic AB; reviewed the Independent Director candidate list; elected Chairman and Vice Chairman; approved the tender offer proposal for Mstar Semiconductor Inc.; approved 2011 first half financial statements; approved 2012 third quarter financial forecast; approved the proposal to acquire Mstar Semiconductor, Inc.; approved the proposal of issuance of new shares for acquisition; approved issuance of employee options; approved the 2012 audit plan; approved the policy of Directors and supervisors' performance evaluation and remuneration; approved 2012 fourth quarter financial forecast; approved the policy of key management's performance evaluation and remuneration; approved the procedures of internal material information; approved 2013 first quarter financial forecast; approved the company's 2013 operating budget plan, convened 2012 annual general shareholders' meeting; approved 2012 operation report, financial statements, proposal of profit distribution, capitalization of 2012 dividend; approved a proposal to amend the company's Articles of Incorporation and etc.

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

None.

3.4.13. Resignation of Personnel Related to Financial Statement Preparation in 2012 to the Printing Date of this Report

Vice President & CSO Oliver Chow resigned on November 30, 2012 for personal reasons.

3.5. Information Regarding MediaTek's Independent Auditors

3.5.1. Auditor Information

Ernst & Young, Mr. Shao-Pin Kuo and Mr. Hsin-Min Hsu for the period of 2012

3.5.2. 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) Audit fee and non-audit fee:

Ernst & Young, Mr. Shao-Pin Kuo and Mr. Hsin-Min Hsu for the period of 2012

Audit fee paid: NT\$8,050 thousands

Total non-audit fee paid: NT\$1,999 thousands (IFRS consulting and acquisition related charges)

(2) Non-audit fee paid to auditors, the audit firm and its affiliates accounted for more than one-fourth of total audit fee: No.

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

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

3.5.3. Replacement of Independent Auditors in the Last Two Years and Thereafter:

No.

3.5.4. The Company's Chairman, President or managers in charge of finance or accounting has been under current audit firm or its affiliates' employment in 2012:

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	2012		Jan. 1 to April 23, 2013	
	Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & CEO Ming-Kai Tsai	133,025	-	-	-
Vice Chairman Jyh-Jer Cho	43,775	-	-	-
Director & President Ching-Jiang Hsieh	(68,350)	-	-	-
Director National Taiwan University (Note 1)	-	-	-	-
Director National Chiao Tung University (Note 2)	-	-	-	-
Director Cheng-Yaw Sun (Note 3)	-	-	-	-
Director Kenneth Kin (Note 3)	-	-	-	-
Independent Director Chung-Yu Wu (Note 3)	-	-	-	-
Independent Director Peng-Heng Chang (Note 3)	-	-	-	-
Supervisor MediaTek Capital Co.	-	-	-	-
Supervisor National Tsing Hua University (Note 4)	-	-	-	-
Supervisor National Cheng Kung University (Note 4)	-	-	-	-
Vice President Ping-Hsing Lu	(25)	-	(72,000)	-
Vice President Chwei-Huang Chang	81,825	-	-	-
Vice President Kou-Hung Loh	-	-	-	-
Vice President Cheng-Te Chuang	(12,100)	-	(35,000)	-
Vice President Jeffrey Ju (Note 5)	52,000	-	-	-
Vice President Joe Chen (Note 6)	41,125	-	-	-
Vice President & General Counsel WF Hsu	(20,045)	-	-	-
Vice President & CSO Oliver Chow (Note 7)	6,250	-	-	-
Vice President & CTO Kevin Jou	-	-	-	-
Vice President & CMO Johan Erik Lodenius (Note 8)	-	-	-	-
Vice President & CFO & Spokesperson David Ku	30,525	-	-	-

Note:

1. National Taiwan University resigned from the position of the Company's director and re-elected as the Company's Supervisor on June 13, 2012.
2. National Chiao Tung University resigned from the position of the company's director on June 13, 2012; the information for 2012 were from Jan. 1 to June 13, 2012.
3. Mr. Cheng-Yaw Sun, Mr. Chung-Yu Wu, Mr. Peng Heng Chang and Kenneth Kin were elected as the Company's director and independent director on June 13, 2012; the information for 2012 were from June 13 to December 31, 2012.
4. National Tsing Hua University and National Cheng Kung University resigned from the position of the company's supervisor on June 13, 2012; the information for 2012 were from Jan. 1 to June 13, 2012.
5. Mr. Jeffrey Ju was appointed as the Company's Vice President on May 1, 2012; the information for 2012 were from May 1 to December 31, 2012.
6. Mr. Joe Chen was appointed as the Company's Vice President on July 1, 2012; the information for 2012 were from July 1 to December 31, 2012.
7. Mr. Oliver Chow resigned from the position of the company's Vice President & CSO on November 30, 2012; the information for 2012 were from Jan. 1 to November 30, 2012.
8. Mr. Johan Erik Lodenius was appointed as the Company's Vice President on December 20, 2012; the information for 2012 were from December 20 to December 31, 2012.

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 April 23, 2013. Unit: Share/%

Top 10 Shareholders	Shareholding		Shareholding under Spouse and Minor		Shareholding under 3 rd Party		Top 10 Shareholders Who are Related Parties to Each Other	
	Shares	Proportion	Shares	Proportion	Shares	Proportion	Name	Relationship
Chui-Hsing Lee	48,206,145	3.57%	41,006,187	3.04%	-	-	Ming-Kai Tsai	Spouse
Ming-Kai Tsai	41,006,187	3.04%	48,206,145	3.57%	-	-	Chui-Hsing Lee	Spouse
Government of Singapore	34,211,226	2.54%	-	-	-	-	-	-
Jyh-Jer Cho	30,325,222	2.25%	10,784,414	0.80%	-	-	-	-
Vanguard Emerging Markets Stock Index Fund	25,703,921	1.90%	-	-	-	-	-	-
Cathay Life Insurance Co., Ltd.	22,399,741	1.66%	-	-	-	-	-	-
Tin-Ren Liu	20,941,763	1.55%	3,469,879	0.26%	-	-	-	-
Public Service Pension Fund	20,256,391	1.50%	-	-	-	-	-	-
First State Asia Pacific Leaders fund	19,910,000	1.48%	-	-	-	-	-	-
Labor Insurance Fund	18,746,038	1.39%	-	-	-	-	-	-

3.8. Long-Term Investment Ownership

As of December 31, 2012. 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
MediaTek Investment Corp.	4,650,569,992	100.00%	-	0.00%	4,650,569,992	100.00%
Hsu-Ta Investment Corp.	290,970,405	100.00%	-	0.00%	290,970,405	100.00%
Ralink Technology Corp.	175,264,005	100.00%	-	0.00%	175,264,005	100.00%
Mstar Semiconductor Inc.	254,115,685	48.00%	-	0.00%	254,115,685	48.00%
MediaTek Singapore Pte. Ltd.	111,993,960	100.00%	-	0.00%	111,993,960	100.00%
Yuantonix, Inc.	300,000	3.75%	-	0.00%	300,000	3.75%

4. Capital and Shares

4.1. Capital and Shares

4.1.1. Capitalization

As of April 30, 2013. Unit: thousand shares/NT\$ thousands

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.1000008840
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
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
April 2012	10	1,200,000	12,000,000	1,147,520	11,475,203	Employee option exercised: \$95	-	Apr 9, 2012 Yuan-Shang-Tze No.1010010259
May 2012	10	1,200,000	12,000,000	1,147,575	11,475,751	Employee option exercised: \$548	-	May 14, 2012 Yuan-Shang-Tze

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.
								No.1010014130
Aug. 2012	10	1,200,000	12,000,000	1,147,594	11,475,944	Employee option exercised: \$193	-	Aug 17, 2012 Yuan-Shang-Tze No.1010025462
Sep. 2012	10	2,000,000	20,000,000	1,349,362	13,493,623	Share Exchange: \$2,017,679	48% of Mstar Semiconductor	Sep 17, 2012 Yuan-Shang-Tze No.1010029355
Nov. 2012	10	2,000,000	20,000,000	1,349,370	13,493,702	Employee option exercised: \$79	-	Nov 15, 2012 Yuan-Shang-Tze No.1010035268
Dec. 2012	10	2,000,000	20,000,000	1,349,380	13,493,804	Employee option exercised: \$102	-	Registration ongoing; booked as "capital collected in advance"
Mar. 2013	10	2,000,000	20,000,000	1,349,394	13,493,939	Employee option exercised: \$135	-	Registration ongoing; booked as "capital collected in advance"
Apr. 2013	10	2,000,000	20,000,000	1,349,409	13,494,088	Employee option exercised: \$149	-	Registration planning; booked as "capital collected in advance"

As of April 30, 2013. Unit: share

Type of Stock	Authorized Capital			Remark
	Outstanding	Un-Issued	Total	
Common Stock	1,349,408,756	650,591,244	2,000,000,000	Listed on TSE

Shelf Registration: None.

4.1.2. Composition of Shareholders

As of April 23, 2013; Unit: share/%

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Persons	Individuals	Total
Number of Shareholders	1	87	626	1,504	94,155	96,373
Shareholding (shares)	2	92,101,244	137,078,866	659,751,860	460,476,784	1,349,408,756
Holding Percentage (%)	0.00%	6.83%	10.16%	48.89%	34.12%	100.00%

4.1.3. Distribution of Shareholding

As of April 23, 2013

Common Share Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership (Share)	Ownership (%)
1 ~ 999	37,383	5,542,004	0.41%
1,000 ~ 5,000	48,517	86,214,691	6.39%
5,001 ~ 10,000	4,968	35,491,576	2.63%
10,001 ~ 15,000	1,567	19,182,572	1.42%
15,001 ~ 20,000	820	14,462,245	1.07%
20,001 ~ 30,000	754	18,562,024	1.38%
30,001 ~ 40,000	416	14,483,817	1.07%
40,001 ~ 50,000	294	13,299,558	0.99%
50,001 ~ 100,000	590	41,915,104	3.11%
100,001 ~ 200,000	384	54,018,887	4.00%
200,001 ~ 400,000	273	75,866,890	5.62%
400,001 ~ 600,000	121	59,386,564	4.40%
600,001 ~ 800,000	69	47,316,048	3.51%
800,001 ~ 1,000,000	43	38,051,022	2.82%
Over 1,000,001	174	825,615,754	61.18%
Total	96,373	1,349,408,756	100.00%

Preferred Share: None.

4.1.4. Major Shareholders

As of April 23, 2013

Top 10 Shareholders	Total Shares Owned	Ownership (%)
Chui-Hsing Lee	48,206,145	3.57%
Ming-Kai Tsai	41,006,187	3.04%
Government of Singapore	34,211,226	2.54%
Jyh-Jer Cho	30,325,222	2.25%
Vanguard Emerging Markets Stock Index Fund	25,703,921	1.90%
Cathay Life Insurance Co., Ltd.	22,399,741	1.66%
Tin-Ren Liu	20,941,763	1.55%
Public Service Pension Fund	20,256,391	1.50%
First State Asia Pacific Leaders fund	19,910,000	1.48%
Labor Insurance Fund	18,746,038	1.39%

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

Unit: NT\$ / Share

Item		2011 (Distributed in 2012)	2012 (Distributed in 2013)	Jan. 1 ~ Mar. 31, 2013	
Market Price Per Share (Note 1)	Highest	415.0	351.0	360.0	
	Lowest	212.0	235.0	295.0	
	Average	306.6	294.0	328.4	
Net Worth Per Share	Before Distribution	102.02	131.00	**	
	After Distribution	92.96	*	*	
Earnings Per Share	Weighted Average Shares	1,103,110,322	1,216,422,577	1,341,593,772	
	EPS	Not-Adjusted	12.35	12.9	**
		Adjusted	12.35	*	**
Dividends Per Share	Cash Dividends		9.00	*	**
	Stock Dividend	From Retained Earnings	-	*	**
		From Capital Surplus	-	*	**
	Accumulated Undistributed Dividend		-	-	**
Return on Investment	Price/Earnings Ratio (Note 2)		24.83	22.79	**
	Price/Dividend Ratio (Note 3)		34.07	*	**
	Cash Dividend Yield (Note 4)		2.94%	*	**

* : Pending shareholders' approval in 2012 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 2012 Profits (Approved by the Board and subject to Shareholders' approval)

The Board adopted a proposal for 2012 profit distribution as below:

- A. Cash Dividends to Common Shareholders from retained earnings:**
NT\$674,690 thousands.
- B. Cash Dividends to Common Shareholders from capital reserve:**
NT\$11,469,734 thousands.

Total amount is NT\$12,144,424 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 2012 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 2012 Employee Profit Sharing Plan and Remuneration to Directors and Supervisors

The Board adopted a proposal on May 6, 2013 for 2012 employee cash bonus of NT\$895,875 thousands and remuneration to Directors and Supervisors of NT\$28,141 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\$28,141 thousands. There is a difference of NT\$3,720 thousands with the estimated Directors' compensation (NT\$24,421 thousands). The estimate was calculated based on 0.22% of the current year's net income while the actual compensation was calculated based on 0.25% 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
Employee Cash Bonus	1,714,243	1,714,243	-	-	-	-
Remuneration to Directors & Supervisors	28,497	24,687	3,810	-	-	(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:

None.

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 April 30, 2013 / Unit: share and NT\$ thousands

Employee Stock Options Granted	1 st Grant	2 nd Grant	3 rd Grant	4 th Grant	5 th Grant
Approval Date by the Securities & Futures Bureau	Dec. 19, 2007	Dec. 19, 2007	Jul. 27, 2009	May 10, 2010	May 10, 2010
Issue (Grant) Date	Mar. 31, 2008	Aug. 28, 2008	Aug. 18, 2009	August 27, 2010	Nov. 4, 2010
Number of Options Granted	1,134,119	1,640,285	1,382,630	1,605,757	65,839
Percentage of Shares Exercisable to Outstanding Common Shares	0.08%	0.12%	0.10%	0.12%	0.01%
Option Duration	10 years				
Source of Option Shares	New Common Share				
Vesting Schedule	2 nd Year: Up to 30% 3 rd Year: Up to 60% 4 th Year: Up to 100%	2 nd Year: Up to 30% 3 rd Year: Up to 60% 4 th Year: Up to 100%	2 nd Year: Up to 30% 3 rd Year: Up to 60% 4 th Year: Up to 100%	2 nd Year: Up to 30% 3 rd Year: Up to 60% 4 th Year: Up to 100%	2 nd Year: Up to 30% 3 rd Year: Up to 60% 4 th Year: Up to 100%
Shares Exercised	122,547	70,127	0	0	0
Value of Shares Exercised	46,692	25,386	0	0	0
Shares Unexercised	447,964	721,316	727,709	954,642	17,714
Adjusted Exercise Price Per Share (NT\$)	358.0	344.5	431.0	404.8	377.0
Percentage of Shares Unexercised to Outstanding Common Shares	0.03%	0.05%	0.05%	0.07%	0.00%
Impact to Shareholders' Equity	Dilution to shareholder's equity is limited				

Employee Stock Options Granted	6 th Grant	7 th Grant	8 th Grant	9 th Grant	10 th Grant
Approval Date by the Securities & Futures Bureau	Aug. 9, 2011	Aug. 23, 2011	Aug. 23, 2011	Aug. 23, 2011	Aug. 23, 2011
Issue (Grant) Date	Aug. 24, 2011	Jun. 30, 2006	Sep. 30, 2006	Dec. 31, 2006	Mar. 31, 2007
Number of Options Granted	2,109,871	499	3,092	1,247	3,791
Percentage of Shares Exercisable to Outstanding Common Shares	0.16%	0.00%	0.00%	0.00%	0.00%
Option Duration	10 years	6 years	6 years	6 years	6 years
Source of Option Shares	New Common Share				
Vesting Schedule	2 nd Year: Up to 30% 3 rd Year: Up to 60% 4 th Year: Up to 100%	2 nd Year: Up to 50% 3 rd Year: Up to 75% 4 th Year: Up to 100%	2 nd Year: Up to 50% 3 rd Year: Up to 75% 4 th Year: Up to 100%	2 nd Year: Up to 50% 3 rd Year: Up to 75% 4 th Year: Up to 100%	2 nd Year: Up to 50% 3 rd Year: Up to 75% 4 th Year: Up to 100%
Shares Exercised	0	499	3,092	1,247	3,791
Value of Shares Exercised (NT\$)	0	7	44	18	60
Shares Unexercised	1,809,751	0	0	0	0
Adjusted Exercise Price Per Share (NT\$)	277.4	14.3	14.3	14.3	15.7
Percentage of Shares Unexercised to Outstanding Common Shares	0.13%	0.00%	0.00%	0.00%	0.00%
Impact to Shareholders' Equity	Dilution to shareholder's equity is limited				

Employee Stock Options Granted	11 th Grant	12 th Grant	13 th Grant	14 th Grant	15 th Grant
Approval Date by the Securities & Futures Bureau	Aug. 23, 2011	Aug. 23, 2011	Aug. 23, 2011	Aug. 23, 2011	Aug. 9, 2012
Issue (Grant) Date	Jun. 30, 2007	Sep. 30, 2007	Dec. 30, 2007	Dec. 31, 2007	Aug. 14, 2012
Number of Options Granted	10,416	47,368	299	87,895	1,346,795
Percentage of Shares Exercisable to Outstanding Common Shares	0.00%	0.00%	0.00%	0.01%	0.10%
Option Duration	6 years	6 years	6 years	6 years	10 years
Source of Option Shares	New Common Share				
Vesting Schedule	2 nd Year: Up to 50% 3 rd Year: Up to 75% 4 th Year: Up to 100%	2 nd Year: Up to 50% 3 rd Year: Up to 75% 4 th Year: Up to 100%	2 nd Year: Up to 50% 3 rd Year: Up to 75% 4 th Year: Up to 100%	2 nd Year: Up to 50% 3 rd Year: Up to 75% 4 th Year: Up to 100%	2 nd Year: Up to 30% 3 rd Year: Up to 60% 4 th Year: Up to 100%
Shares Exercised	8,022	42,979	299	70,139	0
Value of Shares Exercised (NT\$)	126	675	5	1,171	0
Shares Unexercised	0	4,389	0	14,964	1,295,308
Adjusted Exercise Price Per Share (NT\$)	15.7	15.7	15.7	16.7	286.8
Percentage of Shares Unexercised to Outstanding Common Shares	0.00%	0.00%	0.00%	0.00%	0.10%
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:

As of May 10, 2013 / Unit: share and NT\$ thousands

Title	Name	Number of Option Acquired	Number of Option Acquired / Number of Option Issued	Exercised			Not Exercised				
				Number of Option	Exercise Price (NT\$)	Option amount	Number of Option / Number of Option Issued	Number of Option	Exercise Price (NT\$)	Option amount	Number of Option / Number of Option Issued
Key Managers	None										
Employee	Zoran Zvonar	977,940	0.07%	32,846	375.9	12,346	0.00%	945,094	345.0	326,012	0.07%
	Jonathan Strange										
	John Finbarr Moynihan										
	Esben Randers										
	James K Farley										
	Bernard Tenbroek										
	Palle Birk (Note)										
	Michael Ashburn										
	Mark Alan Estabrook										
	Joern Soerensen										

Note: The employee is no longer with the Company as the print date of this annual report

4.6. Status of Restricted Employee Rights

None.

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

4.7.1. Items to Disclose for Acquisition Completed in 2012 to the Printing Date of this Report

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

The underwriter's evaluation report on the MStar acquisition on the fourth quarter of 2012 is listed below:

A. Date of new share issuance for the acquisition: September 17, 2012

B. MediaTek Inc. (MediaTek) completed the MStar Semiconductor Inc. (MStar) tender offer by issuing 201,767,854 new shares to acquire MStar's 254,115,685 shares on August 15, 2012 and completed the registration procedure on September 17, 2012. MediaTek is a leading fabless semiconductor company for wireless communications and digital multimedia solutions. MediaTek 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. MStar is a holding company and its major operation site is MStar Taiwan which develops, designs, manufactures and markets display-related IC chipsets. MStar indirectly holds 99.99% of MStar Taiwan. MediaTek acquired 48% MStar's equity through this tender offer. MediaTek expects to strengthen digital home product portfolio as well as enhance company competitiveness and operating performance through the synergies of the deal.

MediaTek's first quarter of 2013 consolidated revenues is approximately NT\$23,974,209 thousands, declined by 10.33% from NT\$26,737,009 thousands in the fourth quarter of 2012 and grew by 22.22% from NT\$19,615,289 thousands in the first quarter of 2011. The quarter-over-quarter decline was primarily due to less shipment resulting from less working days and Chinese New Year holiday. The year-over-year growth was primarily due to the stronger smartphone growth momentum. 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: MediaTek and MStar remain as independent companies after this tender offer. MediaTek holds 48% of MStar which is expected to contribute investment benefits in the short term. For a longer term, MediaTek and MStar are expected to form a closer relationship through further equity acquisition. After the merger, the two companies expect to, through sales cooperation and integration of technology and products, diversify product portfolio, expand customer services, reduce duplicate investments, reallocate resources, utilize operating cost and further strengthen the company's global competitiveness. This acquisition should have positive effects on company's sales, finance and shareholder's equity.

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

Not applicable.

4.7.2. Information to Disclose and Acquiree's Basic Information for Any Acquisition or Share Exchange Plan Approved by the Board in 2012 to the Printing Date of this Report:

Company Name	MStar Semiconductor, Inc.
Company Address	4F-1, No. 26, Tai-Yuan St., ChuPei Hsinchu Hsien,
Chairman	Wayne Liang
Paid-in Capital (NT\$)	5,326,092,320
Major Business	Research, develop and market display-related ICs, communication / networking-related ICs and RF system-related ICs
Major Products	Display-related and communication/networking related ICs

4.7.3 MediaTek's board of directors approved the tender offer to acquire shares of MStar Semiconductor, Inc. ("MStar") on June 22, 2012, and MTK plans to merge MStar after the tender offer. The terms of the tender offer was 1 MStar share in exchange for 0.794 MTK share plus NT\$1 in cash. The share exchange record date is August 15, 2012 and has been completed.

4.8. Financing Plans and Implementation

4.8.1. Uncompleted share issuance or private placement or completed transactions without expected benefits in the past 3 years:

None.

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 (2012)

Product Category	Multimedia Chipsets	Others*
Revenue Mix	99.21%	0.79%

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

5.1.1.3. Products Currently Offered by MediaTek

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

5.1.1.4. New Products Planned for Development

- A. Next generation highly-integrated mobile communication chipsets;
- B. Next generation tablet chipsets;
- C. Next generation high-integration, high-sensitivity and low power consumption multi-GNSS (GPS/GLONASS/Compass/Galileo) receiver chips;
- D. Next generation highly integrated low-power WLAN and WPAN chipsets;
- E. Next generation highly-integrated smart TV chips;
- F. Highly integrated Blu-ray single-chip;

- G. xPON (X version of Passive Optical Network) chipsets;
- H. NFC (Near Field Communication) single-chip;
- I. Next generation high-integration ADSL 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.

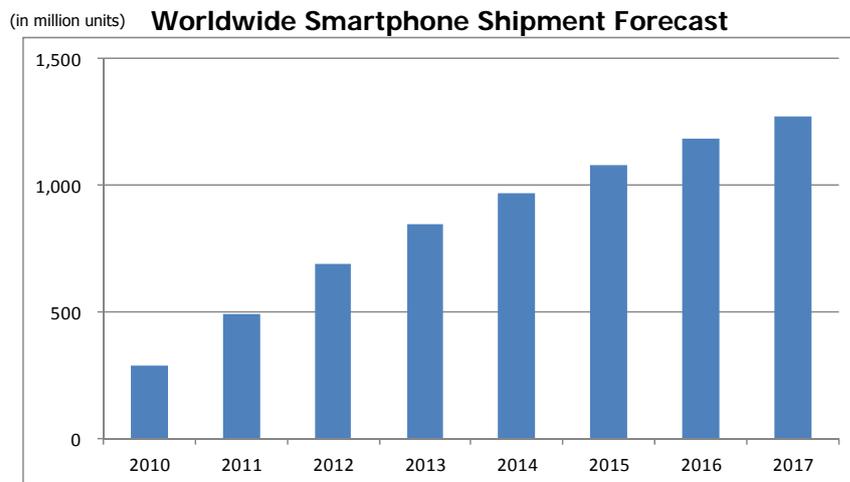
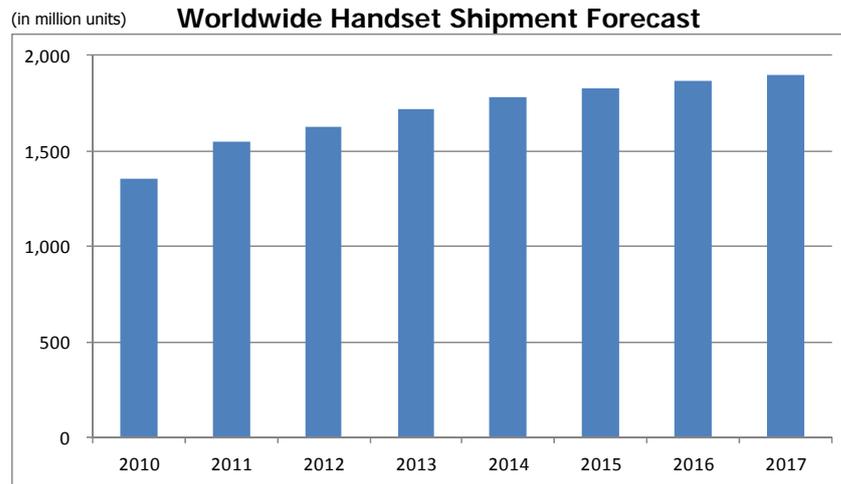
The major operation of an IC design company is to design and sell semiconductor devices, or to design the chip according to customers’ requirements. IC design is the upstream of the industry value chain; other players in the backend of supply chain include photo mask providers, wafer foundries, packaging 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. Wireless Communications Products

According to Strategy Analytics, worldwide handset shipment has reached 1.6 billion units in 2012 and the number is expected to steadily grow to 1.9 billion units in 2017, thanks to the growth of smartphone. Global smartphone shipment was about 690 million units in 2012 and the number is expected to double to close to 1.27 billion in 2017, rapidly driving the growth of wireless communication industry.



Source: Strategy Analytics, October 2012

Wireless communication technology has been evolving rapidly. 3G networks have been widely-deployed globally and operators now move forward to roll out 4G networks. Fueled by increasing penetration of 3G network, more diversified mobile communication applications and aggressive smartphone promotions from operators, the enormous China and emerging countries' handset demand are rapidly converting to smartphone from feature phone. Meanwhile, the smartphone supply chain is becoming more mature while the specifications and features of smartphone upgrade quickly to larger screen sizes, higher screen and camera resolutions, stronger CPU (single core to quad core) and so on, enabling handset manufacturers to launch a wide range of good cost-performance smartphones to stimulate end

market demand. In addition, tablets emerge as another important wireless communication device with variety of choices for customers to choose.

MediaTek's handset solutions come with assorted peripheral chips or embedded with various wireless communication functions, such as Bluetooth, WLAN, GPS and NFC. 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, WLAN is now becoming a must-have feature in mid to high end mobile phones. NFC is a short-range wireless communication technology, offering strict encryption fitting VISA, Master and UnionPay's electric payment requirements and has been widely adopted or requested by e-commerce on smartphone and tablet. GPS is a space-based satellite navigation system that provides location information, primarily used in car navigation, leisure, tracking and fleet management, supporting devices including hand-held devices, in-car devices and surveillance radar.

Fast growing wireless communication markets come with intense competition, primarily comes 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.

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. On the tablet front, MediaTek will further optimize multi-media functionalities and enhance performance to expand market size. As for Bluetooth, WLAN, GPS, NFC 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, digital camera and so on.

B. Digital TV Products

With China's recent 2014 digital switchover announcement, the global television broadcasting has gradually switched from analog signal to digital signal. Traditional CRT TVs are replaced by digital TVs and UHD (Ultra High Definition) becomes a mature technology, leading global digital flat panel TV shipment to grow continuously.

Smart TV evolution continues. How to seamlessly connect TV, smartphone, tablet and other devices to create a convenient interactive environment is the current major trend to work on. Features such as wireless connection and interactive input system are getting popularity and are expected to become the must-have features on TV. MediaTek leads the industry to launch multi-core smart TV SoC supporting UHD which was adopted by various international brands and maintain the market leading position.

C. Digital Consumer Products

Blu-ray DVD player shipment has been steadily increasing, thanks to the following 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.

D. Optical Storage Industry

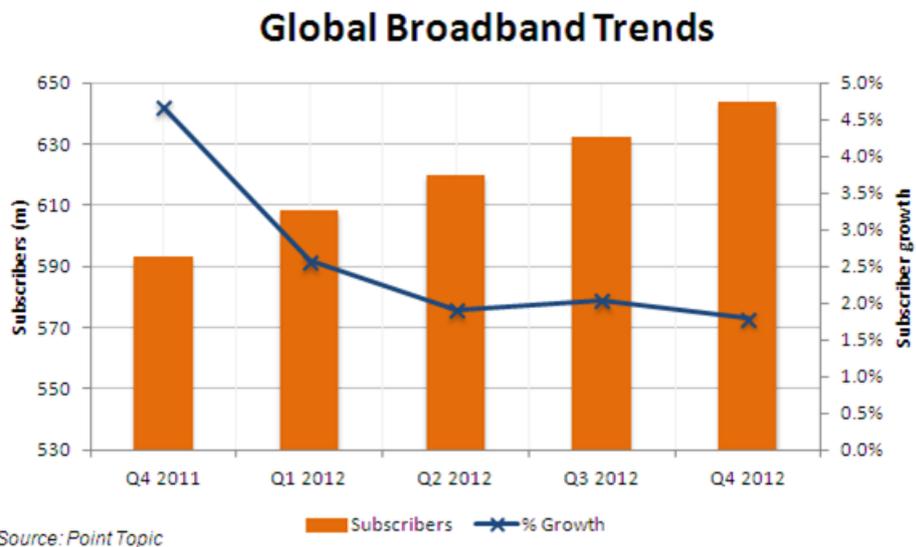
PC industry changes quickly: The newly-emerged applications such as ultra-thin notebook and tablets both don't carry optical disk which impacting the shipment and market prospects of the optical disk market. Regarding the existing optical storage product types, DVD-ROM and DVD-Rewritable are both mature products. Although there are competitors in this sector, MediaTek still maintains a high market share by continuously enhancing its core competitiveness and customer service.

Despite the optical disk for IT purpose has been slow down, the convenience of optical disk still keep the end-demand stable. 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.

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 640 million global broadband users at the end of fourth quarter, 2012, increased by 51 million from a year ago and continues to grow at a CAGR of 8.6%.

Global Broadband Users (Accumulative)



Among broadband networking subscribers, xDSL is the most popular. xDSL has approximately 380 million subscribers accounting for 59% 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. Thanks to the aggressive deployment by China operators in 2012, the accumulative global xPON subscribers has reached approximately 100millions. Several countries including China have chosen FTTH as the primary telecommunication development and become the major markets for FTTH. Additional FTTH subscribers in 2012 were around 25 million and it is expected to add another 30 millions in 2013 to reach total subscribers of 137million in 2013.

5.1.3. Technology and R&D

5.1.3.1. R&D Spending

MediaTek's R&D spending in 2012 was NT\$22,383,562 thousands, and from January 1st 2013 to the printing date of this annual report, the R&D spending was NT\$7,646,018 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 tablet chipsets;
- E. Highly integrated WLAN SOC;
- F. High Performance/Cost Bluetooth SOC;
- G. Highly integrated Bluetooth and FM Radio Combo chip;
- H. High performance/Cost NFC chips;
- I. High sensitivity and low power GNSS chips;
- J. Highly integrated wireless combo SoC;
- K. Highly integrated 24x DVD-Rewritable SOC;
- L. 16x Blu-ray multifunction rewritable chipsets;
- M. Highly integrated 3D Blu-ray DVD player SOC;
- N. Highly integrated 3D TV and smart TV chipsets;
- O. Highly integrated ADSL WiFi Gateway & IAD chipsets;
- P. 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 close 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 2012	
	Sales (NT\$1,000)	Percentage
Export sales	89,061,333	89.72%
Domestic sales	10,201,827	10.28%
Total	99,263,160	100.00%

5.2.1.2. Market Share

According to an iSuppli Report published in Dec 2012, worldwide semiconductor device industry revenue was US\$303billion in 2011; MediaTek's market share was 1.1% and ranked no.17 worldwide, slightly lower than the previous year's no.22.

5.2.1.3. Major Markets

A. Wireless Communications Products

The entire wireless communication industry, especially smartphone and tablet markets, is expected to continue to grow, thanks to the increasing popularity of 3G network as well as commercialization of 4G net work. Besides, customers weigh more and more on consumer electronics products' specifications and connectivity features, enabling more powerful embedded functions. The attach rate of bluetooth, WLAN, GPS, and NFC is expected to increase on phones and tablets and further expand to other consumer electronics such as e-book, gaming device, TV, set-top box, digital camera and so on. According to ABI research, connectivity combo chips accounts for approximately one third of the total wireless connectivity solutions.

B. Digital TV

The demand for smart TV chips is expected to increase, driven by the growing smart TV penetration rate. . By providing the most highly integrated digital TV single-chip, MediaTek has not only penetrated international tier-one TV companies' supply chains but also successfully established a long-term strategic partnership with customers to maintain the leading market position,

C. Digital Consumer Products

MediaTek has established leading positions in the DVD and Blu-ray 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. MediaTek will continue to develop competitive IC products and establish long-term relationships with important electronic consumer companies.

D. 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 latest 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 major DVD-Rewritable suppliers are MediaTek, Renesas, and Panasonic. Major Blu-ray optical storage IC suppliers, other than MediaTek, are Japanese companies. Economics of scale is a key success factor in the optical storage industry, MediaTek is committed to maintaining a close relationship with customers and also offering better services to sustain the leading market position.

E. Broadband Networking

MediaTek's market share in ADSL chipsets is over 30%. 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's integrated VDSL2 IAD chipsets are adopted by several equipment manufacturers and start to promote to overseas operators. MediaTek expects shipment to grow on current products and also begin 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 over 90 percentage of the R&D employees hold a Master or above degree. 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 such as smartphone and tablet are expected to become mainstream applications

Handheld devices such as smartphone and tablets are getting more and more popular. MediaTek has continuously invested in the development of mobile phones and tablets 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, NFC 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 and further expand to the tablet market.

More and more handset users are accessing the Internet through WLAN. 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. 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. 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. Furthermore, TVs are expected to be seamlessly connected with smartphone and tablet in the future, displaying content in a better and bigger way which will not be limited to high end models.

C. Increasing Blu-ray DVD Player Penetration

In developed countries, Blu-ray players have been gradually replacing traditional DVD players, driven by declining Blu-ray players' selling prices, connectivity becoming a standard feature and more available high resolution video/audio contents.

D. 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 or work with FTTH 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.

E. Comprehensive IC Manufacturing Infrastructure in Taiwan

Taiwan has a well-developed IT industry and world-leading manufacturing capability. The large demand in emerging markets 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 emerge 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, consumer electronics chipsets, wireless communication chipsets, digital TV chipsets and broadband networking 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 tablets, WCDMA/TD-SCDMA/EDGE 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

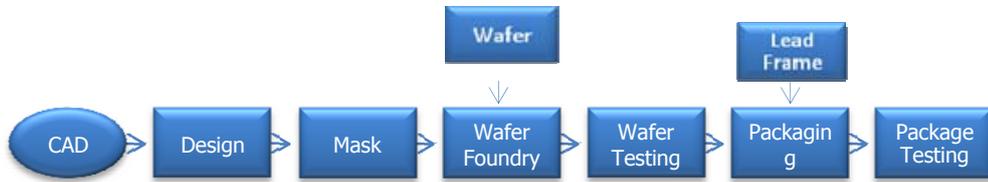
Digital TV decoder chips and demodulator chips are used to receive and decode digital TV signals. Digital TV controller chipsets are mainly used in the latest digital flat panel TVs. Mobile TV chips are used in mobile devices (such as handsets) to receive TV signals.

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) ·

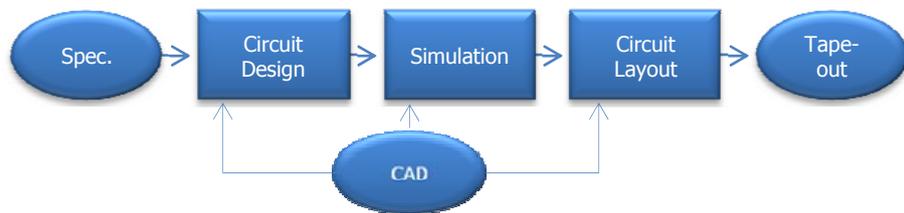
5.2.2.2. Key Product Manufacturing Process

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 Taiwan Semiconductor Manufacturing Limited Company (TSMC), United Microelectronics Corporation (UMC), 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	2011		2012		2013.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	12,610,895	44.36%	14,719,524	33.36%	1,362,727	15.76%
Supplier B	11,995,700	42.19%	23,748,747	53.82%	6,240,854	72.18%
Others	3,824,516	13.45%	5,657,890	12.82%	1,042,415	12.06%
Total	28,431,111	100.00%	44,126,161	100.00%	8,645,996	100.00%

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	2011		2012		2013.Q1			
	Sales (NT\$1,000)	% of Total Revenue	Customer	Sales (NT\$1,000)	% of Total Revenue	Customer	Sales (NT\$1,000)	% of Total Revenue
Customer A	14,446,871	19.45%	Customer A	14,057,376	14.16%	Customer A	3,715,335	15.50%
Customer B	6,739,876	9.39%	Customer B	10,465,080	10.54%	Customer D	2,448,679	10.21%
Customer C	6,728,866	7.75%	Customer C	7,899,345	7.96%	Customer C	1,640,885	6.84%
Customer D	5,636,492	6.49%	Customer D	4,285,942	4.32%	Customer B	1,463,645	6.11%
Others	53,305,389	56.92%	Others	62,555,417	63.02%	Others	14,705,664	61.34%
Total	86,857,494	100.00%	Total	99,263,160	100.00%	Total	23,974,209	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

	2011			2012		
	Production Capacity	Production Volume (1,000 pieces)	Production Value (NT\$1,000)	Production Capacity	Production Volume (1,000 pieces)	Production Value (NT\$1,000)
Multimedia and Handset Chipsets	N/A	1,599,439	47,517,670	N/A	1,698,768	62,676,035

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

	2011				2012			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Volume (1,000 pieces)	Value (NT\$1,000)						
Multimedia Chipsets	96,444	8,267,207	1,539,874	78,018,839	124,697	10,187,421	1,577,043	88,551,998
Others	N/A	26,165	N/A	545,283	N/A	14,406	N/A	509,335
Total	96,444	8,293,372	1,539,874	78,564,122	124,697	10,201,827	1,577,043	89,061,333

5.3. Employees

		2011	2012	2013 (As of March 31)
Number of Employees	Management	358	372	365
	R&D	5,997	6,243	6,142
	Sales & Marketing	262	253	250
	Manufacturing	129	131	130
	Total	6,746	6,999	6,887
Average Age		32.0	32.0	33.0
Average Years of Service		2.9	3.5	4.0
Education	Doctoral	5.10%	5.22%	5.23%
	Master	62.57%	63.81%	63.90%
	University & College	31.81%	30.50%	30.41%
	High School	0.52%	0.47%	0.46%
	Total	100.00%	100.00%	100.00%

5.4. Important Contracts

Agreement Type	Counterparty	Term	Summary	Restrictions
Licensing & Settlement	ESS Technology International, Inc. and ESS Technology, Inc.	Permanently effective from June 11, 2003	MediaTek licensed ESS technology and settled the legal dispute	None.
Licensing & Settlement	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)
Licensing	Zoran Corporation and Oak Technology, Inc.	Permanently effective from Jan. 25, 2006	MediaTek licensed Zoran's certain IP and its derivative IP	None.
Investment	NuCORE Technology Inc.	From April 19, 2007	MediaTek acquired 69% of NuCORE shares	None.
Acquiring Assets	Analog Devices, Inc.	Sep. 10, 2007	MediaTek acquired ADI's RF and baseband chipset operations	None.
Acquiring Assets	Allied Integrated Patterning Corp	Dec. 30, 2008	MediaTek acquired AIPC's office building	None.
IP Agreement	Qualcomm	Nov. 30, 2009	Patent peace agreement regarding CDMA and WCDMA core patents owned by both parties	None
Strategic Alliance	AST Technology (Suzhou)	From Jan. 15, 2010	Cooperation in TD-SCDMA market	None.
Settlement	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.
Licensing	NTT DOCOMO Inc.	From July 2010	MediaTek licensed NTT DOCOMO's LTE technology	None.
Acquisition	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.
Real Estate	Beijing Electronic Zone Ltd.	From May 23, 2011	MediaTek (Beijing) purchased office building.	None
Strategic Alliance	Yahoo, Inc.	From June 1, 2011	To implement Yahoo services to MediaTek's new software platform.	None
Investment	Spice Digital Ltd.	From July 29, 2011	MediaTek Singapore licensed from Spice Digital.	None
Real Estate	Winsome Development Corp.	From Feb. 13, 2012	Ralink Technology Corp. purchased office building.	None
Patent settlement and licensing	Rambus Inc.	From Mar. 5, 2012	Rambus agreed to license relevant patents for MediaTek's various products and also revoked all lawsuits outstanding.	None
Acquisition	Coresonic AB (Sweden)	From Apr. 10, 2012	MediaTek acquired 100% of Coresonic AB's equity.	None
Investment	Softbank Princeville Investments, L.P.	From Apr. 23, 2012	MediaTek invested US\$20 million in Softbank Princeville Investments, L.P.	None
Strategic Alliance	Twitter	From Jul. 11, 2012	MediaTek and Twitter announced global strategic alliance	None

Agreement Type	Counterparty	Term	Summary	Restrictions
Real Estate	MediaTek (Chengdu) Inc.	From Aug. 3, 2012	MediaTek (Chengdu) engaged others to build new office building on rented land	None
Acquisition	Mstar Semiconductor, Inc.	Aug. 14, 2012	Merger agreement	Article No.13 in the merger agreement: This Agreement shall become effective after been approved by respective shareholders' meeting of both parties in accordance with related laws and regulations. Nonetheless, prior to the resolution of both parties' shareholders meeting, the obligation to take action or take no action as specified in this Agreement shall have binding effect, and both parties shall perform such obligation based on the principle of honesty and good faith.

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 98.30% 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 36 clubs running in total including those were newly-established in 2013: Culinary Culture Club and Pop music club. The number of employees participating in clubs is around 3,600 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 eight 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. Take 2012 for example, there are five classes in place including family study group, art class, dance class, kids' English class and yoga class with more than 250 person-times participated.

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\$26,446 thousands in 2012 and NT\$5,781 thousands 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, 42 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.

6.2.1.5. Partnership with Academia and Research Publications

Being worldwide No.5 fabless company, MediaTek views talent incubation and core technology development as top priority to face the coming global competition. MediaTek established "MediaTek Labs" with National Taiwan University (NTU), National Tsing Hua University (NTHU), National Chiao Tung University (NCTU) and National Chung Cheng University (CCU) and applied for the "Industry-academic cooperation project for advanced technologies" proposed by National Science Council and Ministry of Economic Affairs in November 2012. This project aims to shorten the gap between the academia and industry, bring the advanced research results to the global-tier companies to enhance Taiwan's technology capability in

advanced technologies and patents portfolios.

MediaTek's long-term partnership with top universities serves as a bridge between the high-technology industry and academia. MediaTek has been supportive for the technology education in the form of scholarship and established labs including "NTU-MediaTek Wireless Research Lab", "NCTU College of Computer Science and MediaTek Research Center" and "NTHU-MediaTek Embedded System Laboratory." The NTU-MediaTek Wireless Research Lab aims to be a world-class lab. The lab has 35 papers published in the International Solid State Circuits Conference (ISSCC) and has filed 26 patent applications, demonstrating a high level of achievement. NCTU College of Computer Science and MediaTek Research Center and NTHU-MediaTek Embedded System Laboratory both demonstrated good track record on communication standard establishment and handset system software. Students graduated from these three labs are one of the valuable talent pools for MediaTek. In addition, MediaTek expects to expand the scope of industry and academic collaboration for more advanced technology research with potential values. MediaTek Labs chose "advanced technology research for next generation smart hand-held devices" as the topic which has been reviewed in April 2013 and expect to kick off in August 2013. The research scope includes 5 major technologies relates to smart devices: circuit design technologies, computing platform, system software technology, communication systems technology and system applications technology, each one has its own lab established. The labs are run by project hosts from the universities and MediaTek together. MediaTek R&D talents will discuss the research results with professors regularly and feedback with industry technology trends to the academia to plan the future patent roadmap on the right track and enhance patent portfolio, industry standard establishment and system integration.

MediaTek also cooperate with worldwide outstanding universities and professors in ongoing projects, such as the "Taiwan University – Taiwan University Hospital – MediaTek Innovative Medical Electronics Center" with Taiwan University, ADC (Analog to Digital Converter) performance improvement and MIMO (Multi-input Mult-output; MIMO) projects with MIT since 2009 and high efficiency video coding and decoding project with Beijing University. MediaTek continue to reach out to overseas talents for more industry and academic cooperation opportunities.

Besides, MediaTek proactively attend international conferences. In 2012, MediaTek sponsored conferences including the "IEEE International Symposium on Circuits and Systems (ISCAS)" held by Beijing University, conferences held by University of South California and Asia Pacific Signal and Information Processing Association (APSIPA), "2913 Asia Pacific Microwave Conference" held by National Sun Yat-sun University and " the 4th IEEE CloudCom 2012 conference" held by NTHU. MediaTek also has been supportive for Taiwan Electromagnetic Industry-Academia Consortium, Cloud Computing Association in Taiwan and Taiwan IC Design Society.

On top of working with the academia, MediaTek also continues to make efforts on innovative research and development. In 2013, MediaTek had 6 papers published in ISSCC which was held by IEEE every February and has the world's highest standard for IC design papers publication, attracting worldwide leading companies and IC designers to participate every year. Papers selected and published in ISSCC are usually the industry's area of focus in the coming 5-10 years. MediaTek is the only

Taiwan company having papers published in ISSCC for the consecutive 10 years.

6.2.1.6. Exclusive Sponsorship of the Lung Yingtai Cultural

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.

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, Liu Tsann-Liang. 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. Sponsor Sports Games

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

6.2.2.4. Volunteer Team

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

6.2.2.5. Environmental Activities

MediaTek cares about environmental issues and has been actively involved in various 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 approximately NT\$1.55 million.

D. Energy Reduction for Parking Area: Controlled parking area lighting on the weekends leads to an annual saving of approximately NT\$2.63 million.

E. Exhaust System for Parking Area: Enhanced energy saving on exhaust system which leads to an annual saving of approximately NT\$160 thousands

F. Temperature and Humidity Control for Testing and Storage Areas: Implemented measures to reduce hose pressure, control temperature and humidity which leads to an annual saving of approximately NT\$1.55 million.

G. Change Electricity Tiered Pricing: Reviewed the Company's electricity

demand and changed the electricity tiered pricing from 2-tiered pricing to 3-tiered pricing which leads to an annual saving of approximately NT\$5.31 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.

6.3.3. Environment Safety Management

A. Monitor the operation and safety of the Company's fire extinguisher/suppression system, water/electricity system and air-conditioning system around the clock.

B. Regular monthly safety check for the Company's working environment and equipment/machinery rooms.

C. Regular monthly labor safety and sanitation training for new employees.

D. Regular quarterly promoting safety-related concepts and items.

E. Regular quarterly fire extinguisher usage training for all employees.

F. Regular annual audit for the Company's ISO14001&OHSAS18001 conducted by SGS.

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

7.1. Financial Status

7.1.1. Parent Company

Unit: NT\$ thousands

Item	2011	2012	Change	% of Change
Current Assets	\$42,508,698	\$49,299,361	\$6,790,663	15.97
Funds & Investment	81,168,558	135,135,137	53,966,579	66.49
Fixed Assets	6,503,119	6,282,152	(220,967)	(3.40)
Intangible Assets	7,714,627	7,040,428	(674,199)	(8.74)
Other Assets	141,602	109,598	(32,004)	(22.60)
Total Assets	138,036,604	197,866,676	59,830,072	43.34
Current Liability	20,740,542	20,720,246	(20,296)	(0.10)
Other Liability	1,018,046	1,406,526	388,480	38.16
Total Liabilities	21,758,588	22,126,772	368,184	1.69
Capital Stock	11,475,191	13,493,804	2,018,613	17.59
Capital Reserve	24,605,882	79,551,866	54,945,984	223.30
Retained Earnings (include statutory reserve and special reserve)	82,463,225	87,822,629	5,359,404	6.50
Accumulated Conversion Adjustments	(2,253,504)	(5,762,265)	(3,508,761)	(155.70)
Net Loss not Recognized as Pension Cost	-	(10,503)	(10,503)	-
Unrealized Gain of Financial Assets	43,192	700,343	657,151	1,521.46
Treasury Stock	(55,970)	(55,970)	-	-
Total Shareholders' Equity	116,278,016	175,739,904	59,461,888	51.14

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

- (1) Increase in funds and Investment: Mainly due to the acquisition of Mstar's 48% equity.
- (2) Decrease in other assets: Mainly due to collection of refundable deposits.
- (3) Increase in other liability: Mainly due to increase in deferred income tax liabilities – noncurrent
- (4) Increase in capital reserve: Mainly due to premium resulting from the new shares issuance for acquiring Mstar's 48% equity.
- (5) Decrease in accumulated conversion adjustments: Due to volatility in foreign exchange.
- (6) Increase in unrealized gain of financial assets: Mainly due to the increase in market prices of financial assets.

7.1.2. Consolidated Report

Unit: NT\$ thousands

Item	2011	2012	Change	% of Change
Current Assets	\$112,042,128	\$118,071,093	\$6,028,965	5.38
Funds & Investment	9,416,963	65,120,332	55,703,369	591.52
Fixed Assets	9,810,051	10,707,589	897,538	9.15
Intangible Assets	16,150,659	15,842,236	(308,423)	(1.91)
Other Assets	321,307	501,706	180,399	56.15
Total Assets	147,741,108	210,242,956	62,501,848	42.30
Current Liability	30,428,120	32,873,347	2,445,227	8.04
Long-Term Liability	147,662	113,630	(34,032)	(23.05)
Other Liability	836,999	1,481,866	644,867	77.05
Total Liabilities	31,412,781	34,468,843	3,056,062	9.73
Capital Stock	11,475,191	13,493,804	2,018,613	17.59
Capital Reserve	24,605,882	79,551,866	54,945,984	223.30
Retained Earnings (include statutory reserve and special reserve)	82,463,225	87,822,629	5,359,404	6.50
Accumulated Conversion Adjustments	(2,253,504)	(5,762,265)	(3,508,761)	(155.70)
Net Loss not Recognized as Pension Cost	-	(10,503)	(10,503)	-
Unrealized Gain of Financial Assets	43,192	700,343	657,151	1521.46
Treasury Stock	(55,970)	(55,970)	-	-
Minority Stock	50,311	34,209	(16,102)	(32.00)
Total Shareholders' Equity	116,328,327	175,774,113	59,445,786	51.10

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 the acquisition of Mstar's 48% equity.
- (2) Increase in other assets: Mainly due to the increase in deferred income tax assets – noncurrent.
- (3) Decrease in long-term liability: Mainly due to regular payments for long-term payables.
- (4) Increase in other liabilities: Mainly due to increase in deferred income tax liabilities – non-current.
- (5) Increase in capital reserve: Mainly due to premium resulting from the new shares issuance for acquiring Mstar's 48% equity.
- (6) Decrease in accumulated conversion adjustments: Due to volatility in foreign exchange.
- (7) Increase in unrealized gain of financial assets: Mainly due to the increase in market prices of financial assets.
- (8) Decrease in minority stock: Mainly due to loss from non-100% consolidated entities.

7.2. Operating Results

7.2.1. Parent Company

Unit: NT\$ thousands

Item	2011	2012	Change	% of Change
Revenue	\$57,285,540	\$74,081,400	\$16,795,860	29.32
Less: Sales Returns & Discounts	3,443,174	10,607,371	7,164,197	208.07
Net Sales	53,842,366	63,474,029	9,631,663	17.89
Cost of Goods Sold	31,773,236	40,770,355	8,997,119	28.32
Gross Profit	22,069,130	22,703,674	634,544	2.88
Operating Expenses	17,229,349	16,853,352	(375,997)	(2.18)
Income from Operation	4,839,781	5,850,322	1,010,541	20.88
Non-Operating Incomes and Gain	9,257,428	10,697,472	1,440,044	15.56
Non-Operating Expenses and Loss	138,661	91,924	(46,737)	(33.71)
Earnings Before Tax	13,958,548	16,455,870	2,497,322	17.89
Corporate Income Tax	335,478	768,342	432,864	129.03
Net Income	13,623,070	15,687,528	2,064,458	15.15

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

- (1) Increase in revenue and income from operation: Mainly due to increase in higher ASP product shipments.
- (2) Increase in sales returns & discounts: Mainly due to product mix change in products with different discount percentages.
- (3) Increase in cost of goods sold: Mainly due to shipment increase from higher ASP products.
- (4) Decrease in non- operating expenses and loss: Mainly due to decrease in financial assets valuation loss.
- (5) Increase in income tax expenses: Mainly due to better profitability and increase in alternative minimum tax.

7.2.2. Consolidated

Unit: NT\$ thousands

Item	2011	2012	Change	% of Change
Revenue	\$91,480,134	\$112,014,739	\$20,534,605	22.45
Less: Sales Returns & Discounts	4,622,640	12,751,579	8,128,939	175.85
Net Sales	86,857,494	99,263,160	12,405,666	14.28
Cost of Goods Sold	47,513,337	58,200,706	10,687,369	22.49
Gross Profit	39,344,157	41,062,454	1,718,297	4.37
Operating Expenses	26,999,429	28,557,148	1,557,719	5.77
Income from Operation	12,344,728	12,505,306	160,578	1.30
Non-Operating Incomes and Gain	1,970,525	4,591,270	2,620,745	133.00
Non-Operating Expenses and Loss	112,002	477,019	365,017	325.90
Earnings Before Tax	14,203,251	16,619,557	2,416,306	17.01
Corporate Income Tax	587,448	971,244	383,796	65.33
Consolidated Net Income	13,615,803	15,648,313	2,032,510	14.93
Net Income Attributed to Shareholders of the Parent	13,623,070	15,687,528	2,064,458	15.15

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

- (1) Increase in revenue: Mainly due to shipment increase from higher ASP products.
- (2) Increase in sales returns & discounts: Mainly due to product mix change in products with different discount percentages.
- (3) Increase in cost of goods sold: Mainly due to shipment increase from higher ASP products.
- (4) Increase in non-operating incomes: Mainly due to increase in interest income, gain on disposal of investments and investments accounted for using the equity method.
- (4) Decrease in non- operating expenses and loss: Mainly due to recognize impairment loss.
- (5) Increase in income tax expenses: Mainly due to better profitability and increase in alternative minimum tax.

7.3. Cash Flow Analysis

7.3.1. Parent Company

Unit: NT\$ thousands

Cash Balance Dec. 31, 2011	Net Cash Provided by Operating Activities in 2012	Net Cash Outflows from Investing and Financing Activities in 2012	Cash Balance Dec. 31, 2012	Remedy for Cash Shortfall (Investment & Financing Plan)
\$27,137,268	\$4,442,255	\$(3,291,049)	\$28,288,474	-

7.3.1.1. Analysis of the Change in Cash Flow in 2012

Operating activities: Net cash inflow of NT\$4,442,225 thousands, mainly from operating profits.

Investing activities: Net cash inflow of NT\$4,832,805 thousands, mainly due to the return of capital from invested companies.

Financing activities: Net cash outflow of NT\$8,123,854 thousands, mainly due to the distribution of earnings.

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

I. Unit: NT\$ thousands

Cash Balance Dec. 31, 2011	Net Cash Provided by Operating Activities in 2012	Net Cash Outflows from Investing and Financing Activities in 2012	Impact of Foreign Exchange Ratio	Cash Balance Dec. 31, 2012	Remedy for Cash Shortfall (Investment & Financing Plan)
\$85,821,438	\$11,402,932	\$(9,598,247)	\$(1,758,913)	\$85,867,210	-

7.3.2.1. Analysis of the Change in Cash Flow in 2012

Operating activities: Net cash inflow of NT\$11,402,932 thousands, mainly from operating profits.

Investing activities: Net cash outflow of NT\$4,177,212 thousands, mainly due to purchase of fixed assets and intangible assets.

Financing activities: Net cash outflow of NT\$5,421,035 thousands, mainly due to the distribution of earnings.

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, 2012)	Status of Actual or Projected Use of Capital			
			2009	2010	2011	2012
Fixed Assets- Land, Office Building and R&D Equipments	Cash flow generated from operation	\$8,548,917	\$1,573,525	\$2,122,234	\$2,584,699	\$2,268,459
Intangible Assets- Software, IPs and Patents	Cash flow generated from operation	\$2,997,497	\$798,574	\$825,939	\$209,200	\$1,163,784

7.4.2. Expected Future Benefits

(1) Fixed Assets- 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) Fixed Assets- R&D equipment:

Equipment and software can help the Company's R&D process become more efficient and thus shortening the product development cycle.

(3) Intangible assets: software, IPs 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 2012 was NT\$1,074,451 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

Risks associated with currency: The Company's currency risk 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\$690 thousand and NT\$140 thousand as of December 31, 2012 and 2011, respectively.

Risks associated with 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.

Risks associated with inflation: there was no major impact from inflation on the Company's 2012 operations.

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 2012, The Company has provided lease guarantees for its subsidiaries MediaTek Wireless, Inc.(USA) and MTK Wireless Limited (UK) in the amount of NT\$55,677 thousands and NT\$26,322 thousands. The company also provided guarantees for its subsidiaries Gaintech Co. Limited and MediaTek Inc. China for bank loans in the amount of NT\$ 5,827,200 thousands and NT\$ 874,080 thousands respectively. The Company also guarantees for its subsidiaries Ralink Technology Corp. for IP purchase in the amount of NT\$65,337 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
2.75G, 3G and 4G Mobile Phone Chipsets	End of 2013
Next generation tablet chips	
High Sensitivity and Low Power Consumption GNSS Receiver Chips	
Next generation high integration and low power WLAN & WPAN chipsets	
Next generation Blu-ray player SoC	
Highly integrated Smart TV Chips	
Highly integrated GPON/EPON chipsets	Mid-2013
High performance to cost ratio NFC chips	Early 2014
Next generation highly-integrated ADSL chips	

The Company's R&D projects all follow industry trends and are implemented in a highly integrated and economical way. R&D expenses in 2011 and 2012 were NT\$21,183,903 thousands and NT\$22,383,562thousands, accounting for 24.39% and 22.55% of revenue 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

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 (collectively referred to as "IFRSs"), and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, starting 2013. The Company has set up a project team, made a plan to adopt IFRSs and regularly report the status of execution to the Board. Impact from adopting IFRSs includes changes in certain transactions' accounting treatments and the presentation of financial statements. The Company will continue to monitor the impact from future changes in IFRSs and regulatory rules. The Company fully complied the rule to disclose IFRSs adoption plan, status of execution and major difference between IFRSs and existing account standards in 2012 interim and annual consolidated financial reports.

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 operation efficiency and competitiveness, MediaTek plans to merger with MStar on August 1, 2013, the tentative merger effective date. A merger agreement was approved by the special shareholders' meeting of both companies on October 12, 2012. Considering both companies' earnings per share, market price, technology and future developments, the price of the deal was 1 MStar

share in exchange for 0.794 share of MTK's common stock plus NT\$1 in cash. The deal is subject to approvals from the relevant legal and regulatory authorities.

After the merger, the two companies expect to, through sales cooperation and integration of technology and products, diversify product portfolio, expand customer services, reduce duplicate investments, reallocate resources, utilize operating cost and further strengthen the company's global competitiveness. This acquisition should have positive effects on company's shareholder's equity.

The Company's Business Units and finance are responsible for this risk item and execution.

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 1st 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

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

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

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

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

B. Freescale Semiconductor, Inc. ("Freescale") filed a complaint with the U.S. International Trade Commission against MTK and two other Respondents on June 8, 2011 alleging infringement of United States Patents No. 5,467,455. Freescale alleged that MTK's DTV chips infringe its patent and sought to prevent the accused products from being imported into the United States.

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

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

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

Freescale filed a complaint in the U.S. International Trade Commission against MTK and thirteen other Respondents on November 30, 2011 alleging infringement of United States Patent No. 5,467,455. Freescale alleged that MTK's DTV chips infringe its patent and sought to prevent the accused products from being imported into the United States.

U.S. International Trade Commission issued an Initial Determination for the above referenced matter on September 28, 2012, granting MTK and other Respondents' request to terminate this investigation. On October 31, 2012, the U.S. International Trade Commission issued a Notice of its affirmation of the Initial Determination, formally terminating this investigation.

Additionally, Freescale filed a complaint in the United States District Court for the Western District of Texas against MTK on July 6, 2012 alleging infringement of United States Patent Nos. 6,920,316, 5,825,640, 5,943,274. Freescale alleged that MTK's DTV chips infringe its patents and sought damages and an injunction to prevent the accused products from being sold in the future.

C. LSI Corporation ("LSI") and Agere Systems Inc. ("Agere") filed a complaint with the U.S. International Trade Commission against ten respondents on March 12, 2012

alleging infringement of United States Patent Nos. 5,870,087, 6,452,958, 6,707,867, and 6,982,663, and seeking to prevent the accused products from being imported into the United States. Specifically, LSI and Agere asserted that the DVD/Blu-ray Player andDTV chips of MTK's and its subsidiaries MediaTek USA Inc. and MediaTek Wireless, Inc. (USA), infringe the foregoing patents. In addition, LSI and Agere asserted that the Wi-Fi chips of subsidiaries Ralink Technology Corp. and Ralink Technology Corp. (USA) also infringed some of the aforementioned patents.

MTK and LSI entered into a termination agreement pursuant to which the above referenced action was officially terminated by the U.S. International Trade Commission on February 13, 2013 with respect to MTK and subsidiary Ralink Technology Corp.

D. Lantiq Deutschland GMBH ("Lantiq") filed a complaint alleging patent infringement against TrendChip Technologies Corp.'s customer, Billion Electric Co. Ltd. ("Billion") in 2010 in Germany. Trendchip Technologies Corp. was later merged into Ralink Technology Corporation ("Ralink"), which is now a wholly-owned subsidiary of MTK. Since Lantiq's patent infringement allegation is related to Ralink's DSL products, Ralink is assisting Billion in the above referenced matter. In addition, Ralink filed a patent nullity suit against

Lantiq in the Federal Patent Court of Germany to invalidate the asserted patent. Ralink also filed a complaint in Wisconsin, USA against Lantiq on November 8, 2010 alleging infringement of United States Patent No. 5,394,116. Lantiq and Lantiq North America, Inc. later filed a complaint in the United States District Court for the Northern District of California against Ralink and Ralink Technology Corp. (USA) in January 2011, alleging infringement of United States Patent Nos. 6,351,799 and 7,061,904. Lantiq alleged patent infringement by Ralink's networking and computing chips and asked the court to declare non-infringement and invalidity of the United States Patent No. 5,394,116. The Wisconsin case was transferred to United States District Court for the Northern District of California in March 2011. These two cases have been consolidated per the court's order. On May 2,

2012, Lantiq added MTK and its subsidiaries MediaTek USA Inc. and MediaTek Wireless, Inc. (USA) as co-defendants. The operations of MTK and subsidiary Ralink would not be materially affected by those patent litigations.

MTK and Lantiq entered into a settlement and patent license agreement to settle all pending patent litigations and to dismiss all proceedings pending against each other including the above referenced litigations on February 4, 2013.

E. MOSAID Technologies Inc. filed a complaint in the United States District Court for the Eastern District of Texas against Ralink and other defendants in March 2011 alleging infringement of United States Patent Nos. 5,131,006, 5,151,920, 5,422,887, 5,706,428, 6,563,786, and 6,992,972. The operations of Ralink would not be materially affected by those patent litigations.

F. Azure Networks, LLC and Tri-County Excelsior Foundation filed a complaint in the United States District Court for the Eastern District of Taxes against MTK's subsidiaries Ralink and Ralink Technology Corporation (USA), along with other defendants in March 2011 alleging infringement of United States Patent No. 7,756,129. On April 6, 2012, Azure Networks, LLC and Tri-County Excelsior Foundation filed a complaint in the United States District Court for the Eastern District of Texas against MTK alleging infringement of the same patent referenced above. The operations of MTK and subsidiaries Ralink and

Ralink Technology Corporation (USA) would not be materially affected by those patent litigations.

G. Commonwealth Scientific and Industrial Research Organization filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA), along with other defendants on August 27, 2012 alleging infringement of United States Patent No. 5,487,069. The operations of MTK and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA) would not be materially affected by this case.

H. Palmchip Technology Corporation filed a complaint in the Superior Court of California in the County of Santa Clara against MTK and subsidiaries MediaTek USA Inc., Ralink and Ralink Technology Corporation (USA) on October 19, 2012, asserting claims of breach of contract. The operations of MTK and subsidiaries MediaTek USA Inc., Ralink and Ralink Technology Corporation (USA) would not be materially affected by this case.

The Company will handle these cases carefully.

7.6.13. Other Material Risk: None.

7.7. Other Material Events

7.7.1. Certificate Holding Status for Personnel Associated with Financial Transparency

Certificate Headcount	CPA	US CPA	CICPA	Singapore CPA	CIA	CMA
Finance	8	1	-	1	3	1
Internal audit	1	-	1	-	-	-

8.1.2. MediaTek Affiliated Companies

As of Dec. 31, 2012. Unit: NT\$ thousands / Foreign Currency thousands

Company Name	Date of Incorporation	Place of Registration	Capital Stock	Major Business
MediaTek Investment Co., Ltd.	July 2000	Taiwan	NTD 46,505,700	Investment
MediaTek Capital Co., Ltd.	Sep. 2000	Taiwan	NTD 3,951,392	Investment
Hsu-Ta Investment Ltd.	Sep. 2002	Taiwan	NTD 2,909,704	Investment
CoreTech Resources Inc.	Sep.. 2002	B.V.I.	USD 57,200	Investment
Gaintech Co. Limited	Juli. 2000	Cayman Islands	USD 319,975	Investment
MediaTek Singapore Pte. Ltd.	June 2004	Singapore	SGD 111,994	R&D, manufacturing and sales
MediaTek Wireless L.L.C. (Dubai)	Sep. 2010	Dubai	AED 300	Customer support & service
MediaTek India Technology Pvt. Ltd.	May 2004	India	INR 55,000	R&D
MTK Wireless Limited (UK)	Aug. 2007	UK	GBP 4,414	R&D
MediaTek Denmark ApS	Oct. 2007	Denmark	DKK 20,000	R&D
MediaTek Inc. China (Hong Kong)	Sep. 2007	Hong Kong	HKD 2,213,960	Investment
MediaTek (Heifei) Inc.	Aug. 2003	China	USD 5,400	Customer support & service
MediaTek (ShenZhen) Inc.	Oct. 2003	China	USD 8,000	Customer support & service
MediaTek (Chengdu) Inc.	Sep. 2010	China	USD 49,800	Customer support & service
MediaTek (Wuhan) Inc.	Dec. 2010	China	USD 4,800	Customer support & service
MediaTek (Beijing) Inc.	Nov. 2006	China	USD 100,000	Customer support & service
MediaTek (Shanghai) Inc.	Jan. 2011	China	USD 3,000	Customer support & service
MediaTek USA Inc.	May 1997	USA	USD 0.1	R&D
MediaTek Wireless, Inc. (USA)	Aug. 2007	USA	USD 500	R&D
Ralink Technology Corporation (USA)	Nov. 2000	USA	USD 2,400	R&D
MediaTek Japan Inc.	June 1997	Japan	JPY 100,000	Customer support & service
MediaTek Korea Inc.	Feb. 2007	S. Korea	KRW 2,000,000	Customer support & service
Vogins Technology Co. Ltd.	Dec. 2005	B.V.I.	USD 1,110	Investment
Vogins (Shanghai)	Mar. 2007	China	USD 5,770	Software development
Hesine Technologies International Worldwide Inc.	Oct. 2010	B.V.I.	USD 213	Investment
Hesine Technologies, Inc.	Sep. 2008	China	CNY 10,000	Customer support & service
Lepower Limited	Mar. 2011	Samoa	USD 2,200	Investment
Lepower (HK) Limited	Mar. 2011	Hong Kong	USD 2,100	Investment
Lepower Technologies (Beijing) Inc.	Dec. 2011	China	USD 2,000	R&D, Manufacturing and sales
Gold Rich International (Samoa) Limited	Mar. 2011	Samoa	USD 4,290	Investment
Gold Rich International (HK) Limited	Mar. 2011	Hong Kong	USD 4,190	Investment
Smarthead Limited	Jan. 2011	Seychelles	USD 700	Investment
MediaTek Sweden AB	Dec. 2004	Sweden	SEK 1,008	R&D
Ralink Technology (Samoa) Corp.	Mar. 2008	Samoa	USD 3,350	Investment
Shadow Investment Limited	Apr. 2002	Samoa	USD 15,000	Investment
MediaTek (Nanjing) Inc.	Jun. 2008	China	USD 1,000	Customer support & service
MediaTek (Suzhou) Inc.	Dec. 2003	China	USD 1,500	Customer support & service
RollTech Technology Co. Ltd.	Mar. 2007	Taiwan	USD 35,100	Software development
Ralink Technology Corp.	Nov. 2001	Taiwan	NTD 1,752,640	R&D, manufacturing and sales
T-Rich Technology (Cayman) Corp.	Oct. 2009	Cayman Islands	USD 5,555	Investment
T-Rich Technology Corp.	Dec. 2008	Taiwan	NTD 170,000	R&D, Manufacturing and sales
E-vehicle Semiconductor Technology Co. Ltd.	May 2011	Taiwan	NTD 116,000	R&D, Manufacturing and Sales

Company Name	Date of Incorporation	Place of Registration	Capital Stock	Major Business
E-Vehicle Holding Corp.	Sep. 2012	Samoa	USD 900	Investment
E-Vehicle Investment Limited	Sep. 2012	Hong Kong	USD 900	Investment
E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Sep. 2012	China	USD 900	R&D, Manufacturing and sales

8.1.3. Common Shareholders of MediaTek and Its Subsidiaries or Its Affiliates with Actual or 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, 2012 (Unit: share / %)

Company Name	Title	Name or Representative	Shares	% of Holding
MediaTek Investment Co., Ltd.	Chairman/Director	MediaTek Inc. Rep.: Ching-Jiang Hsieh	4,650,569,992	100%
	Director	MediaTek Inc. Rep.: David Ku		
	Director	MediaTek Inc. Rep.: Jane Chen		
	Supervisor	MediaTek Inc. Rep.: Kirin Liu		
MediaTek Capital Co., Ltd.	Chairman/Director	MediaTek Investment Co., Ltd. Rep.: Ching-Jiang Hsieh	395,139,163	100%
	Director	MediaTek Investment Co., Ltd. Rep.: David Ku		
	Director	MediaTek Investment Co., Ltd. Rep.: Jane Chen		
	Supervisor	MediaTek Investment Co., Ltd. Rep.: Kirin Liu		
Hsu-Ta Investment Ltd.	Chairman/Director	MediaTek Inc. Rep.: Ching-Jiang Hsieh	290,970,405	100%
	Director	MediaTek Inc. Rep.: David Ku		
	Director	MediaTek Inc. Rep.: Jane Chen		
	Supervisor	MediaTek Inc. Rep.: Kirin Liu		
CoreTech Resources Inc.	Director	Hsu-Ta Investment Ltd. Rep.: David Ku	57,200,000	100%
Gaintech Co. Limited	Director	MediaTek Investment Co., Ltd. Rep.: David Ku	319,975,440	100%
MediaTek Singapore Pte. Ltd.	Director	MediaTek Inc, Rep.: CC Ku	111,993,960	100%
	Director	MediaTek Inc. Rep.: David Ku		
MediaTek Wireless L.L.C. (Dubai)	Director	MediaTek Singapore Pte. Ltd. Rep.: Grant Kuo	300	100%
	Director	MediaTek Singapore Pte. Ltd. Rep.: David Ku		
	Director	MediaTek Singapore Pte. Ltd. Rep.: Jane Chen		
MediaTek India Technology Pvt. Ltd.	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		
MTK Wireless Limited (UK)	Director	Gaintech Co. Limited	4,414,003	100%

Company Name	Title	Name or Representative	Shares	% of Holding
		Rep.: David Ku		
MediaTek Denmark ApS	Director	Gaintech Co. Limited Rep.: David Ku	20,000,000	100%
MediaTek Inc. China (Hong Kong)	Director	Gaintech Co. Limited Rep.: David Ku	2,213,959,820	100%
MediaTek (Heifei) Inc.	Chairman/ Director	MediaTek Inc. China (Hong Kong) Rep.: Michael Lu	Not applicable	100%
	Director	MediaTek Inc. China (Hong Kong) Rep.: David Ku		
	Director	MediaTek Inc. China (Hong Kong) Rep.: Wang Hai		
	Supervisor	MediaTek Inc. China (Hong Kong) Rep.: Kirin Liu		
MediaTek (ShenZhen) Inc.	Chairman/ Director	MediaTek Inc. China (Hong Kong) Rep.: Michael Lu	Not applicable	100%
	Director	MediaTek Inc. China (Hong Kong) Rep.: Pao-Ping, Ma		
	Director	MediaTek Inc. China (Hong Kong) Rep.: David Ku		
	Supervisor	MediaTek Inc. China (Hong Kong) Rep.: Kirin Liu		
MediaTek (Chengdu) Inc.	Chairman/ Director	MediaTek Inc. China (Hong Kong) Rep.: Michael Lu	Not Applicable	100%
	Director	MediaTek Inc. China (Hong Kong) Rep.: C C Yeh		
	Director	MediaTek Inc. China Rep.: David Ku		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
MediaTek (Wuhan) Inc.	Chairman/ Director	MediaTek Inc. China Rep.: Michael Lu	Not Applicable	100%
	Director	MediaTek Inc. China Rep.: David Ku		
	Director	MediaTek Inc. China Rep.: Wang Hai		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
MediaTek (Beijing) Inc.	Chairman/ Director	MediaTek Inc. China Rep.: Michael Lu	Not Applicable	100%
	Director	MediaTek Inc. China Rep.: Aaron Chang		
	Director	MediaTek Inc. China Rep.: David Ku		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
MediaTek (Shanghai) Inc.	Chairman/ Director	MediaTek Inc. China Rep.: Michael Lu	Not Applicable	100%
	Director	MediaTek Inc. China Rep.: David Liang		
	Director	MediaTek Inc. China Rep.: David Ku		
	Supervisor	MediaTek Inc. China Rep.: Kirin Liu		
MediaTek USA Inc.	Director	Gaintech Co. Limited Rep.: David Ku	100,000	89.43%
MediaTek Wireless, Inc. (USA)	Director	MediaTek USA Inc. Rep.: David Ku	100,000	100%
Ralink Technology Corporation (USA)	Director	MediaTek USA Inc. Rep.: Jane Chen	30,000,000	100%
MediaTek Japan Inc.	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		
MediaTek Korea Inc.	Director	Gaintech Co. Limited Rep.: Jerry Yu	200,000	100%
	Director	Gaintech Co. Limited Rep.: John Lee		
	Director	Gaintech Co. Limited Rep.: David Ku		
	Supervisor	Gaintech Co. Limited Rep.: Kirin Liu		

Company Name	Title	Name or Representative	Shares	% of Holding
Vogins Technology Co. Ltd.	Chairman/ Director	Wei Hua, Zhang	-	-
	Director	Vogins Investment Co., Ltd Rep.: Rong-Xia, Zhang	630,401	7.10%
	Director	Gaintech Co. Limited Rep.: YuChuan Yang	7,063,693	79.51%
	Director	Gaintech Co. Limited Rep.: David Ku		
	Director	Gaintech Co. Limited Rep.: Jane Chen		
	Director	Gaintech Co. Limited Rep.: Shouyen Liu		
Vogins (Shanghai)	Chairman/ Director	Vogins Technology Co. Ltd. Rep.: Song Li	Not applicable	100%
Hesine Technologies International Worldwide Inc.	Director	Gaintech Co. Limited Rep.: David Ku	566,667	64.86%
	Director	Gaintech Co. Limited Rep.: Shouyen Liu	306,944	35.14%
	Director	NQ Mobile Inc. Rep.: Yu Lin		
Hesine Technologies, Inc.	Representative	Hesine Technologies International Worldwide Inc. Rep.: Jianhui Tao	Not applicable	100%
Lepower Limited	Director	Gaintech Co. Limited Rep.: Jane Chen	1,540,000	71.09%
Lepower (HK) Limited	Director	Lepower Limited Rep.: Jane Chen	2,100,000	100%
Lepower Technologies (Beijing) Inc.	Chairman/ Director	Lepower (HK) Limited Rep: Michael Lu	Not applicable	100%
	Director	Lepower (HK) Limited Rep: Wen Hsin Wang		
	Director	Lepower (HK) Limited Rep: David Ku		
	Director	Lepower (HK) Limited Rep: Steven Chiou		
	Director	Lepower (HK) Limited Rep: Phillips Lu		
	Supervisor	Lepower (HK) Limited Rep: Kirin Liu		
Gold Rich International (Samoa) Limited	Director	Gaintech Co. Limited Rep.: Jane Chen	4,290,000	100%
Gold Rich International (HK) Limited	Director	Gold Rich International (Samoa) Limited Rep.: Jane Chen	4,190,000	100%
	Director	Gold Rich International (Samoa) Limited Rep.: C.C. Yeh		
Smarthead Limited	Director	Gaintech Co. Limited Rep.: Jane Chen	700,000	100%
MediaTek Sweden AB	Director	Gaintech Co. Limited Rep.: David Ku	1,008,371	100%
	Director	Gaintech Co. Limited Rep.: Johan Erik Lodenius		
Ralink Technology (Samoa) Corp.	Director	Gaintech Co. Limited Rep.: David Ku	3,350,000	100%
Shadow Investment Limited	Director	Gaintech Co. Limited Rep.: David Ku	15,000,000	100%
MediaTek (Nanjing)	Chairman/Director	Shadow Investment Limited Rep.: Michael Lu	Not applicable	100%
	Director	Shadow Investment Limited Rep.: David Ku		
	Director	Shadow Investment Limited Rep.: Victor Liu		
	Supervisor	Shadow Investment Limited Rep.: Kirin Liu		
MediaTek (Suzhou)	Chairman/Director	Shadow Investment Limited Rep.: Michael Lu	Not applicable	100%
	Director	Shadow Investment Limited Rep.: Kirin Liu		
RollTech Technology Co. Ltd.	Chairman/Director	MediaTek Capital Co. Rep: Hui-Ling Liu	3,510,000	100%
	Director	MediaTek Capital Co. Rep: Cheng-Te Chuang		
	Director	MediaTek Capital Co. Rep: MT Hsieh		
	Supervisor	MediaTek Capital Co. Rep: Shouyen Liu		

Company Name	Title	Name or Representative	Shares	% of Holding
Ralink Technology Corp.	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		
T-Rich Technology (Cayman) Corp.	Director	Ralink Technology Corp. Rep.: Jane Chen	11,110,150	100%
T-Rich Technology Corp.	Chairman/Director	T-Rich Technology (Cayman) Corp. Rep.: Jane Chen	17,000,000	100%
	Director	T-Rich Technology (Cayman) Corp. Rep.: Amy Chung		
	Director	T-Rich Technology (Cayman) Corp. Rep.: Tracy Shih		
	Supervisor	T-Rich Technology (Cayman) Corp. Rep.: Shouyen Liu		
E-vehicle Semiconductor Technology Co. Ltd.	Chairman/Director	MediaTek Capital Co. Rep: Ching-Chuan Hsu	8,000,000	68.97%
	Director	MediaTek Capital Co. Rep: Jane Chen	1,351,000	11.65%
	Director	Chao-Ting Ho		
	Supervisor	Pin-Ting Chung	-	-
E-Vehicle Holdings Corp.	Director	E-vehicle Semiconductor Technology Co. Ltd. Rep: Jane Chen	900,000	100%
E-Vehicle Investment Limited	Director	E-Vehicle Holdings Corp. Rep: Jane Chen	900,000	100%
E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Chairman/Director	E-Vehicle Investment Limited Rep: Chao-Ting Ho	Not applicable	100%
	Director	E-Vehicle Investment Limited Rep: James Liao		
	Director	E-Vehicle Investment Limited Rep: Shouyen Liu		
	Supervisor	E-Vehicle Investment Limited Rep: Wen-Lung Hsu		

8.1.6. Operation Highlights of MediaTek Affiliated Companies

Dec. 31, 2012, Unit, NT\$ thousands

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income	EPS (after tax)
MediaTek Investment Co., Ltd.	46,505,700	58,854,283	126	58,854,157	5,366,370	5,364,569	5,363,679	1.15
MediaTek Capital Co., Ltd.	3,951,392	6,818,042	1,263	6,816,779	81,141	80,837	76,838	0.19
Hsu-Ta Investment Ltd.	2,909,704	2,532,664	-	2,532,663	49,465	49,257	46,367	0.16
CoreTech Resources Inc.	1,666,579	2,427,182	45	2,427,137	75,138	74,214	74,214	1.30
Gaintech Co. Limited	9,322,804	57,736,948	5,847,699	51,889,248	5,481,902	5,253,539	5,257,654	16.43
MediaTek Singapore Pte. Ltd.	2,272,101	11,594,948	8,803,509	2,791,439	26,466,222	4,168,919	4,448,056	39.72
MediaTek Wireless L.L.C. (Dubai)	2,380	29,290	188	29,102	9,076	594	594	1,979.15
MediaTek India Technology Pvt. Ltd.	29,307	264,197	84,264	179,933	248,274	42,508	16,719	3.04
MTK Wireless Limited (UK)	208,895	310,512	36,653	273,859	316,171	20,684	18,922	4.29
MediaTek Denmark ApS	103,147	189,215	24,789	164,426	115,039	7,234	(422)	(0.02)
MediaTek Inc. China (Hong Kong)	8,306,091	10,841,173	874,080	9,967,093	659,210	645,762	645,762	0.29
MediaTek (Heifei) Inc.	190,790	526,668	138,165	388,503	782,230	57,943	58,225	Not applicable

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income	EPS (after tax)
MediaTek (ShenZhen) Inc.	266,861	852,602	200,740	651,862	1,465,866	95,952	112,390	Not applicable
MediaTek (Chengdu) Inc.	1,488,881	1,587,892	91,605	1,496,287	488,414	36,252	65,562	Not applicable
MediaTek (Wuhan) Inc.	148,722	162,176	18,058	144,119	183,847	19,310	44,933	Not applicable
MediaTek (Beijing) Inc.	3,201,302	3,951,528	201,865	3,749,663	1,520,238	122,056	250,955	Not applicable
MediaTek (Shanghai) Inc.	92,165	122,958	64,567	58,391	175,856	9,954	14,272	Not applicable
MediaTek USA Inc.	3	1,867,264	222,456	1,644,808	1,371,936	89,753	180,158	1,611.21
MediaTek Wireless, Inc. (USA)	14,568	380,580	102,804	277,776	633,377	41,436	64,545	645.45
Ralink Technology Corporation (USA)	69,926	375,610	5,999	369,611	849	(15,224)	(15,254)	(0.51)
MediaTek Japan Inc.	33,617	71,911	10,210	61,701	203,739	21,512	10,156	1,430.44
MediaTek Korea Inc.	54,806	144,760	59,259	85,501	211,794	13,856	5,590	27.95
Vogins Technology Co. Ltd.	32,355	(4,233)	48,439	(52,671)	(18,376)	(20,889)	(20,889)	(2.35)
Vogins Shanghai	186,951	9,332	15,505	(6,173)	46,823	(22,206)	(18,376)	Not applicable
Hesine Technologies International Worldwide	6,363	41,797	14,568	27,229	23	(74,280)	(74,280)	(85.02)
Hesine Technologies, Inc.	46,767	30,089	32,016	(1,927)	42,079	(36,051)	(35,056)	Not applicable
Lepower Limited	64,099	8,976	-	8,976	(55,890)	(55,934)	(55,934)	(25.82)
Lepower (HK) Limited	61,186	6,145	-	6,145	(55,837)	(55,890)	(55,890)	(26.61)
Lepower Technologies (Beijing) Inc.	59,076	3,279	-	3,279	0	(56,000)	(56,005)	Not applicable
Gold Rich International (Samoa) Limited	124,993	343,342	-	343,342	216,823	216,648	216,648	50.50
Gold Rich International (HK) Limited	122,080	340,648	-	340,648	231,078	230,890	216,823	51.75
Smarthead Limited	20,395	18,199	-	18,199	(490)	(512)	(512)	(0.73)
MediaTek Sweden AB	4,524	50,884	18,655	32,230	19,856	(107,165)	(106,748)	(105.86)
Ralink Technology (Samoa) Corp.	97,606	52,966	-	52,966	245	(256)	(256)	(0.08)
Shadow Investment Limited	437,040	39,277	-	39,277	6,908	(64,268)	(64,268)	(4.28)
MediaTek (Nanjing) Inc.	31,932	57,961	42,891	15,070	53,431	3,497	5,993	Not applicable
MediaTek (Suzhou) Inc.	57,108	103,149	90,063	13,086	82,044	5,364	9,052	Not applicable
RollTech Technology Co. Ltd.	35,100	26,688	6,439	20,248	54,035	(5,792)	(5,542)	(1.58)
Ralink Technology Corp.	1,752,640	13,293,529	2,237,365	11,056,164	9,668,493	2,335,110	2,317,256	13.22
T-Rich Technology (Cayman)	161,853	41,584	4	41,580	(3,265)	(3,414)	(3,414)	(0.31)
T-Rich Technology Corp.	170,000	30,044	50	29,994	(1,317)	(3,278)	(3,337)	(0.20)
E-vehicle Semiconductor Technology Co. Ltd.	116,000	74,909	4,540	70,369	2,069	(25,346)	(32,376)	(2.79)
E-Vehicle Holdings Corp.	26,222	18,613	-	18,613	-	(7,734)	(7,734)	(8.59)
E-Vehicle Investment Limited	26,222	18,613	-	18,613	-	(7,734)	(7,734)	(8.59)

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income	EPS (after tax)
E-Vehicle Semiconductor (Shanghai) Co., Ltd.	26,605	27,677	8,752	18,925	605	(7,449)	(7,751)	Not applicable

Note: The amount of capital, asset, liabilities and net worth in this table were calculated using the exchange rate at end of 2012. The net sales, income from operation, net income and EPS numbers were calculated using the average exchange rate in 2012.

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	MediaTek Ownership	Transaction Date	Number of shares acquired and its amount	Number of shares Disposed and its amount	Investment gain / loss	Balance (share & amount)	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	-	-	-

8.4. Any Events in 2012 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	2008	2009	2010	2011	2012
Current assets	45,752,665	69,190,377	59,573,161	42,508,698	49,299,361
Funds and investments	35,131,777	48,207,732	59,535,407	81,168,558	135,135,137
Fixed assets	5,243,216	5,896,167	6,744,246	6,503,119	6,282,152
Intangible assets	10,259,038		8,623,090	7,714,627	7,040,428
Other assets	200,730	241,321	164,577	141,602	109,598
Total assets	96,587,426	132,916,306	134,640,481	138,036,604	197,866,676
Current liabilities – Before distribution	14,893,337	23,767,572	22,159,301	20,740,542	20,720,246
Current liabilities – After distribution	29,917,469	52,110,662	44,158,758	31,068,666	(Note)
Long-term liabilities	-	-	-	-	-
Other liabilities	83,188	279,249	768,070	1,018,046	1,406,526
Total liabilities – Before distribution	14,976,525	24,046,821	22,927,371	21,758,588	22,126,772
Total liabilities – After distribution	30,000,657	52,389,911	44,926,828	32,086,712	(Note)
Capital stock	10,731,523	10,901,189	10,999,682	11,475,191	13,493,804
Capital reserve	2,757,311	8,267,826	12,259,404	24,605,882	79,551,866
Retained earnings – Before distribution	68,451,526	90,111,571	92,708,116	82,463,225	87,822,629
Retained earnings – After distribution	53,405,931	61,746,679	70,708,659	72,135,101	(Note)
Accumulated conversion adjustment	(17,915)	(527,304)	(4,380,730)	(2,253,504)	(5,762,265)
Net loss not recognized as pension cost	-	-	-	-	(10,503)
Unrealized gains from financial instruments	(255,574)	172,173	182,608	43,192	700,343
Treasury stock	(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
Total shareholders' equity – before distribution	81,610,901	108,869,485	111,713,110	116,278,016	175,739,904
Total shareholders' equity – after distribution	66,586,769	80,526,395	89,713,653	105,949,892	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting

9.1.2. Condensed Balance Sheet – MediaTek & Subsidiaries

Unit: NT\$ thousands

Item	2008	2009	2010	2011	2012
Current assets	71,225,877	114,038,269	112,595,354	112,042,128	118,071,093
Funds and investments	8,969,627	6,661,594	7,734,457	9,416,963	65,120,332
Fixed assets	6,504,012	6,888,829	7,807,817	9,810,051	10,707,589
Intangible assets	12,029,070	10,622,893	9,572,335	16,150,659	15,842,236
Other assets	345,818	381,701	324,729	321,307	501,706
Total assets	99,074,404	138,593,286	138,034,692	147,741,108	210,242,956
Current liabilities – Before distribution	17,232,353	29,454,365	25,786,256	30,428,120	32,873,347
Current liabilities – After distribution	32,256,485	57,797,455	47,785,713	40,756,244	(Note)
Long-term liabilities	-	-	-	147,662	113,630
Other liabilities	83,188	248,318	535,101	836,999	1,481,866
Total liabilities – Before distribution	17,315,541	29,702,683	26,321,357	31,412,781	34,468,843
Total liabilities – After distribution	32,339,673	58,045,773	48,320,814	41,740,905	(Note)
Capital stock	10,731,523	10,901,189	10,999,682	11,475,191	13,493,804
Capital reserve	2,757,311	8,267,826	12,259,404	24,605,882	79,551,866
Retained earnings – Before distribution	68,451,526	90,111,571	92,708,116	82,463,225	87,822,629
Retained earnings – After distribution	53,405,931	61,746,679	70,708,659	72,135,101	(Note)
Accumulated conversion adjustment	(17,915)	(527,304)	(4,380,730)	(2,253,504)	(5,762,265)
Net loss not recognized as pension cost	-	-	-	-	(10,503)
Unrealized gains from financial instruments	(255,574)	172,173	182,608	43,192	700,343
Treasury stock	(55,970)	(55,970)	(55,970)	(55,970)	(55,970)
Minority Interest	147,962	21,118	225	50,311	34,209
Total shareholders' equity – before distribution	81,758,863	108,890,603	111,713,335	116,328,327	175,774,113
Total shareholders' equity – after distribution	66,734,731	80,547,513	89,713,878	106,000,203	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting

9.2. Condensed Income Statement

9.2.1. Condensed Income Statement – Parent Company

Unit: NT\$ thousands

Item	2008	2009	2010	2011	2012
Revenue	68,015,543	77,310,752	71,988,340	53,842,366	63,474,029
Gross profit	35,876,812	46,119,674	39,262,273	22,069,130	22,703,674
Income from operations	17,090,396	21,446,596	17,267,046	4,839,781	5,850,322
Non-operating income and gains	4,605,861	15,845,255	14,971,580	9,257,428	10,697,472
Non-operating expenses and losses	(726,440)	(13,908)	(44,947)	(138,661)	(91,924)
Income from operations of continued segments – before tax	20,969,817	37,277,943	32,193,679	13,958,548	16,455,870
Income from operations of continued segments – after tax	19,189,997	36,705,640	30,961,437	13,623,070	15,687,528
Net income	19,189,997	36,705,640	30,961,437	13,623,070	15,687,528
Earnings per share (NT\$)	18.01	34.12	28.44	12.35	12.90
Earnings per share – adjusted (NT\$)	17.98	34.05	28.44	12.35	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting

9.2.2. Condensed Income Statement – MediaTek & Subsidiaries

Unit: NT\$ thousands

Item	2008	2009	2010	2011	2012
Revenue	90,402,041	115,511,625	113,521,958	86,857,494	99,263,160
Gross profit	47,336,319	67,817,390	60,908,066	39,344,157	41,062,454
Income from operations	21,061,222	36,387,164	31,078,620	12,344,728	12,505,306
Non-operating income and gains	2,320,950	1,224,948	1,253,410	1,970,525	4,591,270
Non-operating expenses and losses	(2,284,042)	(192,026)	(44,113)	(112,002)	(477,019)
Income from operations of continued segments – before tax	21,098,130	37,420,086	32,287,917	14,203,251	16,619,557
Income from operations of continued segments – after tax	19,174,240	36,695,466	30,936,603	13,615,803	15,648,313
Net income – consolidated	19,174,240	36,695,466	30,936,603	13,615,803	15,648,313
Net income – parent company	19,189,997	36,705,640	30,961,437	13,623,070	15,687,528
Earnings per share (NT\$)	18.01	34.12	28.44	12.35	12.90
Earnings per share – adjusted (NT\$)	17.98	34.05	28.44	12.35	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting

9.3. Independent Auditors' Opinions

Year	CPA Firm	Name of Auditors (CPA)	Audio Opinion
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
2012	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		2008	2009	2010	2011	2012
Capital structure analysis	Debt ratio (%)	15.51	18.09	17.03	15.76	11.18
	Long-term fund to fixed assets ratio (%)	1,556.50	1,846.45	1,656.42	1,788.03	2,797.45
Liquidity analysis (%)	Current ratio (%)	307.20	291.11	268.84	204.95	237.93
	Quick ratio (%)	282.85	269.13	230.82	173.21	185.23
	Times interest earned (Times)	N/A	N/A	N/A	3,086.44	9,491.12
Operating performance analysis	Average collection turnover (Times)	16.20	27.74	20.03	14.17	15.98
	Average accounts receivable days (Days)	23	13	18	26	23
	Average inventory turnover (Times)	4.39	5.17	3.85	3.42	3.89
	Average payment turnover (Times)	6.15	5.50	4.73	4.84	6.05
	Average inventory turnover (Days)	83	71	95	107	94
	Fixed assets turnover (Times)	13.00	13.88	11.39	8.13	9.93
	Total assets turnover (Times)	0.70	0.67	0.54	0.39	0.38
Profitability analysis	Return on total assets (%)	19.80	31.99	23.14	9.99	9.34
	Return on equity (%)	22.91	38.54	28.07	11.95	10.74
	Operating income to paid-in capital (%)	168.64	196.74	156.98	42.18	43.36
	Pre-tax income to paid-in capital (%)	195.40	341.96	292.68	121.64	121.95
	Net profit margin (%)	28.21	47.48	43.01	25.30	24.71
	Basic earnings per share (NT\$)	18.01	34.12	28.44	12.35	12.90
	Earnings per share – adjusted (NT\$)	17.98	34.05	28.44	12.35	N/A
Cash flow	Cash flow ratio (%)	224.17	158.31	70.59	38.50	21.44
	Cash flow adequacy ratio (%)	151.35	174.03	127.62	104.22	91.43
	Cash flow reinvestment ratio (%)	14.27	22.16	-11.91	-12.41	-3.39
Leverage	Operating leverage	2.77	2.71	2.94	7.52	7.53
	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) Debt ratio decreased by 29% and long-term fund to fixed assets ratio increased by 56% were primarily due to increase in total assets and total shareholder's equity resulting from the new share issuance to acquire 48% of Mstar's equity.
- (2) Times interest earned increased by 208% was primarily due to increase in pretax income and decrease in interest expenses.
- (3) Average payment turnover increased by 25% was primarily due to increase in cost of goods sold.
- (4) Fixed assets turnover increased by 22% was primarily due to increase in sales.
- (5) Cash flow ratio decreased by 44% was primarily due to decrease in cash inflows from operating activities.
- (6) Cash flow reinvestment ratio increased by 73% was primarily due to decrease in the gap between cash inflows from operating activities and cash dividend shortfall.

9.4.2. Financial Statements – MediaTek & Subsidiaries

Item		2008	2009	2010	2011	2012
Capital structure analysis	Debt ratio (%)	17.48	21.43	19.07	21.26	16.39
	Long-term fund to fixed assets ratio (%)	1,257.05	1,580.68	1,430.79	1,187.31	1,642.65
Liquidity analysis (%)	Current ratio (%)	413.33	387.17	436.65	368.22	359.17
	Quick ratio (%)	379.12	358.50	391.83	335.08	313.51
	Times interest earned (Times)	2,101.36	59,873.14	N/A	1,515.53	152.84
Operating performance analysis	Average collection turnover (Times)	13.91	17.62	15.17	11.28	11.86
	Average accounts receivable days (Days)	26	21	24	32	31
	Average inventory turnover (Times)	4.71	5.37	4.35	3.57	4.05
	Average payment turnover (Times)	6.92	5.71	5.21	5.45	6.44
	Average inventory turnover (Days)	77	68	84	102	90
	Fixed assets turnover (Times)	14.55	17.25	15.45	9.86	9.68
	Total assets turnover (Times)	0.91	0.97	0.82	0.61	0.55
Profitability analysis	Return on total assets (%)	19.38	30.88	22.37	9.53	8.79
	Return on equity (%)	22.85	38.50	28.05	11.94	10.71
	Operating income to paid-in capital (%)	207.87	333.79	282.54	107.58	92.67
	Pre-tax income to paid-in capital (%)	196.60	343.27	293.54	123.77	123.16
	Net profit margin (%)	21.21	31.77	27.25	15.68	15.76
	Basic earnings per share (NT\$)	18.01	34.12	28.44	12.35	12.90
	Earnings per share – adjusted (NT\$)	17.98	34.05	28.44	12.35	N/A
Cash flow	Cash flow ratio (%)	206.58	187.55	114.04	54.91	34.69
	Cash flow adequacy ratio (%)	149.55	179.19	149.03	125.42	114.28
	Cash flow reinvestment ratio (%)	17.57	39.61	1.00	-4.99	0.64
Leverage	Operating leverage	2.94	2.42	2.68	5.27	5.95
	Financial leverage	1.00	1.00	1.00	1.00	1.01

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

- (1) Debt ratio decreased by 23% and long-term fund to fixed assets ratio increased by 38% were primarily due to increase in total assets and total shareholder's equity resulting from the new share issuance to acquire 48% of Mstar's equity.
- (2) Times interest earned decreased by 90% was primarily due to increase in interest expenses.
- (3) Cash flow ratio decreased by 37% was primarily due to decrease in cash inflows from operating activities.
- (4) Cash flow reinvestment ratio increased by 113% was primarily due to decrease in the gap between cash inflows from operating activities and cash dividend shortfall.

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 2012 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. 2013 Annual General Shareholders' Meeting

MediaTek Inc.

Supervisor: Paul Wang

Supervisor: Chung-Lang Liu (MediaTek Capital Corp., representative)

Supervisor: Ming-Je Tang (National Taiwan University, representative)

March 29, 2013

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, 2012 AND 2011
AND FOR THE YEARS THEN ENDED**

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2012 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 29, 2013

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, 2012 and 2011, 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, 2012 and 2011, 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 29, 2013
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
MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2012 and 2011
(Amounts in thousands of New Taiwan Dollars)

	ASSETS	Notes	2012	2011	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2012	2011
	Current assets				Current liabilities			
	Cash and cash equivalents	2, 4(1)	\$ 85,867,210	\$ 85,821,438	Short-term loans	4(18)	\$ 8,880,430	\$ 4,089,150
	Held-for-trading financial assets-current	2, 4(2)	244	66	Held-for-trading financial liabilities-current	2, 4(2)	2,638	-
	Financial assets designated as at fair value through profit or loss-current	2, 4(3)	629,668	1,617,350	Accounts payable	5	8,044,063	8,062,967
	Available-for-sale financial assets-current	2, 4(4), 4(12), 4(14)	3,779,013	2,545,354	Payables to related parties	2, 4(28)	1,003,337	938,936
	Held-to-maturity financial assets-current	2, 4(5)	-	48,126	Income tax payable	2, 4(24)	1,053,591	681,003
	Bond portfolios with no active market-current	2, 4(13)	-	1,000,000	Accrued expenses		13,139,736	15,714,455
	Accounts receivable, net	2, 4(6)	6,584,610	7,360,317	Payables to contractors and equipment suppliers		60,894	76,861
	Receivables from related parties, net	5	-	23,567	Other payables	4(19)	41,260	74,260
	Other receivables	4(6), 4(7), 4(13), 5	5,135,613	3,027,004	Current portion of long-term payables		29,136	18,081
	Inventories, net	2, 4(8)	13,867,311	9,392,282	Other current liabilities	2, 4(28)	610,139	752,407
	Prepayments		1,141,033	689,987	Deferred income tax liabilities-current		8,123	-
	Other current assets		426,062	282,585	Total current liabilities		32,873,347	30,428,120
	Deferred income tax assets-current	2, 4(28)	526,731	220,940				
	Restricted assets-current	6	113,598	13,112	Long-term liabilities			
	Total current assets		118,071,093	112,042,128	Long-term payables	4(19)	113,630	147,662
	Funds and investments				Other liabilities			
	Financial assets designated as at fair value through profit or loss-noncurrent	2, 4(9)	1,484,505	1,739,337	Accrued pension liabilities	2, 4(17)	220,083	190,538
	Available-for-sale financial assets-noncurrent	2, 4(10)	3,206,895	2,810,668	Deposits received	5	30,233	6,176
	Held-to-maturity financial assets-noncurrent	2, 4(11)	796,860	828,422	Deferred income tax liabilities-noncurrent	2, 4(28)	1,156,875	590,934
	Financial assets carried at cost-noncurrent	2, 4(12)	2,469,373	2,203,872	Other liabilities-others		74,675	49,351
	Investments accounted for using the equity method	2, 4(12), 4(14)	57,162,699	1,834,664	Total other liabilities		1,481,866	836,929
	Total funds and investments		65,120,332	9,416,963	Total liabilities		34,465,843	31,412,781
	Property, plant and equipment				Shareholders' equity			
	Land	2, 4(15)	1,273,869	1,055,184	Equity attributable to shareholders of the parent	4(14), 4(20)	13,493,702	11,475,108
	Buildings and facilities		6,789,307	6,135,210	Capital		102	83
	Machinery and equipment		125,761	159,305	Common stock			
	Computer and telecommunication equipment		2,071,672	1,952,134	Capital reserve	2, 4(22)	78,042,994	23,161,573
	Testing equipment		3,013,052	2,817,023	Additional paid-in capital in excess of par		1,011,446	941,301
	Miscellaneous equipment		1,141,325	1,126,343	Treasury stock transaction		1,260	1,260
	Total cost		14,414,986	13,245,199	Donated assets	4(14)	170,123	225,366
	Less : Accumulated depreciation		(5,848,890)	(4,963,794)	Long-term investment transaction	4(23)	326,043	276,382
	Add : Construction in progress		2,054,361	1,452,404	Employee stock option			
	Prepayments for equipment		87,132	76,242	Total capital reserve		79,551,866	24,605,882
	Property, plant and equipment, net		10,707,589	9,810,051				
					Retained earnings	4(21), 4(24)	23,072,429	21,710,122
	Intangible assets	2, 4(16)	14,939	27,448	Legal reserve		2,210,312	4,198,121
	Trademarks		548,129	256,844	Special reserve		62,539,888	56,554,982
	Patents		176,262	279,424	Undistributed earnings	2	(5,762,265)	(2,253,504)
	Software		13,949,611	13,428,387	Cumulative translation adjustments		(10,503)	-
	Goodwill		441	-	Net loss not recognized as pension cost	2	700,343	43,192
	Deferred pension cost	2, 4(17)	1,152,854	2,158,556	Unrealized gain (loss) on financial instruments	2, 4(25)	(55,970)	(55,970)
	IPs and others		15,842,236	16,150,659	Treasury stock		175,739,904	116,278,016
	Total intangible assets		17,540,003	17,937,174	Minority interests		34,209	50,311
					Total shareholders' equity		175,774,113	116,328,327
	Other assets				Total liabilities and shareholders' equity		\$ 210,242,956	\$ 147,741,108
	Refundable deposits		206,393	265,431				
	Deferred charges	2	24,905	51,379				
	Deferred income tax assets-noncurrent	2, 4(28)	266,785	671				
	Restricted assets-noncurrent	6	400	-				
	Other assets-others	2, 4(17)	3,223	3,826				
	Total other assets		501,706	321,307				
	Total assets		\$ 210,242,956	\$ 147,741,108				

The accompanying notes are an integral part of the consolidated 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, 2012 and 2011

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

Description	Notes	2012		2011	
Gross sales		\$	112,014,739	\$	91,480,134
Less : Sales returns			(44,482)		(44,450)
Sales discounts			(12,707,097)		(4,578,190)
Net sales	2, 4(26), 5		99,263,160		86,857,494
Cost of goods sold	4(8), 4(27), 5		(58,200,706)		(47,513,337)
Gross profits			41,062,454		39,344,157
Operating expenses	2, 4(27), 5				
Selling expenses			(3,109,276)		(2,860,530)
General and administrative expenses			(3,064,310)		(2,954,996)
Research and development expenses			(22,383,562)		(21,183,903)
Total operating expenses			(28,557,148)		(26,999,429)
Operating income			12,505,306		12,344,728
Non-operating income and gains					
Interest income	10		1,730,158		1,016,367
Gain on equity investments, net	2, 4(14)		1,074,451		124,047
Dividend income			148,878		46,115
Gain on disposal of investments	2, 4(14)		829,865		66,760
Foreign exchange gain, net	2		119,544		332,656
Valuation gain on financial assets	2, 4(2), 10		79,251		-
Others	5		609,123		384,580
Total non-operating income and gains			4,591,270		1,970,525
Non-operating expenses and losses					
Interest expenses	10		(109,458)		(9,378)
Loss on disposal of property, plant and equipment	2		(10,000)		(15,409)
Impairment loss	2, 4(4), 4(12)		(349,450)		-
Valuation loss on financial assets	2, 4(2), 10		-		(87,215)
Valuation loss on financial liabilities	2, 4(2), 10		(2,638)		-
Others			(5,473)		-
Total non-operating expenses and losses			(477,019)		(112,002)
Income from continuing operations before income tax			16,619,557		14,203,251
Income tax expense	2, 4(28)		(971,244)		(587,448)
Consolidated net income		\$	15,648,313	\$	13,615,803
Income Attributable to :					
Shareholders of the parent		\$	15,687,528	\$	13,623,070
Minority interests			(39,215)		(7,267)
Consolidated net income		\$	15,648,313	\$	13,615,803
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(29)				
Consolidated net income		\$	13.66	\$	12.87
Net income attributable to minority interests			0.03		0.01
Net income attributable to the parent		\$	13.69	\$	12.88
Diluted Earnings Per Share (in New Taiwan Dollars)	2, 4(29)				
Consolidated net income		\$	13.60	\$	12.80
Net income attributable to minority interests			0.03		0.01
Net income attributable to the parent		\$	13.63	\$	12.83

The accompanying notes are an integral part of the consolidated financial statements.

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2012 and 2011

(Amounts in thousands of New Taiwan Dollars)

Description	Capital		Capital reserve	Retained earnings			Cumulative translation adjustments	Net loss not recognized as pension cost	Unrealized gain (loss) on financial instruments	Treasury stock	Total shareholders' equity attributable to parent company	Minority interests	Total shareholders' equity
	Common stock	Capital collected in advance		Legal reserve	Special reserve	Undistributed earnings							
Balance as of January 1, 2011	\$ 10,999,317	\$ 365	\$ 12,259,404	\$ 18,613,978	\$ 355,131	\$ 73,739,007	\$ (4,380,730)	\$ -	\$ 182,608	\$ (55,970)	\$ 111,713,110	\$ 225	\$ 111,713,335
Appropriation and distribution of 2010 earnings:													
Legal reserve	-	-	-	3,096,144	(3,096,144)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	3,842,990	(3,842,990)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(21,999,457)	(21,999,457)	-	-	-	-	(21,999,457)	-	(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)
Shares issued to acquire new entities	555,336	-	12,259,039	-	-	-	-	-	-	-	12,814,375	-	12,814,375
Treasury stock acquired	(80,000)	-	(161,410)	-	-	-	-	-	-	(2,109,914)	(2,109,914)	-	(2,109,914)
Treasury stock retired	-	-	88,803	-	-	(1,868,504)	-	-	-	2,109,914	88,803	-	88,803
Employee stock option distributed to subsidiaries' employees	-	-	3,321	-	-	-	-	-	-	-	3,494	-	3,494
Issuance of stock from exercising employee stock options	-	-	155,881	-	-	-	-	-	-	-	155,881	-	155,881
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	844	-	-	-	-	-	-	-	844	-	844
Adjustment arising from changes in the percentage of ownership in investees	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase in minority interests	-	-	-	-	-	-	-	-	-	-	2,127,226	-	2,127,226
Cumulative translation adjustments	-	-	-	-	-	-	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	\$ 50,311	\$ 116,328,327
Appropriation and distribution of 2011 earnings:													
Legal reserve	-	-	-	1,362,307	(1,362,307)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(1,987,809)	(1,987,809)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(10,328,124)	-	-	-	-	(10,328,124)	-	(10,328,124)
Net income attributable to parent company for the year ended December 31, 2012	-	-	-	-	-	15,687,528	-	-	-	-	15,687,528	-	15,687,528
Shares issued to acquire new entities	2,017,679	-	54,880,856	-	-	-	-	-	-	-	56,898,535	-	56,898,535
Employee stock option distributed to subsidiaries' employees	-	-	49,661	-	-	-	-	-	-	-	49,661	-	49,661
Issuance of stock from exercising employee stock options	915	19	576	-	-	-	-	-	-	-	1,510	-	1,510
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	70,145	-	-	-	-	-	-	-	70,145	-	70,145
Disposal of equity investments accounted for using the equity method	-	-	(86,357)	-	-	-	-	-	-	-	(86,357)	-	(86,357)
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	-	657,151	-	657,151	-	657,151
Adjustment arising from changes in the percentage of ownership in investees	-	-	31,103	-	-	-	-	(10,503)	-	-	31,103	-	31,103
Net loss not recognized as pension cost	-	-	-	-	-	-	(3,508,761)	-	-	-	(3,508,761)	-	(3,508,761)
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase in minority interests	-	-	-	-	-	-	-	-	-	-	(16,102)	-	(16,102)
Balance as of December 31, 2012	\$ 13,493,702	\$ 102	\$ 79,551,866	\$ 23,072,429	\$ 2,210,312	\$ 62,539,888	\$ (5,762,265)	\$ (10,503)	\$ 700,343	\$ (55,970)	\$ 175,739,904	\$ 34,209	\$ 175,774,113

The accompanying notes are an integral part of the consolidated financial statements

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011
(Amounts in thousands of New Taiwan Dollars)

Description	2012	2011
Cash flows from operating activities :		
Consolidated net income	\$ 15,648,313	\$ 13,615,803
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,217,273	1,179,541
Amortization	2,479,182	1,549,783
Bad debt reversal	(81,003)	(62,871)
Provision (reversal) of sales returns and discounts	1,723,571	(152,716)
Employee stock options distributed	49,661	88,803
Amortization of financial assets discount or premium	376	2,524
Gain on recovery in market value and obsolescence of inventories	(1,548,304)	(1,202,475)
Net gain on equity investments	(1,074,451)	(124,047)
Net loss on disposal of property, plant and equipment	10,000	15,409
Net loss on disposal of intangible assets (included in other losses)	-	74
Gain on disposal of investments	(829,865)	(66,760)
Adjustment of valuation on financial assets and liabilities	(57,383)	95,474
Loss on impairment of financial assets	349,450	-
Cash dividends from equity investees	-	166,506
Deferred income tax	1,488	186,387
Employees' bonuses	895,875	1,714,243
Changes in operating assets and liabilities:		
Financial assets designated as at fair value through profit or loss	1,227,038	(577,460)
Accounts receivable	(1,264,043)	(50,626)
Receivables from related parties	23,567	(23,567)
Other receivables	(704,808)	(292,975)
Inventories	(2,914,583)	2,587,862
Prepayments	(450,832)	1,479,973
Other current assets	(119,134)	258,227
Deferred pension cost	(441)	-
Accounts payable	22,548	175,012
Payables to related parties	75,504	(70,224)
Income tax payable	371,647	(408,335)
Accrued expenses	(3,468,973)	(3,675,369)
Other payables	(33,000)	48,656
Current portion of long-term payables	10,924	2,953
Other current liabilities	(167,602)	119,852
Long-term payables	(34,032)	(5,126)
Accrued pension liabilities	19,645	83,490
Other liabilities-others	25,324	49,351
Net cash provided by operating activities	<u>11,402,932</u>	<u>16,707,372</u>
Cash flows from investing activities :		
(Increase) decrease in restricted assets	(100,215)	16,604
Increase in available-for-sale financial assets	(403,716)	(4,546,205)
Proceeds from disposal of available-for-sale financial assets	234,448	6,432,441
Increase in held-to-maturity financial assets	(319,768)	(876,548)
Proceeds from disposal of held-to-maturity financial assets	372,684	-
Increase in financial assets carried at cost	(948,441)	(1,058,547)
Proceeds from disposal of financial assets carried at cost	44,749	5,735
Proceeds from disposal of investments accounted for using the equity method	1,528,400	-
Increase in investments accounted for using the equity method	(278,382)	(201,769)
Net cash (outflows) inflows from acquisition of subsidiaries	(938,022)	4,040,514
Proceeds from equity investees' capital return	1,457	-
Increase in prepayment for long-term investments	-	(15,145)
Purchase of property, plant and equipment	(2,268,459)	(2,584,699)
Proceeds from disposal of property, plant and equipment	2,799	2,198
Increase in refundable deposits	59,038	10,248
Increase in intangible assets and deferred charges	(1,163,784)	(209,200)
Net cash (used in) provide by investing activities	<u>(4,177,212)</u>	<u>1,015,627</u>
Cash flows from financing activities :		
Increase in short-term loans	4,791,280	3,975,608
Increase in deposits received	24,057	5,176
Proceeds from exercise of employee stock options	1,510	3,494
Cash dividends	(10,328,124)	(21,999,457)
Cash dividends distributed to subsidiaries holding the Company's stock	70,145	155,881
Treasury stock repurchased	-	(2,109,914)
Change in minority interests	20,097	52,343
Net cash used in financing activities	<u>(5,421,035)</u>	<u>(19,916,869)</u>
Effect of exchange rate	<u>(1,758,913)</u>	<u>2,087,951</u>
Net increase (decrease) in cash and cash equivalents	45,772	(105,919)
Cash and cash equivalents at the beginning of the year	85,821,438	85,927,357
Cash and cash equivalents at the end of the year	<u>\$ 85,867,210</u>	<u>\$ 85,821,438</u>
Supplemental disclosures of cash flow information :		
Interest paid during the year	\$ 112,970	\$ 4,811
Income tax paid during the year	\$ 560,388	\$ 939,988
Activities partially affected cash flows :		
Purchase of property, plant and equipment	\$ (2,252,492)	\$ (2,577,504)
Add: decrease in payables to contractors and equipment suppliers	(15,967)	(7,195)
Cash paid for the purchase of property, plant and equipment	<u>\$ (2,268,459)</u>	<u>\$ (2,584,699)</u>
Non-cash activities :		
Shares issued to acquire new entities	\$ 56,898,535	\$ 12,814,375
Change in unrealized gain (loss) on financial instruments	\$ 657,151	\$ (139,416)
Adjustment of shareholders' equity from disposal of investments accounted for using the equity method	\$ (86,357)	-
Available-for-sales financial assets reclassified from investments accounted for using the equity method	<u>\$ 560,270</u>	<u>\$ -</u>

The accompanying notes are an integral part of the consolidated 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, 2012 and 2011, total numbers of employees of MTK and subsidiaries' were 6,999 and 6,880, 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 interest. The consolidated subsidiaries are listed as follows:

Company	Main Business	Percentage of Ownership		Note
		As of December 31, 2012	2011	
MediaTek Investment Corp.	General investing	100.00%	100.00%	-
Hsu-Ta Investment Corp.	General investing	100.00%	100.00%	1
Hsu-Chia Investment Limited	General investing	-	100.00%	1
Hsu-Kang Investment Limited	General investing	-	100.00%	1
Core Tech Resources Inc.	General investing	100.00%	100.00%	-
MediaTek Capital Corp.	General investing	100.00%	100.00%	-
RollTech Technology, Co. Ltd.	Software development	100.00%	100.00%	-
E-vehicle Semiconductor Technology Co. Ltd.	Research, manufacturing and sales	68.97%	68.97%	2
E-vehicle Holding Corp.	General investing	100.00%	-	3
E-vehicle Investment Limited	General investing	100.00%	-	4
E-vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	100.00%	-	5
Gaintech Co. Limited	General investing	100.00%	100.00%	-
MediaTek China Limited	General investing	100.00%	100.00%	-
MediaTek (Hefei) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Beijing) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Shenzhen) Inc.	Technology services	100.00%	100.00%	-

(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,		
			2012	2011	
	MediaTek (Chengdu) Inc.	Technology services	100.00%	100.00%	-
	MediaTek (Wuhan) Inc.	Technology services	100.00%	100.00%	-
	MediaTek (Shanghai) Inc.	Technology services	100.00%	100.00%	6
	MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100.00%	100.00%	7
	MTK Wireless Limited (UK)	Research	100.00%	100.00%	8
	MediaTek Wireless Limited (Ireland)	Research	-	100.00%	9
	MediaTek Denmark Aps	Research	100.00%	100.00%	8
	MTK Wireless L.L.C. (Dubai)	Technology services	100.00%	100.00%	-
	MediaTek USA Inc.	Research	100.00%	100.00%	10
	MediaTek Wireless, Inc. (USA)	Research	100.00%	100.00%	-
	MediaTek Japan Inc.	Technology services	100.00%	100.00%	-
	MediaTek India Technology Pvt. Ltd.	Research	100.00%	100.00%	-
	MediaTek Korea Inc.	Technology services	100.00%	100.00%	-
	Vogins Technology Co., Ltd.	General investing	79.51%	79.51%	-
	Vogins Technology (Shanghai) Co., Ltd.	Software development	100.00%	100.00%	-
	Hesine Technologies International Worldwide Inc.	General investing	64.86%	100.00%	11
	Hesine Technologies, Inc.	Technology services	100.00%	100.00%	12
	Gold Rich International (Samoa) Limited	General investing	100.00%	100.00%	13
	Smarthead Limited	General investing	100.00%	100.00%	14
	Gold Rich International (HK) Limited	General investing	100.00%	100.00%	15
	Lepower Limited	General investing	71.09%	71.09%	16
	Lepower (HK) Limited	General investing	100.00%	100.00%	17
	Lepower Technologies (Beijing) Inc.	Research, manufacturing and sales	100.00%	-	18
	Ralink Technology Corp.	Research, manufacturing and sales	100.00%	100.00%	19
	Ralink Technology (Singapore) Corp. Pte. Ltd.	General investing	-	100.00%	19&20
	T-Rich Technology (Cayman) Corp.	General investing	100.00%	100.00%	19
	T-Rich Technology Corp.	Research, manufacturing and sales	100.00%	100.00%	19
	Ralink Technology (Samoa) Corp.	General investing	100.00%	100.00%	19
	Ralink Technology Corporation (USA)	Research	100.00%	100.00%	10&19
	Shadow Investment Limited	General investing	100.00%	100.00%	19
	MediaTek (Suzhou) Inc.	Technology services	100.00%	100.00%	19
	MediaTek (Nanjing) Inc.	Technology services	100.00%	100.00%	19
	MediaTek Sweden AB	Research	100.00%	-	21

1. Hsu-Chia Investment Limited and Hsu-Kang Investment Limited were merged into Hsu-Ta Investment Limited on September 30, 2012. In addition, Hsu-Ta Investment Limited was reincorporated as a company limited by shares.
2. MediaTek Capital Corp. acquired E-vehicle Semiconductor Technology Co. Ltd. in May 2011.
3. E-vehicle Semiconductor Technology Co. Ltd. established E-vehicle Holding Corp. in September 2012.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

4. E-vehicle Holding Corp. established E-vehicle Investment Limited in September 2012.
5. E-vehicle Investment Limited established E-vehicle Semiconductor (Shanghai) Co., Ltd. in September 2012.
6. MediaTek China Limited established MediaTek (Shanghai) Inc. in January 2011.
7. MediaTek Inc. acquired 100% shares of MediaTek Singapore Pte. Ltd. from Gaintech Co. Limited in October 2012.
8. Gaintech Co. Limited acquired 100% shares of MTK Wireless Limited (UK) and MediaTek Denmark Aps from MediaTek Singapore Pte. Ltd. in August 2012.
9. MediaTek Wireless Limited (Ireland) has been liquidated in December 2012.
10. MediaTek USA Inc. issued new shares to acquire 100% shares of Ralink Technology Corporation's subsidiary - Ralink Technology Corporation (USA) in October 2011.
11. Gaintech Co. Limited disposed of 35.14% shares of Hesine Technologies International Worldwide Inc. in October 2012. Therefore, the percentage of ownership of Hesine Technologies International Worldwide Inc. decreased to 64.86%.
12. Hesine Technologies International Worldwide Inc. invested in Hesine Technologies, Inc. in July 2011.
13. Gaintech Co. Limited established Gold Rich International (Samoa) Limited in May 2011.
14. Gaintech Co. Limited established Smarthead Limited in June 2011.
15. Gold Rich International (Samoa) Limited established Gold Rich International (HK) Limited in May 2011.
16. Gaintech Co. Limited established Lepower Limited in July 2011.
17. Lepower Limited established Lepower (HK) Limited in July 2011.
18. Lepower (HK) Limited established Lepower Technologies (Beijing) Inc. in February 2012.
19. MTK issued new shares to exchange 100% shares of Ralink Technology Corp. in October 2011 and acquired all its subsidiaries: T-Rich Technology (Cayman) Corp., T-Rich Technology Corp., Ralink Technology (Singapore) Corp. Pte. Ltd, Ralink Technology Corporation (USA), Ralink Technology (Samoa) Corp., Shadow Investment Limited, MediaTek (Suzhou) Inc., and MediaTek (Nanjing) Inc. The record date of shares exchange was set on October 1, 2011, and accordingly Ralink Technology Corp. and its subsidiaries were included in MTK's 2011 consolidated financial statements. After the acquisition, the Company conducted a group reorganization by attaching Ralink Technology (Samoa) Corp., Shadow Investment Limited, MediaTek (Suzhou) Inc. and MediaTek (Nanjing) Inc. to Gaintech Co. Limited as its subsidiaries.
20. Ralink Technology (Singapore) Corp. Pte. Ltd. has entered the process of liquidation since July 2012. The liquidation was complete in January 2013.
21. Gaintech Co. Limited acquired 100% shares of MediaTek Sweden AB in April 2012.

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

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

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 using 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 5	Years
Testing equipment	3 to 5	Years
Miscellaneous equipment	2 to 5	Years

- B. Improvements and replacements are capitalized and depreciated over their estimated useful lives while ordinary repairs and maintenance are expensed as incurred.
- C. When property, plant and equipment are disposed of, their original cost, accumulated depreciation and accumulated impairment are written off and related gains or losses are included as non-operating income or expenses.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Intangible Assets

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

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

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

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

Deferred Assets

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

Asset Impairment

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

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 a specific rate 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 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 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 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 shareholders' 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 shareholders' 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.

Employees' 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, employees' 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 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 the Company's 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", 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,	
	2012	2011
Petty cash	\$1,010	\$2,020
Savings and checking accounts	9,763,010	11,069,943
Time deposits	76,103,190	74,749,475
Total	<u>\$85,867,210</u>	<u>\$85,821,438</u>

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

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

a. Held-for-trading financial assets-current

	As of December 31,	
	2012	2011
Forward exchange contracts	<u>\$244</u>	<u>\$66</u>

b. Held-for-trading financial liabilities-current

	As of December 31,	
	2012	2011
Forward exchange contracts	<u>\$2,638</u>	<u>\$-</u>

The Company entered into derivative contracts during the years ended December 31, 2012 and 2011 to manage exposures to foreign exchange rate changes. The derivative contracts entered into by the Company did not meet the criteria of hedge accounting prescribed by SFAS No. 34. Therefore, they were recorded as the held-for-trading financial assets and liabilities-current. Please refer to Note 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, 2012 and 2011 were as follows:

(a) As of December 31, 2012:

Held-for-trading financial assets

<u>Financial instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (USD'000)</u>
Forward exchange contracts	Sell USD	January 2013	26,000

Held-for-trading financial liabilities

<u>Financial instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (USD'000)</u>
Forward exchange contracts	Sell USD	January 2013	43,000

(b) As of December 31, 2011:

Held-for-trading financial assets

<u>Financial instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (USD'000)</u>
Forward exchange contracts	Sell USD	January 2012	14,000

For the years ended December 31, 2012 and 2011, gain (loss) arising from the forward exchange contracts and the cross currency swap contracts were NT\$17,638 thousand and NT\$(37,947) thousand, respectively.

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

	As of December 31,	
	<u>2012</u>	<u>2011</u>
Convertible bonds	\$-	\$103,510
Credit-linked deposits	281,259	-
Interest rate-linked deposits	348,409	1,513,840
Total	<u>\$629,668</u>	<u>\$1,617,350</u>

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

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

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

	As of December 31,	
	2012	2011
Funds	\$2,567,128	\$2,371,197
Bonds	81,990	117,721
Depository receipts (Note)	20,808	56,436
Common shares (Note)	1,109,087	-
Total	<u>\$3,779,013</u>	<u>\$2,545,354</u>

Note: The Company recognized an impairment loss of NT\$84,998 thousand for the year ended December 31, 2012 due to a prolonged market value decline.

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

	As of December 31,	
	2012	2011
Interest rate-linked deposits	<u>\$-</u>	<u>\$48,126</u>

(6) Accounts Receivable-Net

	As of December 31,	
	2012	2011
Accounts receivable	\$8,789,171	\$7,926,274
Less: Allowance for sales returns and discounts	(2,041,702)	(318,131)
Allowance for doubtful accounts	(162,859)	(247,826)
Net	<u>\$6,584,610</u>	<u>\$7,360,317</u>

The Company entered into several factoring agreements without recourse with financial institutions. According to those agreements, the Company does not take the risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related accounts receivable after deducting the estimated value of commercial disputes. The Company has not withdrawn cash entitled by the factoring agreements from banks as of December 31, 2012 and 2011. Receivables from banks due to factoring agreement were NT\$2,540,784 thousand and NT\$2,138,876 thousand, respectively.

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

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

(a) As of December 31, 2012:

The Factor (Transferee)	Interest rate	Accounts receivable derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International					
Bank	-	71,699	-	71,699	154,869
BNP Paribas	-	15,272	-	15,272	100,000
HSBC	-	233	-	233	468
Total		87,204	-	87,204	255,337

(b) 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	-	45,717	-	45,717	129,946
BNP Paribas	-	24,896	-	24,896	65,000
Total		70,613	-	70,613	194,946

(7) Other Receivables

	As of December 31,	
	2012	2011
Interest receivable	\$568,876	\$325,791
Withholding tax and VAT refundable	698,783	527,001
Receivables from disposal of investment	1,000,000	-
Others	2,867,954	2,174,212
Total	\$5,135,613	\$3,027,004

As of December 31, 2012 and 2011, receivables from banks due to factoring agreement were NT\$2,540,784 thousand and NT\$2,138,876 thousand, respectively. Please refer to Note 4(6).

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

(8) Inventories-Net

	As of December 31,	
	2012	2011
Materials	\$3,452	\$-
Work in process	9,979,682	7,499,193
Finished goods	5,855,477	5,424,535
Subtotal	15,838,611	12,923,728
Less: Allowance for loss on decline in market value and obsolescence	(1,971,300)	(3,531,446)
Net	<u>\$13,867,311</u>	<u>\$9,392,282</u>

a. As of December 31, 2012 and 2011, the circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed. As a result, the Company recognized a reversal gain which was included in cost of goods sold in the amount of NT\$1,548,304 thousand and NT\$1,202,475 thousand for the years ended December 31, 2012 and 2011, respectively.

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

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

	As of December 31,	
	2012	2011
Bonds	\$-	\$119,000
Interest rate-linked deposits	526,468	878,944
Credit-linked deposits	546,508	514,412
Exchange rate-linked deposits	411,529	226,981
Total	<u>\$1,484,505</u>	<u>\$1,739,337</u>

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

	As of December 31,	
	2012	2011
Funds	\$2,475,193	\$2,021,006
Bonds	731,702	789,662
Total	<u>\$3,206,895</u>	<u>\$2,810,668</u>

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

	As of December 31,	
	2012	2011
Bonds	\$796,860	\$828,422

(12) Financial Assets Carried at Cost-Noncurrent

	As of December 31,	
	2012	2011
Non-publicly traded stocks (Note)	\$1,255,630	\$1,352,886
Capitals	1,213,743	850,986
Total	\$2,469,373	\$2,203,872

For the years ended December 31, 2012, the Company increased its investment in Shenzhen Goodix Technology Ltd. by NT\$55,369 thousand and acquired the significant influence over the investee. Therefore, the Company reclassified the investment from financial assets carried at cost to investments accounted for using the equity method in the aggregate amount of NT\$113,641 thousand. Please refer to Note 4(14).

The common shares of China Mobile Games and Entertainment Group Limited have been listed on the NASDAQ since September 2012. Therefore, the Company reclassified the investment from financial assets carried at cost to available-for-sale financial assets-current in the amount of NT\$203,952 thousand.

Note: The Company recognized an impairment loss of NT\$264,452 thousand for the year ended December 31, 2012 due to a prolonged market value decline.

(13) Bond Portfolios with No Active Market

	As of December 31,	
	2012	2011
Series B preferred stock	\$-	\$1,000,000
Less: Current portion	-	(1,000,000)
Total	\$-	\$-

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- a. 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.
- b. The series B preferred stocks matured in December 2012. The redemption price NT\$1,000,000 thousand has been received in January 2013 and recorded as other receivables as of December 31, 2012.

(14) Investments Accounted for Using the Equity Method

a.

Investee Company	As of December 31, 2012			
	Type	Share/unit	Amount	Ownership
Airoha Technology, Inc.	Common share	13,391,734	\$225,037	38.61%
Shenzhen Goodix Technology Ltd.	Common share	17,806,125	329,543	23.74%
MStar Semiconductor, Inc. (Cayman)	Common share	254,115,685	56,379,563	48.00%
Others			228,556	
Total			<u>\$57,162,699</u>	

Investee Company	As of December 31, 2011			
	Type	Share/unit	Amount	Ownership
ALi Corporation	Common share	64,099,738	\$1,422,697	21.09%
Airoha Technology, Inc.	Common share	13,391,734	209,299	38.99%
Others			202,668	
Total			<u>\$1,834,664</u>	

- b. For the years ended December 31, 2012 and 2011, the Company recognized an investment gain accounted for using the equity method in the amount of NT\$1,074,451 thousand and NT\$124,047 thousand, respectively.
- c. For the year ended December 31, 2012, the Company invested Shenzhen Goodix Technology Ltd. which was reclassified from financial assets carried at cost-noncurrent in the amount of NT\$113,641 thousand.

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

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

e. In 2012, MTK totally acquired 254,115,685 shares (48% of MStar's outstanding shares) of MStar Semiconductor, Inc. (Cayman) through a tender offer. The price of the tender offer was 1 MStar share in exchange for 0.794 share of MTK's common stock plus NT\$1 in cash. MTK aggregately issued 201,767,854 new shares and paid NT\$254,116 thousand in cash for this tender offer.

f. Investments mentioned above were not pledged as of December 31, 2012 and 2011.

(15) Property, Plant and Equipment

a. No interest was capitalized for the years ended December 31, 2012 and 2011.

b. Property, plant and equipment were not pledged as of December 31, 2012 and 2011.

(16) Intangible Assets

	For the year ended December 31, 2012			
	Trademarks	Software	Patents, IPs and Others	Total
Original cost				
Balance at beginning of period	\$32,300	\$892,000	\$6,670,723	\$7,595,023
Increase - separately acquired	-	91,045	1,080,050	1,171,095
Increase - through business combination	-	-	443,479	443,479
Elimination and others	685	22,022	5,843	28,550
Balance at end of period	32,985	1,005,067	8,200,095	9,238,147
Accumulated amortization				
Balance at beginning of period	(4,852)	(612,576)	(4,255,323)	(4,872,751)
Increase - amortization	(13,194)	(221,185)	(2,243,701)	(2,478,080)
Elimination and others	-	4,956	(88)	4,868
Balance at end of period	(18,046)	(828,805)	(6,499,112)	(7,345,963)
Net	\$14,939	\$176,262	\$1,700,983	\$1,892,184

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, 2011			
	Trademarks	Software	Patents, IPs and Others	Total
Original cost				
Balance at beginning of period	\$-	\$2,712,581	\$9,034,111	\$11,746,692
Increase - separately acquired	-	136,319	57,387	193,706
Increase - through business combination	32,300	89,390	1,240,595	1,362,285
Elimination and others	-	(2,046,290)	(3,661,370)	(5,707,660)
Balance at end of period	32,300	892,000	6,670,723	7,595,023
Accumulated amortization				
Balance at beginning of period	-	(2,379,528)	(6,657,958)	(9,037,486)
Increase - amortization	(4,852)	(282,145)	(1,262,786)	(1,549,783)
Elimination and others	-	2,049,097	3,665,421	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

(17) Accrued Pension Liabilities

a. MTK and its domestic subsidiaries adopted a defined benefit pension plan. 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\$71,612 thousand and NT\$69,213 thousand as of December 31, 2012 and 2011, respectively.

(b) The components of net pension cost under the Labor Standards Law were shown as follows:

	For the years ended December 31,	
	2012	2011
Service cost	\$2,323	\$2,990
Interest cost	9,647	11,761
Expected return on plan assets	(1,375)	(1,028)
Amortization and deferral	11,268	18,698
Net pension cost	\$21,863	\$32,421

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,	
	2012	2011
Benefit obligations		
Vested benefit obligation	\$(6,746)	\$-
Non-vested benefit obligation	(279,424)	(227,157)
Accumulated benefit obligation	(286,170)	(227,157)
Effect of projected future salary increase	(304,084)	(255,190)
Projected benefit obligation	(590,254)	(482,347)
Fair value of plan assets	71,612	69,213
Funded status of pension plan	(518,642)	(413,134)
Unrecognized net transitional obligation	1,757	2,066
Unrecognized loss	363,821	278,066
Others	(63,796)	(53,710)
Accrued pension liabilities	<u>\$(216,860)</u>	<u>\$(186,712)</u>
	(Note)	(Note)

Note: As of December 31, 2012 and 2011, the accrued pension liabilities included prepaid pension cost NT\$3,223 thousand and NT\$3,826 thousand, respectively, which were classified as other assets - others.

(d) The vested benefits were NT\$7,964 thousand and nil as of December 31, 2012 and 2011, respectively.

(e) The underlying actuarial assumptions

	For the years ended December 31,	
	2012	2011
Discount rate	1.75%	2.00%
Rate of increase in future compensation levels	3.00%	3.00%
Expected long-term rate of return on plan assets	1.75%	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\$580,480 thousand and NT\$461,111 thousand for the years ended December 31, 2012 and 2011, respectively.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(18) Short-Term Loans

	As of December 31,	
	2012	2011
Unsecured bank loans	\$8,880,430	\$4,089,150
Interest rate	0.49~1.10%	1.25~1.50%

(19) Long-Term Payables

Item	Period	As of December 31,		Installment Payment
		2012	2011	
Royalty payables	January 2011- December 2016	\$142,766	\$165,743	Repayable in 24 quarterly installments.
Less: Current portion		(29,136)	(18,081)	
Net		\$113,630	\$147,662	

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

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

(20) Capital

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

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

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

In 2011, MTK issued and registered 17,339 new shares at par value of NT\$10 for the employee stock options exercised.

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

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

The board of directors approved a tender offer to acquire shares of MStar Semiconductor, Inc. ("MStar") on June 22, 2012. MTK totally issued 201,767,854 new shares at par value of NT\$10 to acquire 48% shares of MStar. The government approval has been successfully obtained.

For the year ended December 31, 2012, MTK issued 93,449 new shares at par value of NT\$10 for the employee stock options exercised. Among those new shares, 10,225 shares (NT\$102 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance.

As of December 31, 2012, the authorized and issued common shares of MTK amounted to NT\$20,000,000 thousand and NT\$13,493,702 thousand, divided into 2,000,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,349,370,189 shares, respectively, each share at par value of NT\$10. Capital collected in advance was NT\$102 thousand.

(21) Legal Reserve

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

(22) Capital Reserve

	As of December 31,	
	2012	2011
Additional paid-in capital	\$78,042,994	\$23,161,573
Treasury stock transaction	1,011,446	941,301
Donated assets	1,260	1,260
Long-term investment transaction	170,123	225,366
Employee stock option	326,043	276,382
Total	\$79,551,866	\$24,605,882

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

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

(23) Employee Stock Options

a. In December 2007, July 2009, May 2010, August 2011 and August 2012, MTK was authorized by the Financial Supervisory Commission, Executive Yuan, to issue employee stock options of 5,000,000 units, 3,000,000 units, 3,500,000 units, 3,500,000 and 3,500,000 units, respectively, each unit 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 shares listed on the TWSE on the grant date.

Detail 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	447,964	447,964	\$358.0
2008.08.28	1,640,285	724,729	724,729	344.5
2009.08.18	1,382,630	733,613	733,613	431.0
2010.08.27	1,605,757	965,055	965,055	404.8
2010.11.04	65,839	17,714	17,714	377.0
2011.08.24	2,109,871	1,839,262	1,839,262	277.4
2012.08.14	1,346,795	1,317,156	1,317,156	286.8

Note: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash, the appropriations of earnings, issuance of new shares in connection with merger, or issuance of new shares to acquire shares of other companies) 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, 2012 and 2011, compensation costs recognized were NT\$49,661 thousand and NT\$88,803 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

	Employee Stock Option
Expected dividend yield	3.07%~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 years ended December 31,			
	2012		2011	
Employee Stock Option	Options (Unit)	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Outstanding at beginning of period	5,198,793	\$359.6	4,327,687	\$416.0
Granted	1,346,795	286.8	2,109,871	280.0
Exercised	-	-	(9,062)	368.8
Forfeited (Expired)	(500,095)	337.6	(1,229,703)	399.9
Outstanding at end of period	<u>6,045,493</u>	332.7	<u>5,198,793</u>	359.6
Exercisable at end of period	<u>1,910,836</u>		<u>992,366</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$90.5</u>		<u>\$56.5</u>	

The information regarding MTK's outstanding stock options as of December 31, 2012 is disclosed as follows:

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

	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	\$344.5~358.0	1,172,693	2.01	\$364.9	1,172,693	\$349.7
Stock option plan of 2009	431.0	733,613	3.13	460.6	441,480	431.0
Stock option plan of 2010	377.0~404.8	982,769	4.17	429.2	296,663	404.3
Stock option plan of 2011	277.4	1,839,262	5.17	280.0	-	-
Stock option plan of 2012	286.8	<u>1,317,156</u>	6.13	291.0	-	-
		<u>6,045,493</u>		332.7	<u>1,910,836</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 the changes: a) the underlying shares have been changed to MTK's shares; and b) the number of shares each option can subscribe for has been changed according to the share exchange ratio stated in the share swap agreement.

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

Date of grant	Total number of options granted	Total number of options outstanding on the shares exchange date	Total number of options outstanding translated by share exchange ratio on the shares exchange date	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2006.06.30	91,000	1,575	499	-	-	\$14.3
2006.09.30	599,500	9,763	3,092	-	-	14.3
2006.12.31	78,000	3,936	1,247	-	-	14.3
2007.03.31	273,000	11,967	3,791	-	-	15.7
2007.06.30	150,000	32,879	10,416	2,394	2,394	15.7
2007.09.30	560,000	149,568	47,368	12,657	12,657	15.7
2007.12.30	17,000	944	299	-	-	15.7
2007.12.31	1,000,000	277,490	87,895	37,432	37,432	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, 2012	
Employee Stock Option	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Outstanding at beginning of period	144,735	\$16.3
Granted	-	-
Exercised	(92,252)	16.2
Forfeited (Expired)	-	-
Outstanding at end of period	<u>52,483</u>	16.4
Exercisable at end of period	<u>52,483</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$-</u>	

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					
2007.01.29	\$15.7	15,051	-	\$15.7	15,051 \$15.7
2007.10.30	16.7	37,432	-	16.7	37,432 16.7
		<u>52,483</u>		16.4	<u>52,483</u>

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(24) Earnings Distribution and Dividends Distribution Policy

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

- a. Income tax obligation;
- b. Offsetting accumulated deficits, if any;
- c. Legal reserve at 10% of net income after tax; where such legal reserve amounts to the total authorized capital, this provision shall not apply.
- d. Special reserve in compliance with the Company Law or the Securities and Exchange Law;
- e. Remuneration for directors and supervisors to a maximum of 0.5% of the remaining current year's earnings after deducting item (a) through (d). Remuneration for directors and supervisors' services is limited to cash payments.
- f. The remaining after all above appropriations and distributions, combining with undistributed earnings from prior years, shall be fully for shareholders' dividends and employees' bonuses and may be retained or distributed proportionally. The portion of employees' bonuses may not be less than 1% of total earnings resolved to distribute for shareholders' dividends and employees' bonuses. Employees' bonuses may be distributed in the form of shares or cash, or a combination of both. Employees' of MTK's subsidiaries, meeting certain requirements determined by the board of directors, are also eligible for the employees' stock 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, 2012 and 2011, the amounts of the employees' bonuses were estimated to be NT\$895,875 thousand and NT\$1,714,243 thousand, respectively. During the years ended December 31, 2012 and 2011, the amounts of remunerations to directors and supervisors were estimated to be NT\$24,421 thousand and NT\$24,687 thousand, respectively. Employees' bonuses were estimated based on a specific rate of net income for the years ended December 31, 2012 and 2011 (excluding the impact of employees' bonuses) while remunerations to directors and supervisors were estimated based on MTK's Articles of Incorporation. Estimated amount of employees' 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 and 2010 were resolved by the board of directors' meeting on March 21, 2012 and March 16, 2011, while the appropriations of earnings for 2011 and 2010 were resolved by the shareholders' general meeting on June 13, 2012 and June 15, 2011. The amounts resolved in the shareholders' general meeting were consistent with those determined by the board of directors. The details of the distribution are as follows:

	<u>For the years ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Directors' and supervisors' remuneration	\$28,497	\$48,045
Employees' bonuses-cash	\$1,714,243	\$3,863,296
Cash dividends	\$10,328,124	\$21,999,457

The difference between the resolution of the shareholders' general meeting and the estimated expense of the directors' and supervisors' remuneration and the employees' bonuses for 2011 are as follows:

<u>Appropriations</u>	<u>The amount resolved by the shareholders' general meeting</u>	<u>Expense estimated</u>	<u>Difference</u>	<u>Difference reasons and the accounting treatment</u>
Employees' bonuses-cash	\$1,714,243	\$1,714,243	\$-	-
Directors' and supervisors' remuneration	\$28,497	\$24,687	\$3,810	(Note)

Note: The difference, which was resulted from different calculation basis between the original accrual and the amount actually paid, was included in the profit or loss in 2012.

The appropriation of earnings for 2012 was not resolved by the board of directors' meeting up to March 29, 2013. The information about the appropriations of earnings which were resolved by the board of directors' meeting and the shareholders' meeting is available at the Market Observation Post System website.

(25) Treasury Stock

a. Changes in treasury stock during the years ended December 31, 2012 and 2011 are as follows:

(a)

(i) For the year ended December 31, 2012

None

(ii) For the year ended December 31, 2011

(In thousands of shares)

<u>Purpose</u>	<u>January 1, 2011</u>	<u>Increase</u>	<u>Retire</u>	<u>December 31, 2011</u>
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 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 purchased during 2011 were fully retired 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 subsidiaries are accounted for as treasury stock. Details of MTK's shares owned by subsidiaries are shown as follows:

Owner	January 1, 2012		Additions		Disposal			December 31, 2012		
	Shares	Amount	Shares	Amount	Shares	Amount	Price	Shares	Amount	Market Value
MediaTek Capital Corp.	7,794,085	\$55,970	-	\$-	-	\$-	\$-	7,794,085	\$55,970	\$2,521,386

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

(26) Net Sales

	For the years ended December 31,	
	2012	2011
Revenues from sales of multimedia and cell phone chipsets	\$111,230,467	\$90,908,686
Other operating revenues	784,272	571,448
Subtotal	112,014,739	91,480,134
Less: Sales returns	(44,482)	(44,450)
Sales discounts	(12,707,097)	(4,578,190)
Net Sales	\$99,263,160	\$86,857,494

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(27) Personnel, Depreciation and Amortization Expenses

	For the years ended December 31,					
	2012			2011		
	Recorded under cost of goods sold	Recorded under operating expenses	Total	Recorded under cost of goods sold	Recorded under operating expenses	Total
Personnel Expense						
Salaries & wages	\$195,147	\$13,334,687	\$13,529,834	\$232,890	\$13,552,763	\$13,785,653
Insurance	12,838	673,106	685,944	10,649	561,260	571,909
Pension	11,804	590,539	602,343	11,968	534,789	546,757
Others	5,279	571,517	576,796	4,749	444,961	449,710
Total	\$225,068	\$15,169,849	\$15,394,917	\$260,256	\$15,093,773	\$15,354,029
Depreciation	\$2,857	\$1,214,416	\$1,217,273	\$4,970	\$1,174,571	\$1,179,541
Amortization	\$246	\$2,478,936	\$2,479,182	\$830	\$1,548,953	\$1,549,783

(28) Income Tax

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

	For the years ended December 31,	
	2012	2011
Income tax payable	\$242,934	\$234,463
Additional income tax under Alternative Minimum Tax Act	525,223	75,275
10% surtax on undistributed earnings	392,045	202,285
Investment tax credits	(392,045)	(202,285)
Deferred income tax effects		
Investment tax credits	2,957,885	1,606,729
Valuation allowance	(3,702,646)	(1,081,001)
Others	746,249	(339,341)
Others	201,599	91,323
Income tax expense from continuing operations	\$971,244	\$587,448

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,			
	2012		2011	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets				
Recognition of unrealized allowance				
for inventory obsolescence	\$1,647,040	\$279,997	\$3,185,622	\$541,556
Exceed the limitation of allowance for				
bad debt	-	-	401,736	68,295
Unrealized technology license fee	1,943,916	330,466	1,608,313	273,413
Unrealized foreign exchange loss	61,598	10,472	30,496	5,184
Unrealized allowance for sales				
discounts	1,977,745	336,217	-	-
Unrealized loss on asset impairment	732,179	124,470	737,807	125,427
Unrealized loss on valuation of				
financial assets	2,394	407	-	-
Loss carryforwards-domestic	162,539	27,631	122,450	20,817
-foreign		333,141		382,805
Investment tax credits-domestic		4,241,929		7,175,211
-foreign		274,724		299,327
Others		306,351		492,213
Deferred income tax assets		6,265,805		9,384,248
Valuation allowance for deferred				
income tax assets		(5,274,540)		(8,977,186)
Net deferred income tax assets		991,265		407,062
Deferred income tax liabilities				
Unrealized bad debt allowance	(18,035)	(3,066)	-	-
Unrealized gain on valuation of				
financial assets	-	-	(65)	(11)
Unrealized pension expenses	(3,223)	(548)	(3,826)	(650)
Unrealized foreign exchange gain	(28,057)	(4,770)	-	-
Unrealized amortization of intangible				
assets	(6,179,544)	(1,050,522)	(4,536,621)	(771,226)
Others		(303,841)		(5,169)
Deferred income tax liabilities		(1,362,747)		(777,056)
Net deferred income tax assets and				
liabilities		\$ (371,482)		\$ (369,994)

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

	As of December 31,	
	2012	2011
Deferred income tax assets-current	\$5,496,627	\$3,555,797
Valuation allowance for deferred income tax assets-current	(4,950,079)	(3,329,687)
Net deferred income tax assets-current	546,548	226,110
Deferred income tax liabilities-current	(27,940)	(5,170)
Net deferred income tax assets and liabilities-current	<u>\$518,608</u>	<u>\$220,940</u>
	As of December 31,	
	2012	2011
Deferred income tax assets-noncurrent	\$769,178	\$5,828,451
Valuation allowance for deferred income tax assets-noncurrent	(324,461)	(5,647,499)
Net deferred income tax assets-noncurrent	444,717	180,952
Deferred income tax liabilities-noncurrent	(1,334,807)	(771,886)
Net deferred income tax assets and liabilities-noncurrent	<u>\$(890,090)</u>	<u>\$(590,934)</u>

- c. Pursuant to Article 9-2 of the “Statute for Upgrading Industries”, MTK and subsidiary - Ralink Technology Corp. are qualified as a technical service industry and is therefore entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. MTK has elected the tax exemption periods from January 1, 2009 through December 31, 2013, January 1, 2010 through December 31, 2014 and January 1, 2011 through December 31, 2015. The subsidiary, Ralink Technology Corp. has elected the tax exemption periods from March 1, 2007 through February 29, 2012 and January 1, 2012 through December 31, 2016.
- d. The Company is not allowed to file consolidated income tax returns.
- e. MTK’s income tax returns for all the fiscal years up to 2009 have been assessed by the tax authorities. For the 2009 return, the tax authorities have assessed additional taxes. The discrepancy between the MTK’s tax return filing and the result of tax authority’s assessment was mainly due to different interpretations by applying rules. Although MTK has vigorously filed several administrative appeals to tax authorities and courts, MTK has paid the amount in full. The income tax returns for all the fiscal years up to 2009 of the subsidiary - Ralink Technology Corp. have been assessed by the tax authorities. The income tax returns for all the fiscal years up to 2010 of the subsidiary - T-Rich Technology Corp. have been assessed by the tax authorities.

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. The loss carryforwards of subsidiaries - T-Rich Technology Corp. and E-vehicle Semiconductor Technology Co. Ltd. as of December 31, 2012 are as follows:

Total loss carryforward	Unused amount	Year expired
\$556	\$556	2019
58,021	58,021	2020
76,808	76,808	2021
27,154	27,154	2022
<u>\$162,539</u>	<u>\$162,539</u>	

g. MTK and subsidiary - Ralink Technology Corp.'s available investment tax credits as of December 31, 2012 are as follows:

Total credit amount	Unused amount	Year expired
<u>\$4,280,344</u>	<u>\$4,241,929</u>	2013

h. Integrated income tax information

	As of December 31,	
	2012	2011
Balance of the imputation credit account (ICA)	<u>\$1,207,765</u>	<u>\$1,260,691</u>
Expected (Actual) creditable ratio	<u>2.87%(Note)</u>	<u>2.56%</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, 2012.

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

(29) Earnings Per Share

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

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 (NT\$)	
	Before tax	After tax		Before tax	After tax
	For the year ended December 31, 2012				
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$16,658,772	\$15,687,528	1,216,422,577	\$13.69	\$12.90
Effect of dilutive potential common shares:					
Bonuses to employees	-	-	5,891,802		
Stock options to employees	-	-	194,395		
Diluted EPS	\$16,658,772	\$15,687,528	1,222,508,774	\$13.63	\$12.83
Consolidated net income attributable to minority interests					
Basic EPS					
Net income	\$(39,215)	\$(39,215)	1,216,422,577	\$(0.03)	\$(0.03)
Effect of dilutive potential common shares:					
Bonuses to employees	-	-	5,891,802		
Stock options to employees	-	-	194,395		
Diluted EPS	\$(39,215)	\$(39,215)	1,222,508,774	\$(0.03)	\$(0.03)
For the year ended December 31, 2011					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$14,210,518	\$13,623,070	1,103,110,322	\$12.88	\$12.35
Effect of dilutive potential common shares:					
Bonuses to employees	-	-	12,326,822		
Stock options to employees	-	-	133,816		
Diluted EPS	\$14,210,518	\$13,623,070	1,115,570,960	\$12.74	\$12.21
Consolidated net income attributable to minority interests					
Basic EPS					
Net income	\$(7,267)	\$(7,267)	1,103,110,322	\$(0.01)	\$(0.01)
Effect of dilutive potential common shares:					
Bonuses to employees	-	-	12,326,822		
Stock options to employees	-	-	133,816		
Diluted EPS	\$(7,267)	\$(7,267)	1,115,570,960	\$(0.01)	\$(0.01)

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
Airoha Technology Corp. (“Airoha”)	Equity investee
ALi Corporation (“ALi”)	Equity investee (Note)
JMicron Technology Corporation (“JMicon”)	MTK’s chairman doubles as JMicon’s chairman
Andes Technologies, Inc. (“Andes”)	MTK’s chairman doubles as Andes’s chairman
Directors, supervisors and key managers	The Company’s major managers

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

(2) Major transactions with related parties

a. Sales

	For the years ended December 31,			
	2012		2011	
	Amount	% of net sales	Amount	% of net sales
ALi	\$-	-	\$95,693	0.11
Airoha	874	-	-	-
Total	\$874	-	\$95,693	0.11

For the years ended December 31, 2012 and 2011, the trade credit terms for related parties and third-party customers were both 45 to 60 days. Third-party customers may prepay their accounts in advance. The Company’s sales to ALi were royalty revenues, which were charged based on the royalty agreements with ALi.

b. IC testing, experimental services and manufacturing technology services

	Transactions	For the years ended December 31,	
		2012	2011
King Yuan	IC testing, experimental services, and manufacturing technology services	\$4,936,842	\$4,651,285

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

c. Rental income and related other receivables

	Rental Income		Other Receivables	
	For the years ended December 31,		As of December 31,	
	2012	2011	2012	2011
JMicron	\$8,759	\$8,969	\$766	\$327
Andes	114	-	-	-
Airoha	57	-	30	-
	<u>\$8,930</u>	<u>\$8,969</u>	<u>\$796</u>	<u>\$327</u>

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

(3) Receivables and payables resulted from the above transactions

a. Receivables to related parties

	As of December 31,			
	2012		2011	
	Amount	%	Amount	%
ALi	<u>\$-</u>	<u>-</u>	<u>\$23,567</u>	<u>0.32</u>

b. Payables to related parties

	As of December 31,			
	2012		2011	
	Amount	%	Amount	%
King Yuan	<u>\$1,003,337</u>	<u>11.09</u>	<u>\$958,936</u>	<u>10.63</u>

c. Remunerations paid to major managers

	For the years ended December 31,	
	2012	2011
Salaries, rewards, compensation, special allowances and bonuses	<u>\$205,880(Note)</u>	<u>\$232,671</u>

Note: The 2012 employee bonus was not included as it has not been resolved.

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 CONSOLIDATED 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, 2012**

	<u>Amount</u>	<u>Party to which assets was pledged</u>	<u>Purpose of pledge</u>
Restricted deposits-current	\$6,917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,067	Customs Office	Customs clearance deposits
Restricted deposits-current	102,000	Institute for Information Industry	Project performance deposits
Restricted deposits-current	1,547	Danske Bank	Credit guarantee
Restricted deposits-current	67	Customs Office	Customs clearance deposits
Restricted deposits-noncurrent	267	Citibank	Customs clearance deposits
Restricted deposits-noncurrent	133	Citibank	Lease execution deposits
Total	<u>\$113,998</u>		

(2) As of December 31, 2011

	<u>Amount</u>	<u>Party to which assets was pledged</u>	<u>Purpose of pledge</u>
Restricted deposits-current	\$6,917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,030	Customs Office	Customs clearance deposits
Restricted deposits-current	3,165	Danske Bank	Credit guarantee
Restricted deposits-noncurrent	71	Customs Office	Customs clearance deposits
Restricted deposits-noncurrent	600	Citibank	Customs clearance deposits
Total	<u>\$13,783</u>		

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

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

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

- b. Freescale Semiconductor, Inc. ("Freescale") filed a complaint with the U.S. International Trade Commission against MTK and two other Respondents on June 8, 2011 alleging infringement of United States Patents No. 5,467,455. Freescale alleged that MTK's DTV chips infringe its patent and sought to prevent the accused products from being imported into the United States.

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

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

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

Freescale filed a complaint in the U.S. International Trade Commission against MTK and thirteen other Respondents on November 30, 2011 alleging infringement of United States Patent No. 5,467,455. Freescale alleged that MTK's DTV chips infringe its patent and sought to prevent the accused products from being imported into the United States. U.S. International Trade Commission issued an Initial Determination for the above referenced matter on September 28, 2012, granting MTK and other Respondents' request to terminate this investigation. On October 31, 2012, the U.S. International Trade Commission issued a Notice of its affirmation of the Initial Determination, formally terminating this investigation.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Additionally, Freescale filed a complaint in the United States District Court for the Western District of Texas against MTK on July 6, 2012 alleging infringement of United States Patent Nos. 6,920,316, 5,825,640, 5,943,274. Freescale alleged that MTK's DTV chips infringe its patents and sought damages and an injunction to prevent the accused products from being sold in the future.

- c. LSI Corporation ("LSI") and Agere Systems Inc. ("Agere") filed a complaint with the U.S. International Trade Commission against ten respondents on March 12, 2012 alleging infringement of United States Patent Nos. 5,870,087, 6,452,958, 6,707,867, and 6,982,663, and seeking to prevent the accused products from being imported into the United States. Specifically, LSI and Agere asserted that the DVD/Blu-ray Player and DTV chips of MTK's and its subsidiaries MediaTek USA Inc. and MediaTek Wireless, Inc. (USA), infringe the foregoing patents. In addition, LSI and Agere asserted that the Wi-Fi chips of subsidiaries Ralink Technology Corp. and Ralink Technology Corp. (USA) also infringed some of the aforementioned patents.

MTK and LSI entered into a termination agreement pursuant to which the above referenced action was officially terminated by the U.S. International Trade Commission on February 13, 2013 with respect to MTK and subsidiary Ralink Technology Corp.

- d. Lantiq Deutschland GMBH ("Lantiq") filed a complaint alleging patent infringement against TrendChip Technologies Corp.'s customer, Billion Electric Co. Ltd. ("Billion") in 2010 in Germany. Trendchip Technologies Corp. was later merged into Ralink Technology Corporation ("Ralink"), which is now a wholly-owned subsidiary of MTK. Since Lantiq's patent infringement allegation is related to Ralink's DSL products, Ralink is assisting Billion in the above referenced matter. In addition, Ralink filed a patent nullity suit against Lantiq in the Federal Patent Court of Germany to invalidate the asserted patent. Ralink also filed a complaint in Wisconsin, USA against Lantiq on November 8, 2010 alleging infringement of United States Patent No. 5,394,116. Lantiq and Lantiq North America, Inc. later filed a complaint in the United States District Court for the Northern District of California against Ralink and Ralink Technology Corp. (USA) in January 2011, alleging infringement of United States Patent Nos. 6,351,799 and 7,061,904. Lantiq alleged patent infringement by Ralink's networking and computing chips and asked the court to declare non-infringement and invalidity of the United States Patent No. 5,394,116. The Wisconsin case was transferred to United States District Court for the Northern District of California in March 2011. These two cases have been consolidated per the court's order. On May 2, 2012, Lantiq added MTK and its subsidiaries MediaTek USA Inc. and MediaTek Wireless, Inc. (USA) as co-defendants. The operations of MTK and subsidiary Ralink would not be materially affected by those patent litigations.

MTK and Lantiq entered into a settlement and patent license agreement to settle all pending patent litigations and to dismiss all proceedings pending against each other including the above referenced litigations on February 4, 2013.

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

- e. MOSAID Technologies Inc. filed a complaint in the United States District Court for the Eastern District of Texas against Ralink and other defendants in March 2011 alleging infringement of United States Patent Nos. 5,131,006, 5,151,920, 5,422,887, 5,706,428, 6,563,786, and 6,992,972. The operations of Ralink would not be materially affected by those patent litigations.
- f. Azure Networks, LLC and Tri-County Excelsior Foundation filed a complaint in the United States District Court for the Eastern District of Texas against MTK's subsidiaries Ralink and Ralink Technology Corporation (USA), along with other defendants in March 2011 alleging infringement of United States Patent No. 7,756,129. On April 6, 2012, Azure Networks, LLC and Tri-County Excelsior Foundation filed a complaint in the United States District Court for the Eastern District of Texas against MTK alleging infringement of the same patent referenced above. The operations of MTK and subsidiaries Ralink and Ralink Technology Corporation (USA) would not be materially affected by those patent litigations.
- g. Commonwealth Scientific and Industrial Research Organization filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA), along with other defendants on August 27, 2012 alleging infringement of United States Patent No. 5,487,069. The operations of MTK and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA) would not be materially affected by this case.
- h. Palmchip Technology Corporation filed a complaint in the Superior Court of California in the County of Santa Clara against MTK and subsidiaries MediaTek USA Inc., Ralink and Ralink Technology Corporation (USA) on October 19, 2012, asserting claims of breach of contract. The operations of MTK and subsidiaries MediaTek USA Inc., Ralink and Ralink Technology Corporation (USA) would not be materially affected by this case.

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
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
2017.01.01~2017.12.31	30,371
2018.01.01~2027.12.31	183,677
Total	<u>\$335,532</u>

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

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

Lease Period	Amount
2013.01.01~2013.12.31	\$281,494
2014.01.01~2014.12.31	233,711
2015.01.01~2015.12.31	201,208
2016.01.01~2016.12.31	61,911
2017.01.01~2017.12.31	55,192
2018.01.01~2020.12.31	100,619
Total	\$933,955

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,			
	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
Assets				
Cash and cash equivalents	\$85,867,210	\$85,867,210	\$85,821,438	\$85,821,438
Financial assets designated as at fair value through profit or loss	\$2,114,173	\$2,114,173	\$3,356,687	\$3,356,687
Receivables (including related parties)	\$6,584,610	\$6,584,610	\$7,383,884	\$7,383,884
Other receivables	\$5,135,613	\$5,135,613	\$3,027,004	\$3,027,004
Available-for-sale financial assets	\$6,985,908	\$6,985,908	\$5,356,022	\$5,356,022
Held-to-maturity financial assets	\$796,860	\$810,845	\$876,548	\$869,175
Financial assets carried at cost	\$2,469,373	\$-	\$2,203,872	\$-
Bond portfolios with no active market	\$-	\$-	\$1,000,000	\$1,059,128
Investments accounted for using the equity method				
-with market value	\$56,379,563	\$55,397,219	\$1,422,697	\$1,919,787
-without market value	\$783,136	\$-	\$411,967	\$-
Refundable deposits	\$206,393	\$206,393	\$265,431	\$265,431
Restricted assets	\$113,998	\$113,998	\$13,783	\$13,783
Liabilities				
Short-term loans	\$8,880,430	\$8,880,430	\$4,089,150	\$4,089,150
Payables (including related parties)	\$9,047,400	\$9,047,400	\$9,021,903	\$9,021,903
Accrued expenses	\$13,139,736	\$13,139,736	\$15,714,455	\$15,714,455
Payables to contractors and equipment suppliers	\$60,894	\$60,894	\$76,861	\$76,861
Other payables	\$41,260	\$41,260	\$74,260	\$74,260
Long-term accounts payable (including current portion)	\$142,766	\$142,766	\$165,743	\$165,743
Deposits received	\$30,233	\$30,233	\$6,176	\$6,176
<u>Derivative</u>				
Assets				
Held-for-trading financial assets	\$244	\$244	\$66	\$66
Liabilities				
Held-for-trading financial liabilities	\$2,638	\$2,638	\$-	\$-

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

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (b) Gains (losses) recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$44,555 thousand and NT\$(48,038) thousand for the years ended December 31, 2012 and 2011, respectively.
- (c) As of December 31, 2012 and 2011, financial assets exposed to fair value risk from fixed interest rate were NT\$75,438,440 thousand and NT\$75,320,431 thousand, respectively, and financial liabilities exposed to fair value risk from fixed interest rate were NT\$9,023,196 thousand and NT\$4,254,893 thousand, respectively. As of December 31, 2012 and 2011, financial assets exposed to cash flow risk from variable interest rate were NT\$4,326,556 thousand and NT\$4,955,777 thousand, respectively, and financial liabilities exposed to cash flow risk from variable interest rate were both nil.
- (d) Interest income recognized from financial assets that were not at fair value through profit or loss amounted to NT\$1,690,583 thousand and NT\$947,698 thousand for the years ended December 31, 2012 and 2011, respectively. Interest expenses recognized from financial liabilities that were not at fair value through profit or loss amounted to NT\$109,458 thousand and NT\$9,378 thousand for the years ended December 31, 2012 and 2011, respectively. The Company recognized unrealized gains (loss) of NT\$661,716 thousand and NT\$(147,306) thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2012 and 2011, respectively, and the amounts that were recycled from equity to gain (loss) were NT\$4,565 thousand and NT\$(7,890) thousand for the years ended December 31, 2012 and 2011, respectively.
- (e) Impairment losses recognized from financial assets were NT\$349,450 thousand and nil for the years ended December 31, 2012 and 2011, respectively.
- b.
- (a) Risk management policy and hedge strategy for financial instruments
The Company held certain non-derivative financial instruments, including cash and cash equivalents, short-term loans, available-for-sale financial assets-mutual fund, government bonds, corporate bonds and financial debentures. The Company held the financial instruments to meet operating cash needs. The Company also held other financial instruments such as receivables, payables, financial assets designated as at fair value through profit or loss, held-to-maturity financial assets, financial assets carried at cost, bond portfolios with no active market and investments accounted for using the equity method.

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

(b) Information of financial risks

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

Market risk

Market risk mainly includes currency risk. It comes from purchase or sale activities which are not denominated in the Company's functional currency. The Company reviews its assets and liabilities denominated in foreign currency and enters into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Had the USD moved against NTD by increasing 1 cent, the fair value of the forward exchange contracts would decrease by NT\$690 thousand and NT\$140 thousand as of December 31, 2012 and 2011, respectively. Credit-linked deposits and interest rate-linked deposits are affected by interest rates. When interest rate increases, the market value may decrease and may even be below the initial investment cost and vice versa. The fair value of exchange rate-linked deposits is affected by interest rate fluctuation. The fair value of mutual fund, corporate bonds, government bonds and financial debentures will be exposed to fluctuations from other market factors as well as movement in interest rates.

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.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Liquidity risk

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

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

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

Cash flow risk from variable interest rate

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

(2) Business combinations

- a. In order to enhance the operating performance and competitiveness, MTK issued new shares to exchange 100% shares of Ralink Technology Corp. ("Ralink"). The record date of shares exchange was set on October 1, 2011. After the shares exchange, Ralink became 100%-owned by MTK. The business combination was resolved by shareholders' general meetings of both companies on June 15, 2011. An exchange ratio, which has taken into account both companies' profitability, market prices, technology and future development, has been set at 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.

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

- (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.

- (d) Contingent payments, options or commitments included in the acquisition agreement and the proposed accounting treatment: None

- (e) Significant asset disposal decisions resulting from the business acquisition: None

- (f) The income and expenses of Ralink since October 1, 2011 have been included in the Company's income statement. Pro-forma information which assumes that the Company had merged Ralink since January 1, 2011 is disclosed as follows:

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

- b. The board of directors of MTK and the subsidiary Gaintech Co. Limited ("GCL") resolved on April 10, 2012 to acquire 100% shares of Coresonic AB by USD35,000 thousand. Coresonic AB became a 100%-owned subsidiary of GCL, and was renamed MediaTek Sweden AB. The acquisition of MediaTek Sweden AB was accounted for in accordance with the R.O.C. SFAS No.25, "Business Combinations - Accounting Treatment under Purchased Method".

	Amount (US\$'000)
Acquisition cost	35,000
Less: Fair value of the identifiable net assets of MediaTek Sweden AB	(17,271)
Goodwill	<u>17,729</u>

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(3) Other Information

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

	As of December 31,					
	2012			2011		
	Foreign Currency (thousand)	Exchange rate	NTD (thousand)	Foreign Currency (thousand)	Exchange rate	NTD (thousand)
<u>Financial assets</u>						
Monetary item						
USD	\$2,188,830	\$29.136	\$63,773,758	\$1,812,357	\$30.29	\$54,472,301
Non-monetary item						
USD	\$221,165	\$29.136	\$6,443,874	\$202,736	\$30.29	\$6,140,882
CNY	\$-	\$-	\$-	\$179,889	\$4.81	\$865,782
<u>Investments accounted for using the equity method</u>						
USD	\$1,954,203	\$29.136	\$56,937,662	\$6,691	\$30.29	\$202,668
<u>Financial liabilities</u>						
Monetary item						
USD	\$620,047	\$29.136	\$18,065,696	\$508,035	\$30.29	\$15,388,386

b. Tender offer of MStar Semiconductor Inc. (Cayman)

In order to enhance the operating performance and competitiveness, the board of directors approved a tender offer to acquire shares of MStar Semiconductor, Inc. ("MStar") on June 22, 2012, and MTK plans to merge MStar after the tender offer. The terms of the tender offer was 1 MStar share in exchange for 0.794 MTK share plus NT\$1 in cash. MTK totally acquired 254,115,685 shares (48% of MStar's outstanding shares) of MStar. Totally 201,767,854 new shares were issued and NT\$254,116 thousand was paid as the considerations.

A merger agreement was approved by the special shareholders' meeting of both companies on October 12, 2012. Based on the resolution of the special shareholders' meeting, MTK expects to issue 218,581,841 new shares and pay NT\$275,292 thousand in cash to acquire the remaining 52% shares of MStar. The number of shares to be issued and the amount of cash to be paid were subsequently adjusted to be 221,123,877 shares and NT\$278,494 thousand, based on MTK's board resolution dated October 29, 2012. The tentative effective merger date was tentatively set on August 1, 2013 that was announced on March 18, 2013, subject to approvals from the relevant legal and regulatory authorities.

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, 2012 are as follows: (For MTK's shares owned by the subsidiary, please refer to the Note 4.(25) to the consolidated financial statements.)

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction			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	\$31,712	Based on contract	0.02%
			1	Sales revenues	\$421,587		0.42%
		Rolltech Technology, Co. Ltd	1	Other receivables	\$168		0.00%
			1	Rent revenues	\$1,920		0.00%
1	Gaintech Co. Limited	Lepower Technologies (Beijing) Inc.	1	Other receivables	\$5,827	Based on contract	0.00%
			1	Lease guarantee	\$55,677		0.03%
		MTK Wireless Limited (UK)	1	Lease guarantee	\$26,322		0.01%
			1	Bank financing guarantee	\$874,080		0.42%
		Ralink Technology Corp.	1	Bank financing guarantee	\$5,827,200		2.77%
			1	IP purchase guarantee	\$65,337		0.03%
2	MediaTek Singapore Pte. Ltd.	MediaTek Korea Inc.	3	Other receivables	\$10,846	Based on contract	0.01%
			3	Other receivables	\$6,246,758		2.97%
			3	Payables to related parties	\$58,209		0.03%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Research and development expenses	\$633,427	Based on contract	0.64%
			3	Payables to related parties	\$5,118		0.00%
		MTK Wireless Limited (UK)	3	Research and development expenses	\$98,689		0.10%
			3	Payables to related parties	\$24,899		0.01%
			3	Research and development expenses	\$316,728	0.32%	

(To be continued)

MEDIATEK 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 USA Inc.	3	Payables to related parties	\$92,573	Based on contract	0.04%
				Research and development expenses	\$1,371,922		
		MediaTek Japan Inc.	3	Payables to related parties	\$10,384		0.00%
				Research and development expenses	\$203,426		
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$43,658		0.02%
				Research and development expenses	\$248,534		
		MediaTek Korea Inc.	3	Payables to related parties	\$20,173		0.01%
				Research and development expenses	\$212,039		
		MediaTek Wireless L.L.C. (Dubai)	3	Payables to related parties	\$767		0.00%
				Selling expenses	\$9,087		
		MediaTek Sweden AB	3	Payables to related parties	\$10,395		0.00%
				Research and development expenses	\$18,940		
		MediaTek (Shenzhen) Inc.	3	Payables to related parties	\$9,353		0.00%
				Research and development expenses	\$1,466,007		
MediaTek (Hefei) Inc.	3	Prepayments	\$30,469	0.01%			
		Research and development expenses	\$782,325		0.79%		
MediaTek (Beijing) Inc.	3	Prepayments	\$8,388	0.00%			
		Research and development expenses	\$1,470,202		1.48%		

(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		
		Hesine Technologies, Inc.	3	Research and development expenses	\$51,136		0.05%	
		MediaTek (Suzhou) Inc.	3	Prepayments	\$78,488		0.04%	
			3	Research and development expenses	\$53,208		0.05%	
		MediaTek (Chengdu) Inc.	3	Payables to related parties	\$7,249		0.00%	
			3	Research and development expenses	\$488,416		0.49%	
2	MediaTek Singapore Pte. Ltd	MediaTek (Wuhan) Inc.	3	Research and development expenses	\$183,714		0.19%	
			3	Prepayments	\$42,231		0.02%	
		MediaTek (Shanghai) Inc.	3	Research and development expenses	\$175,856		0.18%	
			3	Prepayments	\$36,246	Based on contract	0.02%	
		MediaTek (Nanjing) Inc.	3	Research and development expenses	\$24,659		0.02%	
		Vogins Technology (Shanghai) Co., Ltd.	3	Research and development expenses	\$6,002		0.01%	
3	Shadow Investment Limited	MediaTek (Nanjing) Inc.	3	Research and development expenses	\$35,464		0.04%	
		MediaTek (Suzhou) Inc.	3	Research and development expenses	\$35,464		0.04%	
4	Lepower Technologies (Beijing) Inc.	MediaTek (Beijing) Inc.	3	Research and development expenses	\$39,959		0.04%	
5	MediaTek (Beijing) Inc.	Vogins Technologie (Shanghai) Co. Ltd.	3	Research and development expenses	\$35,072		0.04%	

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, 2011 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	\$37,851	Based on contract	0.03%
			1	Sales revenues	\$553,763		0.64%
		MediaTek Investment Corp.	1	Rent revenues	\$34		0.00%
			1	Rent revenues	\$34		0.00%
		Hsu-Ta Investment Limited	1	Rent revenues	\$34		0.00%
			1	Rent revenues	\$34		0.00%
		Rolltech Technology, Co. Ltd.	1	Rent revenues	\$34		0.00%
			1	Rent revenues	\$34		0.00%
			1	Other receivables	\$168		0.00%
			1	Rent revenues	\$480		0.00%
MediaTek Wireless, Inc. (USA)	MTK Wireless Limited (UK)	1	Lease guarantee	\$76,629	0.05%		
		1	Lease guarantee	\$26,123	0.02%		
		1	Bank financing guarantee	\$2,877,550	1.95%		
		1	IP purchase guarantee	\$67,925	0.05%		
1	Gaintech Co. Limited	Ralink Technology Corp.	3	Other receivables	\$11,276	0.01%	
			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%	

(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 Denmark Aps	3	Payables to related parties	\$10,801	Based on contract	0.01%
			3	Research and development expenses	\$203,611		0.23%
		MTK Wireless Limited (UK)	3	Payables to related parties	\$26,707		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	Prepayments	\$1,765	0.00%			
	3	Research and development expenses	\$1,295,900	1.49%			

(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	Media Tek Singapore Pte. Ltd	MediaTek (Hefei) Inc.	3	Prepayments	\$4,050	Based on contract	0.00%
			3	Research and development expenses	\$645,725		0.74%
		MediaTek (Beijing) Inc.	3	Prepayments	\$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	\$67,645		0.08%
		MediaTek (Suzhou) Inc.	3	Prepayments	\$72,747		0.05%
			3	Research and development expenses	\$13,737		0.02%
		MediaTek (Chengdu) Inc.	3	Prepayments	\$3,529		0.00%
			3	Research and development expenses	\$140,289		0.16%
MediaTek (Wuhan) Inc.	3	Prepayments	\$5,612	0.00%			
	3	Research and development expenses	\$37,308	0.04%			
MediaTek (Shanghai) Inc.	3	Prepayments	\$8,393	0.01%			
	3	Research and development expenses	\$53,339	0.06%			
3	Shadow Investment Limited	Rolltech 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%	

(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	
4	Ralink Technology Corporation (USA)	Ralink Technology (Singapore) Corp.	3	Payables to related parties	\$23,278	Based on contract	0.02%
		Pte. Ltd.	3	Research and development expenses	\$23,264		

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 years ended December 31,	
	2012	2011
Taiwan	\$10,201,827	\$8,293,372
Asia	87,290,990	73,075,397
Others	1,770,343	5,488,725
Total	\$99,263,160	\$86,857,494

Sales are presented by billed regions.

b. Non-current assets

	As of December 31,	
	2012	2011
Taiwan	\$22,343,544	\$22,662,060
Asia	3,177,168	3,186,171
Others	1,054,018	163,858
Total	\$26,574,730	\$26,012,089

(3) Major customers

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

Customers	For the years ended December 31,			
	2012		2011	
	Amounts	%	Amounts	%
A	\$14,057,376	14.16	\$16,898,591	19.45
B	10,465,080	10.54	8,152,896	9.39
Total	\$24,522,456	24.70	\$25,051,487	28.84

12. The Authorization of Financial Statements

The consolidated financial statements were approved by the board of directors on March 29, 2013.

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 GrTai 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, 2012, were as follows:

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

(To be continued)

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	Completed
11.Prepare IFRSs comparative information for 2012	Finance and Accounting	In progress
12.Finalize adjustments to the internal control (including financial statements process and the associated IT system)	Finance and Accounting and Internal Auditor	Completed

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

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

Accounting Issues	Description of differences
Financial assets measured at cost	Under the requirements of the existing Guidelines Governing the Preparation of Financial Reports by Securities Issuer, equity investments in unlisted entities or entities traded on Emerging Stock market should be measured at cost. However under the requirements of IAS 39, only investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured could be measured at cost. The fair value of investments in equity instruments that do not have a quoted market price in an active market is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.
Investments accounted for using the equity method	ROC GAAP does not require an associate's financial statements to be prepared using accounting policies that conform with those of the investor. Under the requirements of IAS 28, if an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method.

(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 using the equity method	Under IFRSs, an investor shall discontinue the use of the equity method from the date when it ceases to have significant influence over an associate and shall account for as financial instrument under relevant standards. On the loss of significant influence, the investor shall measure at fair value any investment the investor retains in the former associate. The investor shall recognize in profit or loss any difference between: (a) the fair value any retained investment and any proceeds from disposing of the part interest in the associate; and (b) the carrying amount of the investment at the date when significant influence is lost. Moreover, an investor shall derecognize for all additional paid-in capital and equity adjustment items related to the former associate to current profit and loss. In accordance with R.O.C. SFAS, an investor shall discontinue the use of the equity method from the date when it ceases to have significant influence over an associate. The new investment cost should be the carrying amount of the former associate on the loss of significant influence. The additional paid-in capital and other equity adjustment items related to the former associate should be proportionately derecognized to current profit and loss, and the difference between the carrying amount plus the equity adjustment items and the amount proceed from the disposal shall be recognized as the disposal gain or loss.
Employee benefits	Under the requirements of ROC GAAP, minimum pension liability is to be recognized for the excess of the accumulated benefit obligation over the pension plan assets. There is no such requirement under IAS 19. Under the requirements of ROC GAAP, the unrecognized transitional net assets (or net benefit obligation) should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. There is no such requirement under IAS 19.
Income taxes	Under the requirements of ROC GAAP, deferred tax assets are recognized in full. However, if it is more than 50% probable that the economic benefits of a deferred tax asset become unrealizable, a valuation allowance account should be established to reduce the carrying amount of the deferred tax asset. However under the requirements of IAS 12 "Income Taxes", a deferred tax asset shall be recognized to the extent that it is probable that it would be utilized. Under the requirements of ROC GAAP, a deferred tax asset or liability should be classified as current or noncurrent according to the classification of its related asset or liability. If a deferred tax asset or liability is not related to an asset or liability for financial reporting, it should be classified as current or noncurrent according to the expected reversal date of the temporary difference. However under the requirements of IAS 1 "Presentation of Financial Statements", deferred tax assets or liabilities are classified as noncurrent.

(To be continued)

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

Income taxes	Under the requirements of ROC GAAP, the current and noncurrent deferred tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount. However under the requirements of IAS 12, an entity shall offset current tax assets and current tax liabilities if, and only if, the entity has a legally enforceable right to offset the recognized amounts; and an entity shall offset deferred tax assets and current tax liabilities if the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.
--------------	--

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

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

	ROC GAAP	Adjustments	IFRSs	Note
Financial assets carried at cost-noncurrent	\$2,203,872	\$(186,259)	\$2,017,613	(a)
Investments accounted for using the equity method	1,834,664	146,319	1,980,983	(a) & (b)
Deferred income tax assets-noncurrent	-	269,382	269,382	(c) & (e)
Prepaid pension costs	3,826	(3,826)	-	(c)
Other assets	143,698,746	(220,940)	143,477,806	(e)
Total assets	147,741,108	4,676	147,745,784	
Accrued pension liabilities	190,538	254,541	445,079	(c)
Deferred income tax liabilities-noncurrent	590,934	4,520	595,454	(c) & (e)
Other liabilities	30,631,309	-	30,631,309	
Total liabilities	31,412,781	259,061	31,671,842	
Capital	11,475,191	-	11,475,191	
Capital reserve	24,605,882	(117,473)	24,488,409	(a), (b) & (d)
Retained earnings	82,463,225	(136,729)	82,326,496	(a), (b), (c) & (d)
Cumulative translation adjustments	(2,253,504)	(183)	(2,253,687)	(a)
Unrealized gain (loss) on financial instruments	43,192	-	43,192	
Treasury stock	(55,970)	-	(55,970)	
Minority interests	50,311	-	50,311	
Shareholders' equity	116,328,327	(254,385)	116,073,942	

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

- (a) Under the requirement of IAS 28, NT\$186,259 thousand of financial assets carried at cost-noncurrent was remeasured and reclassified to investments accounted for using the equity method in the amount of NT\$147,883 thousand. Therefore, capital reserve, cumulative translation adjustments and retained earnings were increased (decreased) by NT\$2,514 thousand, NT\$(183) thousand and NT\$(40,707) thousand, respectively.
- (b) Investments accounted for using the equity method, capital reserve and retained earnings were (decreased) increased by NT\$(1,564) thousand, NT\$205 thousand and NT\$(1,769) thousand for conforming to accounting policies.
- (c) Under the requirement of ROC GAAP, the Company shall use actuarial assumptions to measure its defined benefit obligations and record relative pension costs and accrued pension liabilities. After the adoption of IFRSs, the Company shall use actuarial assumptions under the requirement of IAS 19 “Employee Benefits”. Under the requirements of IFRS 1, the Company remeasured its defined benefit obligations, adjusted its cumulative actuarial gains and losses to zero, and recognized all unrealized transitional net benefit obligations at the date of transition. After the transitional adjustments, the Company’s accrued pension liabilities, prepaid pension costs, deferred income tax assets-noncurrent, deferred income tax liabilities-noncurrent and retained earnings were increased (decreased) by NT\$254,541 thousand, NT\$(3,826) thousand, NT\$43,272 thousand, NT\$(650) thousand and NT\$(214,445) thousand, respectively.
- (d) Capital reserved-long-term investment transaction of NT\$120,192 thousand was reclassified to retained earnings due to incompliance with IFRSs.
- (e) The remaining adjustments were reclassified to conform to the presentation under the requirements of IFRSs and did not affect shareholders’ equity.

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

	ROC GAAP	Adjustments	IFRSs	Note
Available-for-sale financial assets-current	\$3,779,013	\$200,000	\$3,979,013	(f) & (j)
Financial assets carried at cost-noncurrent	2,469,373	(386,259)	2,083,114	(a) & (j)
Investments accounted for using the equity method	57,162,699	231,210	57,393,909	(a), (b) & (e)
Deferred pension cost	441	(441)	-	(c)
IPs and others	1,152,854	(114,347)	1,038,507	(g)
Deferred income tax assets-noncurrent	266,785	649,006	915,791	(c), (d), (f) & (j)
Long-term prepaid rents	-	114,347	114,347	(g)
Prepaid pension costs	3,223	(3,223)	-	(c)
Other assets	145,408,568	(526,731)	144,881,837	(j)
Total assets	210,242,956	163,562	210,406,518	

(To be continued)

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

(Continued)

	ROC GAAP	Adjustments	IFRSs	Note
Accrued expenses	13,139,736	114,144	13,253,880	(d)
Accrued pension liabilities	220,083	335,671	555,754	(c)
Deferred income tax liabilities-noncurrent	1,156,875	38,259	1,195,134	(c), (f) & (j)
Other liabilities	19,952,149	(8,123)	19,944,026	(j)
Total liabilities	34,468,843	479,951	34,948,794	
Capital	13,493,804	-	13,493,804	
Capital reserve	79,551,866	120,632	79,672,498	(a), (b), (h) & (i)
Retained earnings	87,822,629	(326,072)	87,496,557	(a), (b), (c), (d), (e), (f), (h) & (i)
Cumulative translation adjustments	(5,762,265)	(220)	(5,762,485)	(a)
Net loss not recognized as pension cost	(10,503)	10,503	-	(c)
Unrealized gain (loss) on financial instruments	700,343	(121,232)	579,111	(f)
Treasury stock	(55,970)	-	(55,970)	
Minority interests	34,209	-	34,209	
Shareholders' equity	175,774,113	(316,389)	175,457,724	

- (a) Under the requirement of IAS 28, NT\$186,259 thousand of financial assets carried at cost-noncurrent was remeasured and reclassified to investments accounted for using the equity method in the amount of NT\$132,303 thousand. Therefore, capital reserve, cumulative translation adjustments and retained earnings were increased (decreased) by NT\$2,714 thousand, NT\$(220) thousand and NT\$(56,450) thousand, respectively.
- (b) Investments accounted for using the equity method, capital reserve and retained earnings were (decreased) increased by NT\$(402) thousand, NT\$205 thousand and NT\$(607) thousand for conforming to accounting policies.
- (c) Under the requirement of ROC GAAP, the Company shall use actuarial assumptions to measure its defined benefit obligations and record relative pension costs and accrued pension liabilities. After the adoption of IFRSs, the Company shall use actuarial assumptions under the requirement of IAS 19 "Employee Benefits". Under the requirement of IFRS 1, the Company remeasured its defined benefit obligations, adjusted its cumulative actuarial gains and losses to zero, and recognized all unrealized transitional net benefit obligations at the date of transition. After the transitional adjustments, the Company's accrued pension liabilities, deferred pension costs, prepaid pension costs, deferred income tax assets-noncurrent, deferred income tax liabilities-noncurrent, retained earnings and net loss not recognized as pension costs were increased (decreased) by NT\$335,671 thousand, NT\$(441) thousand, NT\$(3,223) thousand, NT\$57,064 thousand, NT\$(2,408) thousand, NT\$(290,366) thousand, and NT\$(10,503) thousand, respectively.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (d) Under the requirement of IAS 19 “Employee Benefits”, the Company shall recognize unused accumulating compensated absences. Therefore, accrued expenses, deferred income tax assets and retained earnings were increased (decreased) by NT\$114,144 thousand, NT\$19,404 thousand and NT\$(94,740) thousand, respectively.
- (e) According to IFRSs, when the Company’s equity investment increases and the significant influence is obtained, the Company shall remeasure the entire equity investment at fair value. The Company’s investments accounted for using the equity method and retained earnings both increased by NT\$99,309 thousand because of this requirement.
- (f) Under IFRSs, when the Company partly disposes of an equity investment and loses its significant influence, the Company shall remeasure the remaining investment at fair value and recognize the difference between the book value of the entire investment and the fair value of the remaining investment plus the proceeds of the disposal as a gain or loss. After that, the Company shall account for the investment according to the accounting standards of financial instruments. The Company’s retained earnings, deferred income tax liabilities-noncurrent, deferred income tax asset-noncurrent and unrealized gain (loss) on financial instruments were increased (decreased) by NT\$134,495 thousand, NT\$27,417 thousand, NT\$40,680 thousand and NT\$(121,232) thousand, respectively.
- (g) Under the requirement of IFRSs, the Company shall reclassify the right to the use of the land which was classified as an operating lease to long-term prepaid rents. Therefore, long-term prepaid rents and IPs and others were increased (decreased) by NT\$114,347 thousand and NT\$(114,347) thousand, respectively.
- (h) Capital reserve-long-term investment transaction of NT\$33,835 thousand was reclassified to retained earnings due to incompliance with IFRSs.
- (i) Under the requirement of IFRSs, the transactions shall be measured as equity transaction, when the Company still possesses control after disposed part shares of a subsidiary. Therefore, retained earnings and additional paid-in capital were increased (decreased) by NT\$(151,548) thousand and NT\$151,548 thousand, respectively.
- (j) The remaining adjustments were reclassifications to conform to the presentation under the requirement of IFRSs and did not affect shareholders’ equity.

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

c. Reconciliation of the income statement for the year ended December 31, 2012:

	ROC GAAP	Adjustments	IFRSs	Note
Net sales	\$99,263,160	\$-	\$99,263,160	
Cost of goods sold	(58,200,706)	(3,433)	(58,204,139)	(a)
Gross profits	41,062,454	(3,433)	41,059,021	
Operating expenses	(28,557,148)	(99,098)	(28,656,246)	(a) & (b)
Operating income	12,505,306	(102,531)	12,402,775	
Non-operating income/ gains or expenses/losses	4,114,251	(31,945)	4,082,306	(c), (d), (e), (f) & (g)
Income before income tax	16,619,557	(134,476)	16,485,081	
Income tax expense	(971,244)	30,693	(940,551)	(a), (b) & (f)
Net income	15,648,313	(103,783)	15,544,530	

- (a) Under the requirement of IAS 19 “Employee Benefits”, the Company shall recognize unused accumulating compensated absences. Therefore, cost of goods sold, operating expenses and income tax expense were increased (decreased) by NT\$3,433 thousand, NT\$110,711 thousand and NT\$(19,404) thousand, respectively.
- (b) The Company shall use actuarial assumptions under the requirements of IAS 19 “Employee Benefits” to measure its defined benefit obligations. Therefore, operating expenses and income tax expense were increased (decreased) by NT\$(11,613) thousand and NT\$1,974 thousand, respectively.
- (c) Adjustment of gain on equity investments was increased by NT\$1,162 thousand for conforming to group accounting policies.
- (d) Under the requirement of IAS 28, the Company remeasured and reclassified financial assets carried at cost-noncurrent to investments accounted for using the equity method. Therefore, gain on equity investments was decreased by NT\$15,743 thousand.
- (e) According to IFRSs, when the Company’s equity investment increases and the significant influence is obtained, the Company shall remeasure the entire equity investment at fair value. The Company’s gain on disposal of investments was increased by NT\$99,309 thousand because of this requirement.
- (f) Under IFRSs, when the Company partly disposes of an equity investment and loses its significant influence, the Company shall remeasure the remaining investment at fair value and recognize the difference between the book value of the entire investment and the fair value of the remaining investment plus the proceeds of the disposal as a gain or loss. After that, the Company shall account for the investment according to the accounting standards of financial instruments. The Company’s gain on disposal of investments, impairment loss and income tax expenses were increased (decreased) by NT\$274,172 thousand, NT\$239,297 thousand and NT\$(13,263) thousand due to valuation of the financial assets as of December 31, 2012, respectively.

MEDIATEK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (g) Under the requirement of IFRSs, the transactions shall be measured as equity transaction, when the Company still possesses control after disposed part shares of an associate. Therefore, the gain of disposal investment was decreased by NT\$151,548 thousand.
- d. According to the requirements under IFRS 1, “First-time Adoption of International Financial Reporting Standards”, the Company prepares its first IFRS financial statements based on the effective IFRS standards and makes adjustments retrospectively, except for the optional exemptions and mandatory exemptions under IFRS 1. The optional exemptions selected by the Company is as follows:
- (a) IFRS 3 “Business Combinations” has not been applied to acquisitions of subsidiaries and of interests in associates that occurred before January 1, 2012. Applying this exemption would result in the carrying amount of assets acquired and liabilities assumed in the business combination in accordance with previous GAAP to be their deemed costs in accordance with IFRSs as at the date of acquisition. Subsequent to the date of acquisition, the assets and liabilities would be measured in accordance with IFRSs. The carrying amount of goodwill in the opening IFRS Balance Sheet is its carrying amount in accordance with previous GAAP at December 31, 2011, after testing for impairments and adjusting for recognition or de-recognition of intangibles under IFRS 1.
- (b) The Company has recognized all cumulative actuarial gains and losses directly to retained earnings as of January 1, 2012.
- (c) The Company has elected to disclose amounts required by paragraph 120A (p) of IAS19 prospectively from January 1, 2012.
- (d) IFRS 2 has not been applied to equity instruments in share-based payment transactions that vested before January 1, 2012.
- (e) The Company has applied the transitional provision in IFRIC 4 and has assessed all arrangements whether include lease transaction as of January 1, 2012.
- (f) Under the requirement of IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities”, changes in the liabilities of existing decommissioning, restoration and similar liabilities shall be added to, or deducted from, the cost of the related asset in the current period. The adjusted depreciable amount of the asset is depreciated over its useful life. The Company need not to comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRSs.

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, 2012 AND 2011
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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011 and for the years then ended. We have expressed an unqualified opinion on those consolidated financial statements.

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
March 29, 2013
Taipei, Taiwan
Republic of China

Notice to Readers

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

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

MEDIATEK INC.

BALANCE SHEETS

As of December 31, 2012 and 2011

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	2012	2011	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2012	2011
Current assets				Current liabilities			
Cash and cash equivalents	2, 4(1)	\$ 28,288,474	\$ 27,137,268	Short-term loans	4(14)	\$ 2,179,150	\$ -
Held-for-trading financial assets-current	2, 4(2)	111	-	Held-for-trading financial liabilities-current	2, 4(2)	2,592	-
Financial assets designated as at fair value through profit or loss-current	2, 4(3)	50,129	393,510	Accounts payable	5	6,696,357	6,696,357
A available-for-sale financial assets-current	2, 4(4), 4(11)	2,646,087	1,627,536	Payables to related parties	2, 4(24)	116,392	119,190
Bond portfolios with no active market-current	2, 4(10)	-	1,000,000	Income tax payable	2, 4(20)	878,403	470,032
Accounts receivable, net	2, 4(5)	2,945,188	3,200,385	Accrued expenses		10,406,921	12,856,882
Receivables from related parties, net	5	31,712	61,418	Payables to contractors and equipment suppliers		21,664	-
Other receivables	4(5), 4(6), 4(10), 5	3,559,885	2,156,836	Other current liabilities		565,046	598,081
Inventories, net	2, 4(7)	10,589,234	6,278,630	Total current liabilities		20,720,246	20,740,542
Prepayments		329,269	305,418				
Other current assets		395,881	265,275	Other liabilities			
Deferred income tax assets-current	2, 4(24)	351,407	72,475	Accrued pension liabilities	2, 4(15)	220,083	190,538
Restricted assets-current	6	111,984	9,947	Deposits received	5	29,579	5,969
Total current assets		49,299,361	42,508,698	Deferred income tax liabilities-noncurrent	2, 4(24)	1,156,864	821,539
				Total other liabilities		1,406,526	1,018,046
				Total liabilities		22,126,772	21,758,588
Funds and investments							
Available-for-sale financial assets-noncurrent	2, 4(8)	1,965,084	1,592,572	Shareholders' equity			
Investments accounted for using the equity method	2, 4(11)	133,170,053	79,575,986	Capital			
Total funds and investments		135,135,137	81,168,558	Common stock	4(11), 4(16)	13,493,702	11,475,108
				Capital collected in advance		102	83
Property, plant and equipment	2, 4(12), 5	888,722	888,722	Capital reserve	2, 4(18)	78,042,994	23,161,573
Land		5,752,531	5,768,329	Additional paid-in capital in excess of par		1,011,446	941,301
Buildings and facilities		57,536	98,833	Treasury stock transaction		1,260	1,260
Machinery and equipment		895,247	798,950	Donated assets		170,123	225,366
Computer and telecommunication equipment		2,072,827	2,014,374	Long-term investment transaction	4(11)	326,043	276,382
Testing equipment		158,006	158,006	Employee stock option	4(11), 4(19)	79,551,866	24,605,882
Miscellaneous equipment		9,824,869	9,727,214	Total capital reserve		23,072,429	21,710,122
Total cost		(3,772,863)	(3,325,826)	Legal reserve		2,210,312	4,198,121
Less : Accumulated depreciation		154,015	54,736	Special reserve		62,539,888	56,554,982
Add : Construction in progress		76,131	46,995	Undistributed earnings		(5,762,265)	(2,253,504)
Prepayments for equipment		6,282,152	6,503,119	Other adjustments	2	(10,503)	-
Property, plant and equipment, net		21,470	121,990	Cumulative translation adjustments		700,343	43,192
	2, 4(13)	114,799	6,817,211	Net loss not recognized as pension cost	2, 4(11)	(55,970)	(55,970)
		6,817,211	441	Unrealized gain (loss) on financial instruments	2, 4(21)	175,739,904	116,278,016
		86,507	649,016	Treasury stock			
Total intangible assets		7,040,428	7,714,627	Total shareholders' equity			
Other assets				Total liabilities and shareholders' equity			
Refundable deposits		109,598	141,602			\$ 197,866,676	\$ 138,036,604
Total other assets		109,598	141,602				
Total assets		\$ 197,866,676	\$ 138,036,604				

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.

STATEMENTS OF INCOME

For the years ended December 31, 2012 and 2011

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

Description	Notes	2012	2011
Gross sales		\$ 74,081,400	\$ 57,285,540
Less : Sales returns		(24,264)	(26,338)
Sales discounts		(10,583,107)	(3,416,836)
Net sales	2, 4(22), 5	63,474,029	53,842,366
Cost of goods sold	4(7), 4(23), 5	(40,770,355)	(31,773,236)
Gross profits		22,703,674	22,069,130
Operating expenses	2, 4(23), 5		
Selling expenses		(2,253,862)	(2,065,159)
General and administrative expenses		(1,548,150)	(1,715,355)
Research and development expenses		(13,051,340)	(13,448,835)
Total operating expenses		(16,853,352)	(17,229,349)
Operating income		5,850,322	4,839,781
Non-operating income and gains			
Interest income	10	305,217	397,139
Gain on equity investments, net	2, 4(11)	9,389,978	8,662,095
Dividend income		47,768	2,922
Gain on disposal of investments	2, 4(11)	692,391	-
Foreign exchange gain, net	2	51,617	19,498
Valuation gain on financial assets	2, 4(2), 10	23,221	-
Others	5	187,280	175,774
Total non-operating income and gains		10,697,472	9,257,428
Non-operating expenses and losses			
Interest expenses	10	(1,734)	(4,524)
Loss on disposal of property, plant and equipment	2	(1,298)	(14,847)
Loss on disposal of investments	2	-	(7,890)
Impairment loss	2, 4(4)	(84,998)	-
Valuation loss on financial liabilities	2, 4(2), 10	(2,592)	(58,295)
Others		(1,302)	(53,105)
Total non-operating expenses and losses		(91,924)	(138,661)
Income from continuing operations before income tax		16,455,870	13,958,548
Income tax expense	2, 4(24)	(768,342)	(335,478)
Net income		\$ 15,687,528	\$ 13,623,070
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(25)	Before tax After tax	Before tax After tax
Net income		\$ 13.53 \$ 12.90	\$ 12.65 \$ 12.35
Pro-forma data: (Assuming that the Company's shares owned by its subsidiary were not treated as treasury stock)			
Basic Earnings Per Share (in New Taiwan Dollars)	2, 4(25)		
Net income		\$ 13.50 \$ 12.87	\$ 12.71 \$ 12.40
Diluted Earnings Per Share (in New Taiwan Dollars)	2, 4(25)		
Net income		\$ 13.46 \$ 12.83	\$ 12.51 \$ 12.21

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2012 and 2011

(Amounts in thousands of New Taiwan Dollars)

Description	Capital		Capital reserve	Retained earnings		Cumulative translation adjustments	Net loss not recognized as pension cost	Unrealized gain (loss) on financial instruments	Treasury stock	Total
	Common stock	Capital collected in advance		Legal reserve	Special reserve					
Balance as of January 1, 2011	\$ 10,999,317	\$ 365	\$ 12,259,404	\$ 18,613,978	\$ 355,131	\$ (4,380,730)	\$ -	\$ 182,608	\$ (55,970)	\$ 111,713,110
Appropriation and distribution of 2010 earnings:	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	3,096,144	-	-	-	-	-	-
Special reserve	-	-	-	-	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
Shares issued to acquire new entities	555,336	-	12,259,039	-	-	-	-	-	-	12,814,375
Treasury stock acquired	-	-	-	-	-	-	-	-	(2,109,914)	(2,109,914)
Treasury stock retired	(80,000)	-	(161,410)	-	-	(1,868,504)	-	-	2,109,914	-
Employee stock option distributed to subsidiaries' employees	-	-	88,803	-	-	-	-	-	-	88,803
Issuance of stock from exercising employee stock options	455	(282)	3,321	-	-	-	-	-	-	3,494
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	155,881	-	-	-	-	-	-	155,881
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	(139,416)	-	(139,416)
Adjustment arising from changes in the percentage of ownership in investees	-	-	-	-	-	-	-	-	-	844
Cumulative translation adjustments	-	-	844	-	-	-	-	-	-	844
Balance as of December 31, 2011	\$ 11,475,108	\$ 83	\$ 24,605,882	\$ 21,710,122	\$ 4,198,121	\$ (2,253,504)	\$ -	\$ 43,192	\$ (55,970)	\$ 116,278,016
Appropriation and distribution of 2011 earnings:	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	1,362,307	-	-	-	-	-	-
Special reserve	-	-	-	-	(1,987,809)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(1,362,307)	-	-	-	-
Net income for the year ended December 31, 2012	-	-	-	-	-	1,987,809	-	-	-	(10,328,124)
Shares issued to acquire new entities	-	-	-	-	-	15,687,528	-	-	-	15,687,528
Employee stock option distributed to subsidiaries' employees	2,017,679	-	54,880,856	-	-	-	-	-	-	56,898,535
Issuance of stock from exercising employee stock options	-	-	49,661	-	-	-	-	-	-	49,661
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	915	19	576	-	-	-	-	-	-	1,510
Disposal of investments accounted for using the equity method	-	-	70,145	-	-	-	-	-	-	70,145
Unrealized gain (loss) on financial instruments	-	-	(86,357)	-	-	-	-	657,151	-	(86,357)
Adjustment arising from changes in the percentage of ownership in investees	-	-	31,103	-	-	-	-	-	-	31,103
Net loss not recognized as pension cost	-	-	-	-	-	-	(10,503)	-	-	(10,503)
Cumulative translation adjustments	-	-	-	-	-	(3,508,761)	-	-	-	(3,508,761)
Balance as of December 31, 2012	\$ 13,493,702	\$ 102	\$ 79,551,866	\$ 23,072,429	\$ 2,210,312	\$ (5,762,265)	\$ (10,503)	\$ 700,343	\$ (55,970)	\$ 175,739,904

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, 2012 and 2011
(Amounts in thousands of New Taiwan Dollars)

Description	2012	2011
Cash flows from operating activities :		
Net income	\$ 15,687,528	\$ 13,623,070
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	617,824	678,986
Amortization	1,753,083	1,027,349
Bad debt reversal	(90,204)	(87,757)
Allowance for sales returns and discounts	1,558,024	-
Amortization of financial assets discount or premium	-	(85)
Cash dividends from equity investees	2,741,603	166,503
Gain on recovery in market value and obsolescence of inventories	(1,201,731)	(588,362)
Net loss on disposal of property, plant and equipment	1,298	14,847
Net loss on disposal of intangible assets (included in other losses)	-	74
Net gain on equity investments	(9,389,978)	(8,662,095)
Adjustment of valuation on financial assets and liabilities	(3,993)	69,128
Loss on impairment of financial assets	84,998	-
(Gain) loss on disposal of investments	(692,391)	7,890
Deferred income tax	56,393	160,984
Employees' bonuses	895,875	1,714,243
Changes in operating assets and liabilities:		
Financial assets designated as at fair value through profit or loss	349,855	585,210
Accounts receivable	(1,504,221)	(126,761)
Receivables from related parties	29,706	(16,253)
Other receivables	(111,451)	(186,844)
Inventories	(3,108,873)	752,424
Prepayments	(23,851)	1,675,866
Other current assets	(106,263)	226,838
Deferred pension cost	(441)	-
Accounts payable	(146,279)	752,243
Payables to related parties	(2,798)	(259,218)
Income tax payable	408,371	(470,319)
Accrued expenses	(3,345,836)	(3,360,721)
Other current liabilities	(33,035)	205,013
Accrued pension liabilities	19,042	83,311
Net cash provided by operating activities	4,442,255	7,985,564
Cash flows from investing activities :		
Increase in restricted deposits	(102,037)	(30)
Increase in available-for-sale financial assets	(296,804)	(1,190,681)
Proceeds from disposal of available-for-sale financial assets	41,896	1,822,490
Purchase of investments accounted for using the equity method	(2,999,635)	-
Proceeds from disposal of investments accounted for using the equity method	1,528,400	-
Proceeds from equity investees' capital return	8,108,258	-
Purchase of property, plant and equipment	(431,187)	(454,463)
Increase in intangible assets	(1,048,090)	(117,203)
Decrease in refundable deposits	32,004	22,975
Net cash provided by investing activities	4,832,805	83,088
Cash flows from financing activities :		
Increase in short-term loans	2,179,150	-
Proceeds from exercise of employee stock options	1,510	3,494
Increase in deposits received	23,610	5,093
Cash dividends	(10,328,124)	(21,999,457)
Treasury stock repurchased	-	(2,109,914)
Net cash used in financing activities	(8,123,854)	(24,100,784)
Net increase (decrease) in cash and cash equivalents	1,151,206	(16,032,132)
Cash and cash equivalents at the beginning of the year	27,137,268	43,169,400
Cash and cash equivalents at the end of the year	\$ 28,288,474	\$ 27,137,268
Supplemental disclosures of cash flow information :		
Income tax paid during the year	\$ 303,578	\$ 644,813
Interest paid during the year	\$ 1,734	\$ 4,524
Activities partially affected cash flows :		
Purchase of property, plant and equipment	\$ (452,851)	\$ (454,463)
Increase in payables to contractors and equipment suppliers	21,664	-
Cash paid for the purchase of property, plant and equipment	\$ (431,187)	\$ (454,463)
Non-cash activities :		
Change in unrealized gain (loss) on financial instruments	\$ 657,151	\$ (139,416)
Cumulative translation adjustments	\$ (3,508,761)	\$ 2,127,226
Adjustments arising from changes in the percentage of ownership in investees	\$ 31,103	\$ 844
Adjustment of shareholders' equity from disposal of investments accounted for using the equity method	\$ (86,357)	\$ -
Adjustments of cash dividends distributed to subsidiaries holding the Company's stock	\$ 70,145	\$ 155,881
Shares issued to acquire new entities	\$ 56,898,535	\$ 12,814,375
Available-for-sale financial assets reclassified from investments accounted for using the equity method	\$ 560,270	\$ -

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

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, 2012 and 2011, total numbers of employees of the Company were 3,237 and 3,205, 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

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 using 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 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 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.
- 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 FINANCIAL STATEMENTS-(Continued)

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

Intangible Assets

A. Patents, software, 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:

Patents	2 to 7 Years
Software	2 to 5 Years
IPs and others	2 to 7 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.

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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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 a specific rate 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.

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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- 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.

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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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.
- 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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- 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 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.

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

MEDIATEK INC.**NOTES TO 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 the Company’s 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”, 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,	
	2012	2011
Savings and checking accounts	\$4,000,394	\$3,537,268
Time deposits	24,288,080	23,600,000
Total	<u>\$28,288,474</u>	<u>\$27,137,268</u>

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

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

a.	As of December 31,	
	2012	2011
Held-for-trading financial assets-Current		
Forward exchange contracts	<u>\$111</u>	<u>\$-</u>
b.	As of December 31,	
	2012	2011
Held-for-trading financial liabilities-Current		
Forward exchange contracts	<u>\$2,592</u>	<u>\$-</u>

The Company entered into derivative contracts during the years ended December 31, 2012 and 2011 to manage exposures to foreign exchange rate changes. The derivative contracts entered into by the Company did not meet the criteria of hedge accounting prescribed by SFAS No. 34. Therefore, they were recorded as the held-for-trading financial assets and liabilities-current. Please refer to Note 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)**

Forward exchange contracts entered into in 2011 had all been settled. As of December 31, 2012, outstanding forward exchange contracts were as follows:

As of December 31, 2012:

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 2013	15,000

Held-for-trading financial liabilities

<u>Financial instruments</u>	<u>Type</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>
Forward exchange contracts	Sell USD	January 2013	40,000

For the years ended December 31, 2012 and 2011, gain (loss) arising from the forward exchange contracts and the cross currency swap contracts were NT\$14,155 thousand and NT\$(35,438) thousand, respectively.

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

	As of December 31,	
	<u>2012</u>	<u>2011</u>
Convertible bonds	\$-	\$103,510
Interest rate-linked deposits	-	290,000
Credit-linked deposits	50,129	-
Total	<u>\$50,129</u>	<u>\$393,510</u>

Convertible bonds, interest rate-linked deposits, and credit-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>2012</u>	<u>2011</u>
Funds	\$1,716,165	\$1,571,100
Depository receipts (Note)	20,808	56,436
Common shares (Note)	909,114	-
Total	<u>\$2,646,087</u>	<u>\$1,627,536</u>

Note: The Company recognized an impairment loss of NT\$84,998 thousand for the year ended December 31, 2012 due to a prolonged market value decline.

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

(5) Accounts Receivable-Net

	As of December 31,	
	2012	2011
Accounts receivable	\$4,530,803	\$3,318,180
Less: Allowance for sales returns and discounts	(1,558,024)	-
Less: Allowance for doubtful accounts	(27,591)	(117,795)
Net	<u>\$2,945,188</u>	<u>\$3,200,385</u>

The Company entered into several factoring agreements without recourse with financial institutions. According to those agreements, the Company does not take the risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related accounts receivable after deducting the estimated value of commercial disputes. The Company has not withdrawn cash entitled by the factoring agreements from banks as of December 31, 2012 and 2011. Receivables from banks due to factoring agreement were NT\$1,880,539 thousand and NT\$1,588,941 thousand, respectively.

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

(a) As of December 31, 2012:

The Factor (Transferee)	Interest rate	Accounts receivable	Cash	Unutilized (US\$'000)	Credit line (US\$'000)
		derecognized (US\$'000)	withdrawn (US\$'000)		
Taishin International					
Bank	-	49,271	-	49,271	148,443
BNP Paribas	-	15,272	-	15,272	100,000
Total		<u>64,543</u>	<u>-</u>	<u>64,543</u>	<u>248,443</u>

(b) 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	-	31,601	-	31,601	123,830
BNP Bank	-	20,857	-	20,857	65,000
Total		<u>52,458</u>	<u>-</u>	<u>52,458</u>	<u>188,830</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(6) Other Receivables**

	As of December 31,	
	2012	2011
Interest receivable	\$50,239	\$70,101
Withholding tax and VAT refundable	620,878	492,271
Receivables from disposal of investment	1,000,000	-
Others	1,888,768	1,594,464
Total	\$3,559,885	\$2,156,836

As of December 31, 2012 and 2011, receivables from banks due to factoring agreement were NT\$1,880,539 thousand and NT\$1,588,941 thousand, respectively. Please refer to Note 4(5).

(7) Inventories-Net

	As of December 31,	
	2012	2011
Materials	\$243	\$-
Work in process	7,523,389	4,876,561
Finished goods	4,503,028	4,041,226
Subtotal	12,026,660	8,917,787
Less: Allowance for loss on decline in market value and obsolescence	(1,437,426)	(2,639,157)
Net	\$10,589,234	\$6,278,630

a. As of December 31, 2012 and 2011, the circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed. As a result, the Company recognized a reversal gain which was included in cost of goods sold in the amount of NT\$1,201,731 thousand and NT\$588,362 thousand, respectively.

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

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

	As of December 31,	
	2012	2011
Mutual funds	\$1,965,084	\$1,592,572

(9) Financial Assets Carried at Cost-Noncurrent

	As of December 31,	
	2012	2011
Non-publicly traded stocks	\$-	\$-

The carrying value has been fully written off due to impairment.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(10) Bond Portfolios with No Active Market**

	As of December 31,	
	2012	2011
Series B preferred stock	\$-	\$1,000,000
Less: Current portion	-	(1,000,000)
Total	\$-	\$-

a. 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.

b. The series B preferred stocks matured in December 2012. The redemption price NT\$1,000,000 thousand has been received in January 2013 and recorded as other receivables as of December 31, 2012.

(11) Investments Accounted for Using the Equity Method

Investee Company	Type	As of December 31, 2012		
		Share/unit	Amount	Ownership
MediaTek Investment Corp.	Common share	4,650,569,992	\$56,333,097	100.00%
Hsu-Ta Investment Corp.	Common share	290,970,405	2,527,137	100.00%
Ralink Technology Corporation	Common share	175,264,005	15,153,906	100.00%
MStar Semiconductor, Inc. (Cayman)	Common share	254,115,685	56,379,563	48.00%
MediaTek Singapore Pte. Ltd.	Common share	111,993,960	2,776,350	100.00%
Total			<u>\$133,170,053</u>	

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

Investee Company	Type	As of December 31, 2011		
		Share/unit	Amount	Ownership
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 Corporation	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)	
Total			<u>\$79,575,986</u>	

- b. For the years ended December 31, 2012 and 2011, the Company recognized an investment gain accounted for using the equity method in the amount of NT\$9,389,978 thousand and NT\$8,662,095 thousand, respectively, based on the audited financial statements of the investee companies.
- c. For the years ended December 31, 2012 and 2011, the Company recognized an unrealized gain (loss) of NT\$834 thousand and NT\$(273,266) thousand, respectively, in shareholders' equity for the changes in fair value of available-for-sale financial assets held by its investee companies accounted for using the equity method.
- d. The Company issued employee stock options to subsidiaries' employees for the years ended December 31, 2012 and 2011, and recorded an increase in capital reserve in the aggregate amount of NT\$49,661 thousand and NT\$88,803 thousand, respectively. Please refer to note 4(19).
- e. For the years ended December 31, 2012 and 2011, under the equity method, the Company recognized changes in investees' capital reserve by NT\$31,103 thousand and NT\$844 thousand, respectively.
- f. Hsu-Chung Investment Corp. and Hsu-Xin Investment Corp. were merged into MediaTek Investment Corp. on January 1, 2011.
- g. 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.
- h. In May 2012, the Company sold shares of ALi Corporation at the price of NT\$1,528,400 thousand, resulting in an investment disposal gain of NT\$684,785 thousand and a reduction of capital reserve of NT\$86,357 thousand. As the Company had lost its significant influence over ALi Corporation, the Company reclassified the remaining shares to available-for-sale financial assets-current.

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

- i. In 2012, the Company totally acquired 254,115,685 shares (48% of MStar's outstanding shares) of MStar Semiconductor, Inc. (Cayman) through a tender offer. The price of the tender offer was 1 MStar share in exchange for 0.794 share of the Company's common stock plus NT\$1 in cash. The Company aggregately issued 201,767,854 new shares and paid NT\$254,116 thousand in cash for this tender offer.
- j. The Company's subsidiaries: Hsu-Ta Investment Limited, Hsu-Chia Investment Limited and Hsu-Kang Investment Limited carried out a capital reduction and returned capital in the aggregate amount of NT\$8,108,258 thousand. Afterward, Hsu-Chia Investment Limited and Hsu-Kang Investment Limited were merged into Hsu-Ta Investment Limited on September 30, 2012. In addition, Hsu-Ta Investment Limited was reincorporated as a company limited by shares.
- k. In October 2012, the Company conducted a corporate reorganization by paying NT\$2,745,519 thousand to acquire all the shares of MediaTek Singapore Pte. Ltd. MediaTek Singapore Ltd. was previously held by the Company's subsidiary. Such a corporate reorganization had no effect on the Company's shareholders' equity.
- l. Investments mentioned above were not pledged as of December 31, 2012 and 2011.

(12) Property, Plant and Equipment

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

(13) Intangible Assets

	For the year ended December 31, 2012		
	Software	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$505,541	\$3,642,019	\$4,147,560
Increase - separately acquired	85,654	962,436	1,048,090
Decrease - elimination and others	24,428	1,057	25,485
Balance at end of period	615,623	4,605,512	5,221,135
Accumulated amortization			
Balance at beginning of period	(379,131)	(2,871,013)	(3,250,144)
Increase - amortization	(126,649)	(1,626,434)	(1,753,083)
Decrease - elimination and others	4,956	(88)	4,868
Balance at end of period	(500,824)	(4,497,535)	(4,998,359)
Net	\$114,799	\$107,977	\$222,776

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

	For the year ended December 31, 2011		
	Patents, IPs and		Total
	Software	Others	
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

(14) Short-Term Loans

	As of December 31,	
	2012	2011
Unsecured loans	\$2,179,150	\$-
Interest rate	0.49-0.50%	-

(15) Accrued Pension Liabilities

The Company's pension fund contributed to a fiduciary account in Bank of Taiwan amounted to NT\$51,664 thousand and NT\$49,558 thousand as of December 31, 2012 and 2011, respectively. The pension expenses under the Labor Pension Act amounted to NT\$277,781 thousand and NT\$257,512 thousand for the years ended December 31, 2012 and 2011, respectively.

a. The components of net pension cost under the Labor Standards Law were shown as follows:

	For the years ended December 31,	
	2012	2011
Service cost	\$2,323	\$2,990
Interest cost	9,103	11,604
Expected return on plan assets	(982)	(935)
Amortization and deferral	10,694	18,476
Net pension cost	\$21,138	\$32,135

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

	As of December 31,	
	2012	2011
Benefit obligations		
Vested benefit obligation	\$(6,746)	\$-
Non-vested benefit obligation	(265,000)	(213,579)
Accumulated benefit obligation	(271,746)	(213,579)
Effect of projected future salary increase	(289,755)	(241,578)
Projected benefit obligation	(561,501)	(455,157)
Fair value of plan assets	51,664	49,558
Funded status of pension plan	(509,837)	(405,599)
Unrecognized net transitional obligation	441	530
Unrecognized loss	353,109	268,241
Others	(63,796)	(53,710)
Accrued pension liabilities	\$(220,083)	\$(190,538)

- c. As of December 31, 2012 and 2011, the vested benefits were NT\$7,964 thousand and nil, respectively.

- d. The underlying actuarial assumptions

	For the years ended December 31,	
	2012	2011
Discount rate	1.75%	2.00%
Rate of increase in future compensation levels	3.00%	3.00%
Expected long-term rate of return on plan assets	1.75%	2.00%

(16) Capital

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

Based on the resolution of shareholders' general meeting on June 15, 2011, 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.

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

In 2011, the Company issued and registered 17,339 new shares at par value of NT\$10 for the employee stock options exercised.

Based on the resolution of shareholders' general meeting on June 13, 2012, the Company resolved to increase authorized shares to NT\$20,000,000 thousand, divided into 2,000,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options), each share at par value of NT\$10. The government approval has been successfully obtained.

The board of directors approved a tender offer to acquire shares of MStar Semiconductor, Inc. ("MStar") on June 22, 2012. The Company totally issued 201,767,854 new shares at par value of NT\$10 to acquire 48% shares of MStar. The government approval has been successfully obtained.

For the year ended December 31, 2012, the Company issued 93,449 new shares at par value of NT\$10 for the employee stock options exercised. Among those new shares, 10,225 shares (NT\$102 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance.

As of December 31, 2012, the authorized and issued common shares of the Company amounted to NT\$20,000,000 thousand and NT\$13,493,702 thousand, divided into 2,000,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,349,370,189 shares, respectively, each share at par value of NT\$10. Capital collected in advance was NT\$102 thousand.

(17) Legal Reserve

According to the amendment of R.O.C. Company Law, effective on January 4, 2012, 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. Where a company incurs no loss, it may distribute its legal reserve by issuing new shares to its original shareholders in proportion to the number of shares being held by each of them or by cash. Where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.

(18) Capital Reserve

	As of December 31,	
	2012	2011
Additional paid-in capital	\$78,042,994	\$23,161,573
Treasury stock transaction	1,011,446	941,301
Donated assets	1,260	1,260
Long-term investment transaction	170,123	225,366
Employee stock option	326,043	276,382
Total	\$79,551,866	\$24,605,882

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

(19) Employee Stock Options

- a. In December 2007, July 2009, May 2010, August 2011 and August 2012, the Company was authorized by the Financial Supervisory Commission, Executive Yuan, to issue employee stock options of 5,000,000 units, 3,000,000 units, 3,500,000 units, 3,500,000 units and 3,500,000 units, respectively, each unit 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 shares listed on the TWSE on the grant date.

Detail 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	447,964	447,964	\$358.0
2008.08.28	1,640,285	724,729	724,729	344.5
2009.08.18	1,382,630	733,613	733,613	431.0
2010.08.27	1,605,757	965,055	965,055	404.8
2010.11.04	65,839	17,714	17,714	377.0
2011.08.24	2,109,871	1,839,262	1,839,262	277.4
2012.08.14	1,346,795	1,317,156	1,317,156	286.8

Note: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash, the appropriations of earnings, issuance of new shares in connection with merger, or issuance of new shares to acquire shares of other companies) 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, 2012 and 2011, compensation costs recognized were NT\$49,661 thousand and NT\$88,803 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

	Employee Stock Option
Expected dividend yield	3.07%~6.63%
Expected volatility	34.41%~50.06%
Risk free interest rate	0.93%~2.53%
Expected life	6.5 years

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

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

	For the years ended December 31,			
	2012		2011	
Employee Stock Option	Options (Unit)	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Outstanding at beginning of period	5,198,793	\$359.6	4,327,687	\$416.0
Granted	1,346,795	286.8	2,109,871	280.0
Exercised	-	-	(9,062)	368.8
Forfeited (Expired)	(500,095)	337.6	(1,229,703)	399.9
Outstanding at end of period	<u>6,045,493</u>	332.7	<u>5,198,793</u>	359.6
Exercisable at end of period	<u>1,910,836</u>		<u>992,366</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$90.5</u>		<u>\$56.5</u>	

The information regarding the Company's outstanding stock options as of December 31, 2012 is disclosed as follows:

	Outstanding Stock Options			Exercisable Stock Options		
	Range of Exercise Price(NTD)	Options (Unit)	Weighted- average Expected Remaining Years	Weighted- average Exercise Price per Share (NTD)	Options (Unit)	Weighted- average Exercise Price per Share (NTD)
Stock option plan of 2007	\$344.5~358.0	1,172,693	2.01	\$364.9	1,172,693	\$349.7
Stock option plan of 2009	431.0	733,613	3.13	460.6	441,480	431.0
Stock option plan of 2010	377.0~404.8	982,769	4.17	429.2	296,663	404.3
Stock option plan of 2011	277.4	1,839,262	5.17	280.0	-	-
Stock option plan of 2012	286.8	<u>1,317,156</u>	6.13	291.0	-	-
		<u>6,045,493</u>		332.7	<u>1,910,836</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 the changes: a) the underlying shares have been changed to MTK's shares; and b) the number of shares each option can subscribe for has been changed according to the share exchange ratio stated in the share swap agreement.

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

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

Date of grant	Total number of options granted	Total number of options outstanding on the shares exchange date	Total number of options outstanding translated by share exchange ratio on the shares exchange date	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2006.06.30	91,000	1,575	499	-	-	\$14.3
2006.09.30	599,500	9,763	3,092	-	-	14.3
2006.12.31	78,000	3,936	1,247	-	-	14.3
2007.03.31	273,000	11,967	3,791	-	-	15.7
2007.06.30	150,000	32,879	10,416	2,394	2,394	15.7
2007.09.30	560,000	149,568	47,368	12,657	12,657	15.7
2007.12.30	17,000	944	299	-	-	15.7
2007.12.31	1,000,000	277,490	87,895	37,432	37,432	16.7

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

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

	<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 year ended December 31, 2012</u>	
<u>Employee Stock Option</u>	<u>Options (Unit)</u>	<u>Weighted-average Exercise Price per Share (NTD)</u>
Outstanding at beginning of period	144,735	\$16.3
Granted	-	-
Exercised	(92,252)	16.2
Forfeited (Expired)	-	-
Outstanding at end of period	<u>52,483</u>	16.4
Exercisable at end of period	<u>52,483</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$-</u>	

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

Other information is disclosed as follows:

Authorized issue date	Range of Exercise Price (NTD)	Outstanding Stock Options			Exercisable Stock Options	
		Options (Unit)	Weighted- average Expected Remaining Years	Weighted- average Exercise Price per Share (NTD)	Options (Unit)	Weighted- average Exercise Price per Share (NTD)
2007.01.29	\$15.7	15,051	-	\$15.7	15,051	\$15.7
2007.10.30	16.7	37,432	-	16.7	37,432	16.7
		<u>52,483</u>		16.4	<u>52,483</u>	

(20) 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; where such legal reserve amounts to the total authorized capital, this provision shall not apply.
- d. Special reserve in compliance with the Company Law or the Securities and Exchange Law;
- e. Remuneration for directors and supervisors to a maximum of 0.5% of the remaining current year's earnings after deducting item (a) through (d). Remuneration for directors and supervisors' services is limited to cash payments.
- f. The remaining after all above appropriations and distributions, combining with undistributed earnings from prior years, shall be fully for shareholders' dividends and employees' bonuses and may be retained or distributed proportionally. The portion of employees' bonuses may not be less than 1% of total earnings resolved to distribute for shareholders' dividends and employees' bonuses. Employees' bonuses may be distributed in the form of shares or cash, or a combination of both. Employees' of the Company's subsidiaries, meeting certain requirements determined by the board of directors, are also eligible for the employees' stock 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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

During the years ended December 31, 2012 and 2011, the amounts of the employees' bonuses were estimated to be NT\$895,875 thousand and NT\$1,714,243 thousand, respectively. During the years ended December 31, 2012 and 2011, the amounts of remunerations to directors and supervisors were estimated to be NT\$24,421 thousand and NT\$24,687 thousand, respectively. Employees' bonuses were estimated based on a specific rate of net income for the years ended December 31, 2012 and 2011 (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 employees' 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.

The appropriations of earnings for 2011 and 2010 were resolved by the board of directors' meeting on March 21, 2012 and March 16, 2011, while the appropriations of earnings for 2011 and 2010 were resolved by the shareholders' general meeting on June 13, 2012 and June 15, 2011. The amounts resolved in the shareholders' general meeting were consistent with those determined by the board of directors. The details of the distribution are as follows:

	For the years ended December 31,	
	2011	2010
Directors' and supervisors' remuneration	\$28,497	\$48,045
Employees' bonuses-cash	\$1,714,243	\$3,863,296
Cash dividends	\$10,328,124	\$21,999,457

The difference between the resolution of the shareholders' general meeting and the estimated expense of the directors' and supervisors' remuneration and the employees' bonuses for 2011 are as follows:

Appropriations	The amount resolved by the shareholders' general meeting	Expense estimated	Difference	Difference reasons and the accounting treatment
Employees' bonuses				
-cash	\$1,714,243	\$1,714,243	\$-	-
Directors' and supervisors' remuneration	\$28,497	\$24,687	\$3,810	(Note)

Note: The difference, which was resulted from different calculation basis between the original accrual and the amount actually paid, was included in the profit or loss in 2012.

The appropriation of earnings for 2012 was not resolved by the board of directors' meeting up to March 29, 2013. 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)**

(21) Treasury Stock

a. The Company purchases its own shares as treasury stock from Taiwan Stock Exchange. Changes in treasury stock during the years ended December 31, 2012 and 2011 are as follows:

(a)

(i) For the year ended December 31, 2012

None

(ii) 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 purchased during 2011 were fully retired 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 subsidiaries are accounted for as treasury stock. Details of the Company's shares owned by subsidiaries are shown as follows:

Owner	January 1, 2012		Additions		Disposal			December 31, 2012		
	Shares	Amount	Shares	Amount	Shares	Amount	Price	Shares	Amount	Market Value
MediaTek Capital Corp.	7,794,085	\$55,970	-	\$-	-	\$-	\$-	7,794,085	\$55,970	\$2,521,386

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

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

(22) Net Sales

	For the years ended December 31,	
	2012	2011
Revenues from sales of multimedia and cell phone chipsets	\$72,970,234	\$56,304,042
Other operating revenues	1,111,166	981,498
Subtotal	74,081,400	57,285,540
Less: Sales returns	(24,264)	(26,338)
Sales discounts	(10,583,107)	(3,416,836)
Net Sales	\$63,474,029	\$53,842,366

(23) Personnel, Depreciation and Amortization Expenses

	For the years ended December 31,					
	2012			2011		
	Recorded under cost of goods sold	Recorded under operating expenses	Total	Recorded under cost of goods sold	Recorded under operating expenses	Total
Personnel Expense						
Salaries & wages	\$182,112	\$7,727,255	\$7,909,367	\$212,146	\$9,032,206	\$9,244,352
Insurance	12,838	350,181	363,019	10,630	320,790	331,420
Pension	10,510	288,409	298,919	10,601	332,272	342,873
Others	5,138	168,397	173,535	4,288	156,252	160,540
Total	\$210,598	\$8,534,242	\$8,744,840	\$237,665	\$9,841,520	\$10,079,185
Depreciation	\$2,858	\$614,966	\$617,824	\$4,944	\$674,042	\$678,986
Amortization	\$193	\$1,752,890	\$1,753,083	\$777	\$1,026,572	\$1,027,349

(24) Income Tax

a.

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

	For the years ended December 31,	
	2012	2011
Income tax payable	\$125,497	\$59,998
Additional income tax under Alternative Minimum Tax Act	463,535	75,275
10% surtax on undistributed earnings	392,045	202,285
Investment tax credits	(392,045)	(202,285)
Deferred income tax effects		
Investment tax credits	2,776,409	2,144,566
Valuation allowance	(2,843,250)	(2,286,930)
Others	123,234	303,348
Others	122,917	39,221
Income tax expense from continuing operations	\$768,342	\$335,478

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

	As of December 31,	
	2012	2011
Deferred income tax assets-noncurrent	\$2,061	\$4,471,659
Valuation allowance for deferred income tax assets-noncurrent	-	(4,366,057)
Net deferred income tax assets-noncurrent	2,061	105,602
Deferred income tax liabilities-noncurrent	(1,158,925)	(927,141)
Net deferred income tax assets and liabilities-noncurrent	<u>\$ (1,156,864)</u>	<u>\$ (821,539)</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, 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 2009 have been assessed by the tax authorities. For the 2009 return, the tax authorities have assessed additional taxes. The discrepancy between the Company’s tax return filing and the result of tax authority’s assessment was mainly due to different interpretations by applying rules. Although the Company has vigorously filed several administrative appeals to tax authorities and courts, the Company has paid the amount in full.
- e. The Company’s available investment tax credits as of December 31, 2012 are as follows:

Total credit amount	Unused amount	Year expired
<u>\$3,984,358</u>	<u>\$3,984,358</u>	2013

f.

Integrated income tax information

	As of December 31,	
	2012	2011
Balance of the imputation credit account (ICA)	<u>\$1,207,765</u>	<u>\$1,260,691</u>
Expected (Actual) creditable ratio	<u>2.87% (Note)</u>	<u>2.56%</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, 2012.

- 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)****(25) 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 (NT\$)</u>	
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2012</u>					
Basic EPS					
Net income	\$16,455,870	\$15,687,528	1,216,422,577	<u>\$13.53</u>	<u>\$12.90</u>
Effect of dilutive potential common shares:					
Bonuses to employees	-	-	5,891,802		
Stock options to employees	-	-	194,395		
Diluted EPS	<u>\$16,455,870</u>	<u>\$15,687,528</u>	<u>1,222,508,774</u>	<u>\$13.46</u>	<u>\$12.83</u>

	<u>Amount (Numerator)</u>		<u>Shares (Denominator)</u>	<u>Earnings per share (NT\$)</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	<u>\$12.65</u>	<u>\$12.35</u>
Effect of dilutive potential common shares:					
Bonuses to employees	-	-	12,326,822		
Stock options to employees	-	-	133,816		
Diluted EPS	<u>\$13,958,548</u>	<u>\$13,623,070</u>	<u>1,115,570,960</u>	<u>\$12.51</u>	<u>\$12.21</u>

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 (NT\$)</u>	
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>
<u>For the year ended December 31, 2012</u>					
Pro-forma EPS					
Net income	\$16,455,870	\$15,687,528	1,216,422,577		
The effect of the Company's shares owned by its subsidiary not treated as treasury stock	<u>70,145</u>	<u>70,145</u>	<u>7,794,085</u>		
Total	<u>\$16,526,015</u>	<u>\$15,757,673</u>	<u>1,224,216,662</u>	<u>\$13.50</u>	<u>\$12.87</u>

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 (NT\$)</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	<u>\$14,114,429</u>	<u>\$13,778,951</u>	<u>1,110,904,407</u>	<u>\$12.71</u>	<u>\$12.40</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
Airoha Technology Corp. ("Airoha")	Equity investee
ALi Corporation ("ALi")	Equity investee (Note 1)
JMicron Technology Corporation ("JMicon")	The Company's chairman doubles as JMicon's chairman
Andes Technologies, Inc. ("Andes")	The Company's chairman doubles as Andes's chairman
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
Lepower Technologies (Beijing) Inc. ("LEPB")	Affiliated company
MediaTek China Limited ("MHK")	Affiliated company
Ralink Technology Corp. ("Ralink")	Affiliated company (Note 2)
MediaTek Investment Corp. ("MIC")	Affiliated company
MediaTek Capital Corp. ("MCC")	Affiliated company
Hsu-Ta Investment Corp. ("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 1: Information disclosed herein includes only those transactions with ALi occurred before May 7, 2012, the day the Company sold part of shares of ALi and ceased using the equity method.

Note 2: 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 years ended December 31,			
	2012		2011	
	Amount	% of net sales	Amount	% of net sales
MSL	\$421,587	0.66	\$553,763	1.03
ALi	-	-	95,693	0.18
Airoha	874	-	-	-
Total	\$422,461	0.66	\$649,456	1.21

For the years ended December 31, 2012 and 2011, the trade credit terms for related parties and third-party customers were both 45 to 60 days. Third-party customers may prepay their accounts in advance. The Company's sales to MSL and ALi were royalty revenues, which were charged based on the royalty agreements with ALi and MSL.

b. IC testing, experimental services and manufacturing technology services

	Transactions	For the years ended December 31,	
		2012	2011
King Yuan	IC testing ,experimental and manufacturing technology services	\$1,297,002	\$1,217,537

c. Rental Income

	Rental Income		Other Receivables	
	For the years ended December 31,		As of December 31,	
	2012	2011	2012	2011
JMicron	\$8,759	\$8,969	\$766	\$327
RollTech	1,920	480	168	168
Airoha	57	-	30	-
Andes	114	-	-	-
MIC	-	34	-	-
MCC	-	34	-	-
Hsu-Ta	-	34	-	-
Hsu-Chia	-	34	-	-
Hsu-Kang	-	34	-	-
Total	\$10,850	\$9,619	\$964	\$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. In 2012, the Company had made R&D payment on behalf of LEPB in the aggregate amount of NT\$5,827 thousand, which was recorded in other receivables.
- e. 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, 2012		As of December 31, 2011	
	Endorsement limit	Actual amount	Endorsement limit	Actual amount
MUK	\$26,322	\$26,322	\$26,123	\$26,123
MWS	55,677	55,677	76,629	76,629
GCL	15,000,000	5,827,200	15,000,000	2,877,550
CTR	2,000,000	-	2,000,000	-
MHK	7,000,000	874,080	7,000,000	-
Ralink	65,337	65,337	67,925	67,925
Total	<u>\$24,147,336</u>	<u>\$6,848,616</u>	<u>\$24,170,677</u>	<u>\$3,048,227</u>

- f. Significant fixed asset transaction

	Transactions	For the years ended December 31,	
		2012	2011
Ralink	Purchase of fixed assets	<u>\$-</u>	<u>\$1,400</u>

(3) Receivables and payables resulted from the above transactions

- a. Receivables from related parties

	As of December 31,			
	2012		2011	
	Amount	%	Amount	%
MSL	\$31,712	1.07	\$37,851	1.16
ALi	-	-	23,567	0.72
	<u>\$31,712</u>	<u>1.07</u>	<u>\$61,418</u>	<u>1.88</u>

- b. Payables to related parties

	As of December 31,			
	2012		2011	
	Amount	%	Amount	%
King Yuan	<u>\$116,392</u>	<u>1.75</u>	<u>\$119,190</u>	<u>1.75</u>

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

c. Remunerations paid to major managers

	For the years ended December 31,	
	2012	2011
Salaries, rewards, compensation, special allowances and bonuses	\$159,972 (Note)	\$169,702

Note: The 2012 employee bonus was not included as it has not been resolved.

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, 2012

	Amount	Party to which assets was pledged	Purpose of pledge
Restricted deposits-current	\$6,917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,067	Customs Office	Customs clearance deposits
Restricted deposits-current	102,000	Institute for Information Industry	Project performance deposits
Total	<u>\$111,984</u>		

(2) 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	Customs clearance deposits
Total	<u>\$9,947</u>		

7. Commitments and Contingencies

(1) Lawsuit:

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

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

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

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

U.S. International Trade Commission issued an Initial Determination for the above referenced matter on July 12, 2012 that found no violation of Section 337 of the Tariff Act by the Company's products, Freescale failed to establish the domestic industry element, Freescale's asserted patent claims are invalid, and the Company's products do not infringe the asserted patent claims. On September 12, 2012, the U.S. International Trade Commission issued a Notice of its affirmation of all of the findings listed above and the termination this investigation.

Freescale also filed a complaint in the United States District Court for the 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 alleged that the Company's DTV chips infringe its patent and sought damages and an injunction to prevent the accused products from being sold in the future.

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

Freescale filed a complaint in the U.S. International Trade Commission against the Company and thirteen other Respondents on November 30, 2011 alleging infringement of United States Patent No. 5,467,455. Freescale alleged that the Company's DTV chips infringe its patent and sought to prevent the accused products from being imported into the United States. U.S. International Trade Commission issued an Initial Determination for the above referenced matter on September 28, 2012, granting the Company and other Respondents' request to terminate this investigation. On October 31, 2012, the U.S. International Trade Commission issued a Notice of its affirmation of the Initial Determination, formally terminating this investigation.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

Additionally, Freescale filed a complaint in the United States District Court for the Western District of Texas against the Company on July 6, 2012 alleging infringement of United States Patent Nos. 6,920,316, 5,825,640, 5,943,274. Freescale alleged that the Company's DTV chips infringe its patents and sought damages and an injunction to prevent the accused products from being sold in the future.

- c. LSI Corporation ("LSI") and Agere Systems Inc. ("Agere") filed a complaint with the U.S. International Trade Commission against ten respondents on March 12, 2012 alleging infringement of United States Patent Nos. 5,870,087, 6,452,958, 6,707,867, and 6,982,663, and seeking to prevent the accused products from being imported into the United States. Specifically, LSI and Agere asserted that the DVD/Blu-ray Player and DTV chips of the Company and subsidiaries MediaTek USA Inc. and MediaTek Wireless, Inc. (USA), infringe the foregoing patents. In addition, LSI and Agere asserted that the Wi-Fi chips of subsidiaries Ralink Technology Corp. and Ralink Technology Corp. (USA) also infringed some of the aforementioned patents.

The Company and LSI entered into a termination agreement pursuant to which the above referenced action was officially terminated by the U.S. International Trade Commission on February 13, 2013 with respect to the Company and subsidiary Ralink Technology Corp.

- d. Lantiq Deutschland GMBH ("Lantiq") filed a complaint alleging patent infringement against TrendChip Technologies Corp.'s customer, Billion Electric Co. Ltd. ("Billion") in 2010 in Germany. Trendchip Technologies Corp. was later merged into Ralink Technology Corporation ("Ralink"), which is now a wholly-owned subsidiary of the Company. Since Lantiq's patent infringement allegation is related to Ralink's DSL products, Ralink is assisting Billion in the above referenced matter. In addition, Ralink filed a patent nullity suit against Lantiq in the Federal Patent Court of Germany to invalidate the asserted patent. Ralink also filed a complaint in Wisconsin, USA against Lantiq on November 8, 2010 alleging infringement of United States Patent No. 5,394,116. Lantiq and Lantiq North America, Inc. later filed a complaint in the United States District Court for the Northern District of California against Ralink and Ralink Technology Corp. (USA) in January, 2011, alleging infringement of United States Patent Nos. 6,351,799 and 7,061,904. Lantiq alleged patent infringement by Ralink's networking and computing chips and asked the court to declare non-infringement and invalidity of the United States Patent No. 5,394,116. The Wisconsin case was transferred to United States District Court for the Northern District of California in March 2011. These two cases have been consolidated per the court's order. On May 2, 2012, Lantiq added the Company and subsidiaries MediaTek USA Inc. and MediaTek Wireless, Inc. (USA) as co-defendants. The operations of the Company and subsidiary Ralink would not be materially affected by those patent litigations.

The Company and Lantiq entered into a settlement and patent license agreement to settle all pending patent litigations and to dismiss all proceedings pending against each other including the above referenced litigations on February 4, 2013.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

- e. Azure Networks, LLC and Tri-County Excelsior Foundation filed a complaint in the United States District Court for the Eastern District of Texas against the Company's subsidiaries Ralink and Ralink Technology Corporation (USA), along with other defendants in March 2011, alleging infringement of United States Patent No. 7,756,129. On April 6, 2012, Azure Networks, LLC and Tri-County Excelsior Foundation filed a complaint in the United States District Court for the Eastern District of Texas against the Company alleging infringement of the same patent referenced above. The operation of the Company and subsidiaries Ralink and Ralink Technology Corporation (USA) would not be materially affected by those patent litigations.
- f. Commonwealth Scientific and Industrial Research Organization filed a complaint in the United States District Court for the Eastern District of Texas against the Company and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA), along with other defendants on August 27, 2012, alleging infringement of United States Patent No. 5,487,069. The operations of the Company and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA) would not be materially affected by this case.
- g. Palmchip Technology Corporation filed a complaint in the Superior Court of California in the County of Santa Clara against the Company and subsidiaries MediaTek USA Inc., Ralink and Ralink Technology Corporation (USA) on October 19, 2012, asserting claims of breach of contract. The operations of the Company and subsidiaries MediaTek USA Inc., Ralink and Ralink Technology Corporation (USA) would not be materially affected by this case.

The Company will handle these cases carefully.

(2) Operating Lease:

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

Lease Period	Amount
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
2017.01.01~2017.12.31	30,371
2018.01.01~2027.12.31	183,677
Total	<u>\$335,532</u>

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

MEDIATEK INC.

NOTES TO 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,			
	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
Assets				
Cash and cash equivalents	\$28,288,474	\$28,288,474	\$27,137,268	\$27,137,268
Financial assets designated as at fair value through profit or loss	\$50,129	\$50,129	\$393,510	\$393,510
Receivables (including related parties)	\$2,976,900	\$2,976,900	\$3,261,803	\$3,261,803
Other receivables	\$3,559,885	\$3,559,885	\$2,156,836	\$2,156,836
Available-for-sale financial assets	\$4,611,171	\$4,611,171	\$3,220,108	\$3,220,108
Bond portfolios with no active market	\$-	\$-	\$1,000,000	\$1,059,128
Investments accounted for using the equity method				
-with market value	\$56,379,563	\$55,397,219	\$1,422,648	\$1,919,747
-without market value	\$76,790,490	\$-	\$78,153,338	\$-
Refundable deposits	\$109,598	\$109,598	\$141,602	\$141,602
Restricted assets	\$111,984	\$111,984	\$9,947	\$9,947
Liabilities				
Short-term loans	\$2,179,150	\$2,179,150	\$-	\$-
Payables (including related parties)	\$6,666,470	\$6,666,470	\$6,815,547	\$6,815,547
Accrued expenses	\$10,406,921	\$10,406,921	\$12,856,882	\$12,856,882
Payables to contractors and equipment suppliers	\$21,664	\$21,664	\$-	\$-
Deposits received	\$29,579	\$29,579	\$5,969	\$5,969
<u>Derivative</u>				
Assets				
Held-for-trading financial assets	\$111	\$111	\$-	\$-
Liabilities				
Held-for-trading financial liabilities	\$2,592	\$2,592	\$-	\$-

(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 (including related parties), other receivables, short-term loans, payables (including related parties), accrued expenses and payables to contractors and equipment suppliers.

(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, held-for-trading financial liabilities 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 using the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.
 - (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) Losses recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$562 thousand and NT\$23,367 thousand for the years ended December 31, 2012 and 2011, respectively.
- (c) As of December 31, 2012 and 2011, financial assets exposed to fair value risk from fixed interest rate were NT\$24,440,359 thousand and NT\$23,703,660 thousand, respectively, and financial liabilities exposed to fair value risk from fixed interest rate were NT\$2,179,150 thousand and nil, respectively. Financial assets exposed to cash flow risk from variable interest rate were NT\$9,834 thousand and NT\$299,797 thousand, respectively, and financial liabilities exposed to cash flow risk from variable interest rate were nil.
- (d) Interest income recognized from financial assets that were not at fair value through profit or loss amounted to NT\$304,320 thousand and NT\$390,100 thousand for the years ended December 31, 2012 and 2011, respectively. Interest expenses recognized from financial liabilities that were not at fair value through profit or loss were NT\$1,734 thousand and NT\$4,524 thousand for the years ended December 31, 2012 and 2011, respectively. The Company recognized unrealized gains of NT\$660,882 thousand and NT\$125,960 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2012 and 2011, respectively, and the amounts that were recycled from equity to gain (loss) were NT\$4,565 thousand and NT\$(7,890) thousand for the years ended December 31, 2012 and 2011, respectively. The Company also recognized an unrealized gain (loss) of NT\$834 thousand and NT\$(273,266) thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for using the equity method for the years ended December 31, 2012 and 2011, respectively. Please refer to Note 4.(11) 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) Impairment losses recognized from financial assets were NT\$84,998 thousand and nil for the years ended December 31, 2012 and 2011, respectively.

b.

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

The Company held certain non-derivative financial instruments, including cash and cash equivalents, short-term loans, available-for-sale financial assets, 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, 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. 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\$550 thousand and nil as of December 31, 2012 and 2011, respectively. Credit-linked deposits and interest rate-linked deposits are affected by interest rates. When interest rate increases, the market value may decrease and may even be below the initial investment cost, and vice versa. The fair value of exchange rate-linked deposits is affected by interest rate fluctuation. The fair value of mutual fund, corporate bonds, government bonds and financial debentures will be exposed to fluctuations from other market factors as well as movement in interest rates.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

Credit risk

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

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

Liquidity risk

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

Except for financial assets carried at cost, bond portfolios with no active market and certain 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 at 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 since October 1, 2011 have been included in the Company's income statement. Pro-forma information which assumes that the Company had merged Ralink since January 1, 2011 is disclosed as follows:

	<u>For the year ended December 31, 2011</u>
Net sales	<u>\$53,842,366</u>
Net income	<u>\$13,465,638</u>
Basic earnings per share (in NTD)	<u>\$11.76</u>

(3) Other Information

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

	<u>As of December 31,</u>					
	<u>2012</u>			<u>2011</u>		
	<u>Foreign Currency (thousand)</u>	<u>Exchange rate</u>	<u>NTD (thousand)</u>	<u>Foreign Currency (thousand)</u>	<u>Exchange rate</u>	<u>NTD (thousand)</u>
<u>Financial assets</u>						
<u>Monetary item</u>						
USD	\$309,475	\$29.136	\$9,016,877	\$252,855	\$30.29	\$7,658,970
<u>Investments accounted for using equity method</u>						
USD	\$2,030,337	\$29.136	\$59,155,913	\$-	\$-	\$-
<u>Financial liabilities</u>						
<u>Monetary item</u>						
USD	\$249,027	\$29.136	\$7,255,657	\$243,966	\$30.29	\$7,389,724

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS-(Continued)

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

b. Tender offer of MStar Semiconductor Inc. (Cayman)

In order to enhance the operating performance and competitiveness, the board of directors approved a tender offer to acquire shares of MStar Semiconductor, Inc. (“MStar”) on June 22, 2012, and the Company plans to merge MStar after the tender offer. The terms of the tender offer was 1 MStar share in exchange for 0.794 the Company share plus NT\$1 in cash. The Company totally acquired 254,115,685 shares (48% of MStar’s outstanding shares) of MStar. Totally 201,767,854 new shares were issued and NT\$254,116 thousand was paid as the considerations.

A merger agreement was approved by the special shareholders’ meeting of both companies on October 12, 2012. Based on the resolution of the special shareholders’ meeting, the Company expects to issue 218,581,841 new shares and pay NT\$275,292 thousand in cash to acquire the remaining 52% shares of MStar. The number of shares to be issued and the amount of cash to be paid were subsequently adjusted to be 221,123,877 shares and NT\$278,494 thousand, based on the Company’s board resolution dated October 29, 2012. The tentative effective merger date was tentatively set on August 1, 2013 that was announce on March 18, 2013, subject to approvals from the relevant legal and regulatory authorities.

c. Certain accounts in the financial statements of the Company as of December 31, 2011 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 on March 29, 2013.

13. IFRSs Adoption Information

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

9.8. The Impact on the Company's Financial Status in Cases where the Company or its Affiliates have Financial Difficulties:

None.



MEDIATEK

聯發科技股份有限公司

www.mediatek.com