

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

MEDiatek INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS THEN ENDED
DECEMBER 31, 2012 AND 2011

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.

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		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	5	1,003,337	958,936
Held-to-maturity financial assets-current	2, 4(5)	-	48,126	Income tax payable	2, 4(28)	1,053,591	681,003
Bond portfolios with no active market-current	2, 4(13)	-	1,000,000	Accrued expenses	2, 4(24)	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		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	4(19)	29,136	18,081
Inventories, net	2, 4(8)	13,867,311	9,392,282	Other current liabilities		610,139	752,407
Prepayments		1,141,033	689,987	Deferred income tax liabilities-current	2, 4(28)	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	836,999
Total funds and investments		65,120,332	9,416,963	Total liabilities		34,468,843	31,412,781
Property, plant and equipment	2, 4(15)			Shareholders' equity			
Land		1,273,869	1,055,184	Equity attributable to shareholders of the parent			
Buildings and facilities		6,789,307	6,135,210	Capital	4(14), 4(20)		
Machinery and equipment		125,761	159,305	Common stock		13,493,702	11,475,108
Computer and telecommunication equipment		2,071,672	1,952,134	Capital collected in advance		102	83
Testing equipment		3,013,052	2,817,023	Capital reserve	2, 4(22)		
Miscellaneous equipment		1,141,325	1,126,343	Additional paid-in capital in excess of par		78,042,994	23,161,573
Total cost		14,414,986	13,245,199	Treasury stock transaction		1,011,446	941,301
Less : Accumulated depreciation		(5,848,890)	(4,963,794)	Donated assets		1,260	1,260
Add : Construction in progress		2,054,361	1,452,404	Long-term investment transaction	4(14)	170,123	225,366
Prepayments for equipment		87,132	76,242	Employee stock option	4(23)	326,043	276,382
Property, plant and equipment, net		10,707,589	9,810,051	Total capital reserve		79,551,866	24,605,882
Intangible assets	2, 4(16)			Retained earnings	4(21), 4(24)		
Trademarks		14,939	27,448	Legal reserve		23,072,429	21,710,122
Patents		548,129	256,844	Special reserve		2,210,312	4,198,121
Software		176,262	279,424	Undistributed earnings		62,539,888	56,554,982
Goodwill		13,949,611	13,428,387	Other adjustments			
Deferred pension cost	2, 4(17)	441	-	Cumulative translation adjustments	2	(5,762,265)	(2,253,504)
IPs and others		1,152,854	2,158,556	Net loss not recognized as pension cost		(10,503)	-
Total intangible assets		15,842,236	16,150,659	Unrealized gain (loss) on financial instruments	2	700,343	43,192
Other assets				Treasury stock	2, 4(25)	(55,970)	(55,970)
Refundable deposits		206,393	265,431	Total shareholders' equity attributable to parent company		175,739,904	116,278,016
Deferred charges	2	24,905	51,379	Minority interests		34,209	50,311
Deferred income tax assets-noncurrent	2, 4(28)	266,785	-	Total shareholders' equity		175,774,113	116,328,327
Restricted assets-noncurrent	6	400	671				
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	Total liabilities and shareholders' equity		\$ 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)	<u>Before tax</u> <u>After tax</u>	<u>Before tax</u> <u>After tax</u>
Consolidated net income		\$ 13.66 \$ 12.87	\$ 12.87 \$ 12.34
Net income attributable to minority interests		0.03 0.03	0.01 0.01
Net income attributable to the parent		\$ 13.69 \$ 12.90	\$ 12.88 \$ 12.35
Diluted Earnings Per Share (in New Taiwan Dollars)	2, 4(29)	<u>Before tax</u> <u>After tax</u>	<u>Before tax</u> <u>After tax</u>
Consolidated net income		\$ 13.60 \$ 12.80	\$ 12.73 \$ 12.20
Net income attributable to minority interests		0.03 0.03	0.01 0.01
Net income attributable to the parent		\$ 13.63 \$ 12.83	\$ 12.74 \$ 12.21

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)
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	-	-	-	-	-	-	-	-	-	(2,109,914)	(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	-	88,803
Issuance of stock from exercising employee stock options	455	(282)	3,321	-	-	-	-	-	-	-	3,494	-	3,494
The effects of subsidiaries' shareholding of the Company's stock													
recorded as treasury stock	-	-	155,881	-	-	-	-	-	-	-	155,881	-	155,881
Adjustment arising from changes in the percentage of ownership in investees	-	-	844	-	-	-	-	-	-	-	844	-	844
Cumulative translation adjustments	-	-	-	-	-	-	2,127,226	-	-	-	2,127,226	-	2,127,226
Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	50,086	50,086
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	-	-	-	-	-	-	-	31,103	-	31,103
Net loss not recognized as pension cost	-	-	-	-	-	-	-	(10,503)	-	-	(10,503)	-	(10,503)
Cumulative translation adjustments	-	-	-	-	-	-	(3,508,761)	-	-	-	(3,508,761)	-	(3,508,761)
Decrease 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	11,402,932	16,707,372
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
Decrease 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	(4,177,212)	1,015,627
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	(5,421,035)	(19,916,869)
Effect of exchange rate	(1,758,913)	2,087,951
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	\$ 85,867,210	\$ 85,821,438
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	\$ (2,268,459)	\$ (2,584,699)
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	\$ 560,270	\$ -

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 As of December 31,		Note
		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)**

Company	Main Business	Percentage of Ownership As of December 31,		Note
		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)

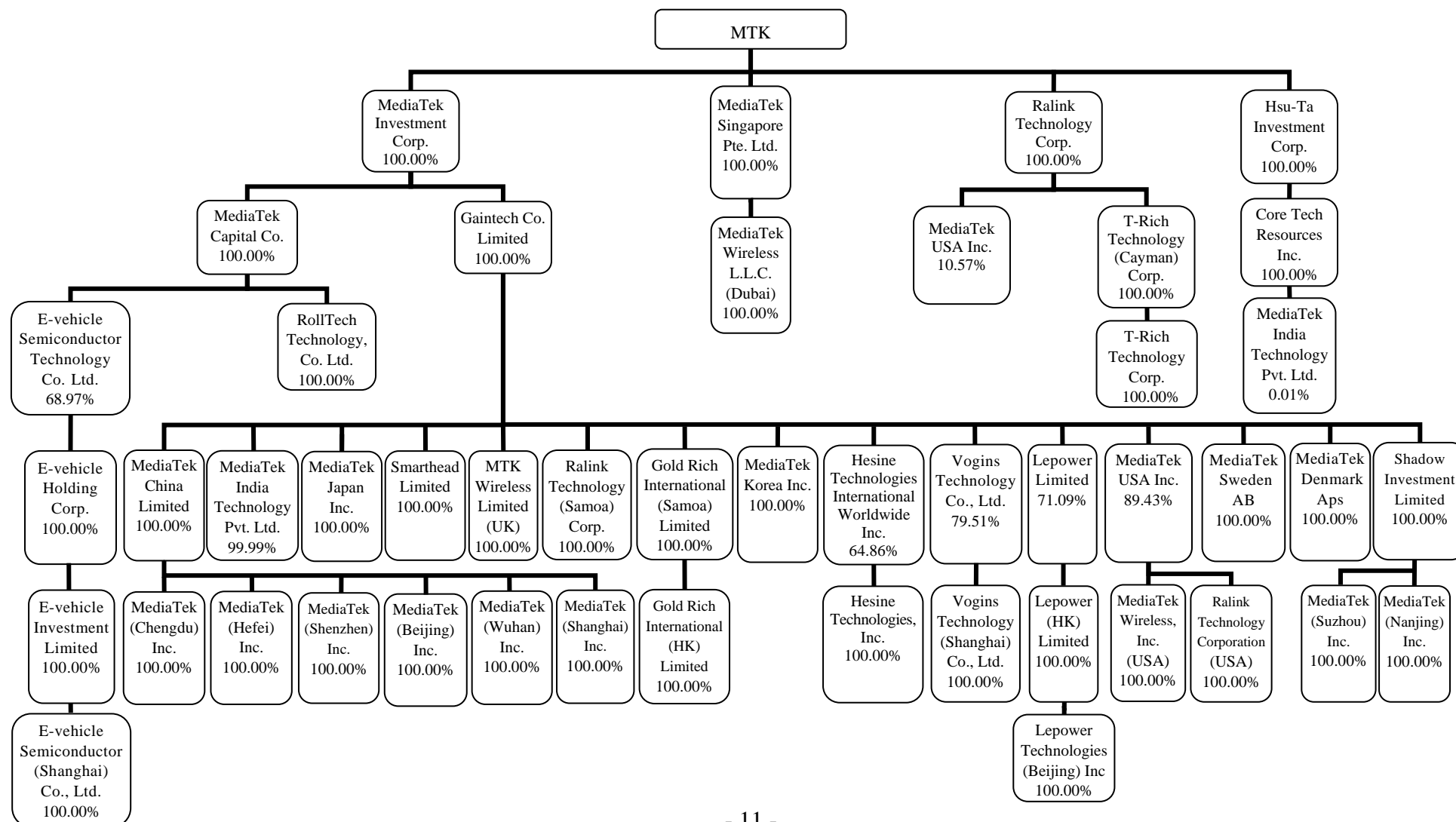
4. E-vehicle Holding Corp. established E-vehicle Investment Limited in September 2012.
5. E-vehicle Investment Limited established E-vehicle Semiconductor (Shanghai) Co., Ltd. in September 2012.
6. MediaTek China Limited established MediaTek (Shanghai) Inc. in January 2011.
7. MediaTek Inc. acquired 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)

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

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

Held-for-trading financial liabilities

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

(b) As of December 31, 2011:

Held-for-trading financial assets

Financial instruments	Type	Maturity	Contract amount (USD'000)
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,	
	2012	2011
Convertible bonds	\$-	\$103,510
Credit-linked deposits	281,259	-
Interest rate-linked deposits	348,409	1,513,840
Total	\$629,668	\$1,617,350

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.

As of December 31, 2012				
Investee Company	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>	

As of December 31, 2011				
Investee Company	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	<u>\$79,551,866</u>	<u>\$24,605,882</u>

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	
	Options	Weighted-average Exercise Price per Share (NTD)	Options	Weighted-average Exercise Price per Share (NTD)
Employee Stock Option	(Unit)		(Unit)	
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>-</u>	<u>-</u>
		<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	52,483	16.4
Exercisable at end of period	52,483	
Weighted-average fair value of options granted during the period (in NTD)	\$-	

Other information is disclosed as follows:

		Outstanding Stock Options			Exercisable Stock Options	
Range of			Weighted- average Expected	Weighted- average Exercise Price		Weighted- average Exercise Price
Authorized issue date	Price (NTD)	Options (Unit)	Remaining Years	per Share (NTD)	Options (Unit)	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
		52,483		16.4	52,483	

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:

	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.

(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)

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

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

(b) According to the Securities and Exchange Law of R.O.C., the total shares of treasury stock shall not exceed 10% of MTK's issued stock, and the total purchase amount shall not exceed the sum of retained earnings, additional paid-in capital in excess of par and realized additional paid-in capital. As such, the maximum number of shares of treasury stock that 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	<u>\$225,068</u>	<u>\$15,169,849</u>	<u>\$15,394,917</u>	<u>\$260,256</u>	<u>\$15,093,773</u>	<u>\$15,354,029</u>
Depreciation	<u>\$2,857</u>	<u>\$1,214,416</u>	<u>\$1,217,273</u>	<u>\$4,970</u>	<u>\$1,174,571</u>	<u>\$1,179,541</u>
Amortization	<u>\$246</u>	<u>\$2,478,936</u>	<u>\$2,479,182</u>	<u>\$830</u>	<u>\$1,548,953</u>	<u>\$1,549,783</u>

(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	<u>\$971,244</u>	<u>\$587,448</u>

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

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

	As of December 31,			
	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		<u>\$(371,482)</u>		<u>\$(369,994)</u>

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	\$518,608	\$220,940
	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	\$(890,090)	\$(590,934)

- 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>
	2012	2014
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)			Earnings per share (NT\$)	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
<u>For the year ended December 31, 2012</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$16,658,772	\$15,687,528	1,216,422,577	<u>\$13.69</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>\$16,658,772</u>	<u>\$15,687,528</u>	<u>1,222,508,774</u>	<u>\$13.63</u>	<u>\$12.83</u>
Consolidated net income attributable to minority interests					
Basic EPS					
Net income	\$(39,215)	\$(39,215)	1,216,422,577	<u>\$(0.03)</u>	<u>\$(0.03)</u>
Effect of dilutive potential common shares:					
Bonuses to employees	-	-	5,891,802		
Stock options to employees	-	-	194,395		
Diluted EPS	<u>\$(39,215)</u>	<u>\$(39,215)</u>	<u>1,222,508,774</u>	<u>\$(0.03)</u>	<u>\$(0.03)</u>
	Amount (Numerator)			Earnings per share (NT\$)	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
<u>For the year ended December 31, 2011</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$14,210,518	\$13,623,070	1,103,110,322	<u>\$12.88</u>	<u>\$12.35</u>
Effect of dilutive potential common shares:					
Bonuses to employees	-	-	12,326,822		
Stock options to employees	-	-	133,816		
Diluted EPS	<u>\$14,210,518</u>	<u>\$13,623,070</u>	<u>1,115,570,960</u>	<u>\$12.74</u>	<u>\$12.21</u>
Consolidated net income attributable to minority interests					
Basic EPS					
Net income	\$(7,267)	\$(7,267)	1,103,110,322	<u>\$(0.01)</u>	<u>\$(0.01)</u>
Effect of dilutive potential common shares:					
Bonuses to employees	-	-	12,326,822		
Stock options to employees	-	-	133,816		
Diluted EPS	<u>\$(7,267)</u>	<u>\$(7,267)</u>	<u>1,115,570,960</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>

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 JMicon, which was accounted for as deposits received due to a lease of office space.

(3) Receivables and payables resulted from the above transactions

a. Receivables 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**

	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
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

	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
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:

<u>Lease Period</u>	<u>Amount</u>
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	<u><u>\$933,955</u></u>

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>				
<u>Assets</u>				
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
<u>Liabilities</u>				
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>				
<u>Assets</u>				
Held-for-trading financial assets	\$244	\$244	\$66	\$66
<u>Liabilities</u>				
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	\$6,548,237

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

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

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

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

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

	For the 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	17,729

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.

MEDIATEK 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			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Receivables from related parties	\$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%
		Lepower Technologies (Beijing) Inc.	1	Other receivables	\$5,827		0.00%
		MediaTek Wireless, Inc. (USA)	1	Lease guarantee	\$55,677		0.03%
		MTK Wireless Limited (UK)	1	Lease guarantee	\$26,322		0.01%
		MediaTek China Limited	1	Bank financing guarantee	\$874,080		0.42%
		Gaintech Co. Limited	1	Bank financing guarantee	\$5,827,200		2.77%
		Ralink Technology Corp.	1	IP purchase guarantee	\$65,337		0.03%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$10,846		0.01%
		MediaTek Singapore Ptd. Ltd.	3	Other receivables	\$6,246,758		2.97%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$58,209	Based on contract	0.03%
			3	Research and development expenses	\$633,427		0.64%
		MediaTek Denmark Aps	3	Payables to related parties	\$5,118		0.00%
			3	Research and development expenses	\$98,689		0.10%
		MTK Wireless Limited (UK)	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)**

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek USA Inc.	3	Payables to related parties	\$92,573	Based on contract	0.04%
			3	Research and development expenses	\$1,371,922		1.38%
		MediaTek Japan Inc.	3	Payables to related parties	\$10,384		0.00%
			3	Research and development expenses	\$203,426		0.20%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$43,658		0.02%
			3	Research and development expenses	\$248,534		0.25%
		MediaTek Korea Inc.	3	Payables to related parties	\$20,173		0.01%
			3	Research and development expenses	\$212,039		0.21%
		MediaTek Wireless L.L.C. (Dubai)	3	Payables to related parties	\$767		0.00%
			3	Selling expenses	\$9,087		0.01%
		MediaTek Sweden AB	3	Payables to related parties	\$10,395		0.00%
			3	Research and development expenses	\$18,940		0.02%
		MediaTek (Shenzhen) Inc.	3	Payables to related parties	\$9,353		0.00%
			3	Research and development expenses	\$1,466,007		1.48%
		MediaTek (Hefei) Inc.	3	Prepayments	\$30,469		0.01%
			3	Research and development expenses	\$782,325		0.79%
		MediaTek (Beijing) Inc.	3	Prepayments	\$8,388		0.00%
			3	Research and development expenses	\$1,470,202		1.48%

(To be continued)

MEDIATEK 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			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	Hesine Technologies, Inc.	3	Research and development expenses	\$51,136	Based on contract	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%
		MediaTek (Wuhan) Inc.	3	Research and development expenses	\$183,714		0.19%
		MediaTek (Shanghai) Inc.	3	Prepayments	\$42,231		0.02%
			3	Research and development expenses	\$175,856		0.18%
		MediaTek (Nanjing) Inc.	3	Prepayments	\$36,246		0.02%
			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%	

MEDIATEK 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			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Receivables from related parties	\$37,851	Based on contract	0.03%
			1	Sales revenues	\$553,763		0.64%
		MediaTek Investment Corp.	1	Rent revenues	\$34		0.00%
		MediaTek Capital Corp.	1	Rent revenues	\$34		0.00%
		Hsu-Ta Investment Limited	1	Rent revenues	\$34		0.00%
		Hsu-Chia Investment Limited	1	Rent revenues	\$34		0.00%
		Hsu-Kang Investment Limited	1	Rent revenues	\$34		0.00%
		Rolltech Technology, Co. Ltd.	1	Other receivables	\$168		0.00%
			1	Rent revenues	\$480		0.00%
		MediaTek Wireless, Inc. (USA)	1	Lease guarantee	\$76,629		0.05%
		MTK Wireless Limited (UK)	1	Lease guarantee	\$26,123		0.02%
		Gaintech Co. Limited	1	Bank financing guarantee	\$2,877,550		1.95%
		Ralink Technology Corp.	1	IP purchase guarantee	\$67,925		0.05%
		MediaTek Korea Inc.	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	Based on contract	0.05%
			3	Research and development expenses	\$934,048		1.08%

(To be continued)

MEDIATEK 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			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
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)

MEDIATEK 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			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek 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%
		Rolltech Technology, Co. Ltd.	3	Selling expenses	\$1,945		0.00%
3	Shadow Investment Limited	MediaTek (Nanjing) Inc.	3	Prepayments	\$36,348		0.02%
		MediaTek (Suzhou) Inc.	3	Prepayments	\$36,348		0.02%

(To be continued)

MEDIATEK 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			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
4	Ralink Technology Corporation (USA)	Ralink Technology (Singapore) Corp. Pte. Ltd.	3	Payables to related parties	\$23,278	Based on contract	0.02%
			3	Research and development expenses	\$23,264		0.03%

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

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

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