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

MEDIATEK INC.

FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS THEN ENDED
DECEMBER 31, 2012 AND 2011

<u>English Translation of a Report Originally Issued in Chinese</u>

Independent Auditors' Report

To the Board of Directors and Shareholders
of MediaTek Inc.

We have audited the accompanying balance sheets of MediaTek Inc. as of December 31, 2012 and 2011, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MediaTek Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the R.O.C.

The Company has prepared consolidated financial statements as of December 31, 2012 and 2011 and for the years then ended. We have expressed an unqualified opinion on those consolidated financial statements.

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

<u>Notice to Readers</u>

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

BALANCE SHEETS

As of December 31, 2012 and 2011

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	2012	2011
Current assets			
Cash and cash equivalents	2, 4(1)	$ 28,288,474	$ 27,137,268
Held-for-trading financial assets-current	2, 4(2)	111	-
Financial assets designated as at fair value through profit or loss-current	2, 4(3)	50,129	393,510
Available-for-sale financial assets-current	2, 4(4), 4(11)	2,646,087	1,627,536
Bond portfolios with no active market-current	2, 4(10)	-	1,000,000
Accounts receivable, net	2, 4(5)	2,945,188	3,200,385
Receivables from related parties, net	5	31,712	61,418
Other receivables	4(5), 4(6), 4(10), 5	3,559,885	2,156,836
Inventories, net	2, 4(7)	10,589,234	6,278,630
Prepayments		329,269	305,418
Other current assets		395,881	265,275
Deferred income tax assets-current	2, 4(24)	351,407	72,475
Restricted assets-current	6	111,984	9,947
Total current assets		49,299,361	42,508,698
Funds and investments			
Available-for-sale financial assets-noncurrent	2, 4(8)	1,965,084	1,592,572
Investments accounted for using the equity method	2, 4(11)	133,170,053	79,575,986
Total funds and investments		135,135,137	81,168,558
Property, plant and equipment	2, 4(12), 5		
Land		888,722	888,722
Buildings and facilities		5,752,531	5,768,329
Machinery and equipment		57,536	98,833
Computer and telecommunication equipment		895,247	798,950
Testing equipment		2,072,827	2,014,374
Miscellaneous equipment		158,006	158,006
Total cost		9,824,869	9,727,214
Less : Accumulated depreciation		(3,772,863)	(3,325,826)
Add : Construction in progress		154,015	54,736
Prepayments for equipment		76,131	46,995
Property, plant and equipment, net		6,282,152	6,503,119
Intangible assets	2, 4(13)		
Patents		21,470	121,990
Software		114,799	126,410
Goodwill		6,817,211	6,817,211
Deferred pension cost	2, 4(15)	441	-
IPs and others		86,507	649,016
Total intangible assets		7,040,428	7,714,627
Other assets			
Refundable deposits		109,598	141,602
Total other assets		109,598	141,602
Total assets		$ 197,866,676	$ 138,036,604

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2012	2011
Current liabilities			
Short-term loans	4(14)	$ 2,179,150	$ -
Held-for-trading financial liabilities-current	2, 4(2)	2,592	-
Accounts payable		6,550,078	6,696,357
Payables to related parties	5	116,392	119,190
Income tax payable	2, 4(24)	878,403	470,032
Accrued expenses	2, 4(20)	10,406,921	12,856,882
Payables to contractors and equipment suppliers		21,664	-
Other current liabilities		565,046	598,081
Total current liabilities		20,720,246	20,740,542
Other liabilities			
Accrued pension liabilities	2, 4(15)	220,083	190,538
Deposits received	5	29,579	5,969
Deferred income tax liabilities-noncurrent	2, 4(24)	1,156,864	821,539
Total other liabilities		1,406,526	1,018,046
Total liabilities		22,126,772	21,758,588
Shareholders' equity			
Capital	4(11), 4(16)		
Common stock		13,493,702	11,475,108
Capital collected in advance		102	83
Capital reserve	2, 4(18)		
Additional paid-in capital in excess of par		78,042,994	23,161,573
Treasury stock transaction		1,011,446	941,301
Donated assets		1,260	1,260
Long-term investment transaction	4(11)	170,123	225,366
Employee stock option	4(11), 4(19)	326,043	276,382
Total capital reserve		79,551,866	24,605,882
Retained earnings	4(17), 4(20)		
Legal reserve		23,072,429	21,710,122
Special reserve		2,210,312	4,198,121
Undistributed earnings		62,539,888	56,554,982
Other adjustments			
Cumulative translation adjustments	2	(5,762,265)	(2,253,504)
Net loss not recognized as pension cost		(10,503)	-
Unrealized gain (loss) on financial instruments	2, 4(11)	700,343	43,192
Treasury stock	2, 4(21)	(55,970)	(55,970)
Total shareholders' equity		175,739,904	116,278,016
Total liabilities and shareholders' equity		$ 197,866,676	$ 138,036,604

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

STATEMENTS OF INCOME

For the years ended December 31, 2012 and 2011

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

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2012 and 2011

(Amounts in thousands of New Taiwan Dollars)

Description	Capital		Capital reserve	Retained earnings			Cumulative translation adjustments	Net loss not recognized as pension cost	Unrealized gain (loss) on financial instruments	Treasury stock	Total
	Common stock	Capital collected in advance		Legal reserve	Special reserve	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
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)
Net income for the year ended December 31, 2011	-	-	-	-	-	13,623,070	-	-	-	-	13,623,070
Shares issued to acquire new entities	555,336	-	12,259,039	-	-	-	-	-	-	-	12,814,375
Treasury stock acquired	-	-	-	-	-	-	-	-	-	(2,109,914)	(2,109,914)
Treasury stock retired	(80,000)	-	(161,410)	-	-	(1,868,504)	-	-	-	2,109,914	-
Employee stock option distributed to subsidiaries' employees	-	-	88,803	-	-	-	-	-	-	-	88,803
Issuance of stock from exercising employee stock options	455	(282)	3,321	-	-	-	-	-	-	-	3,494
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	155,881	-	-	-	-	-	-	-	155,881
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	-	(139,416)	-	(139,416)
Adjustment arising from changes in the percentage of ownership in investees	-	-	844	-	-	-	-	-	-	-	844
Cumulative translation adjustments	-	-	-	-	-	-	2,127,226	-	-	-	2,127,226
Balance as of December 31, 2011	$ 11,475,108	$ 83	$ 24,605,882	$ 21,710,122	$ 4,198,121	$ 56,554,982	$ (2,253,504)	$ -	$ 43,192	$ (55,970)	$ 116,278,016
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)
Net income for the year ended December 31, 2012	-	-	-	-	-	15,687,528	-	-	-	-	15,687,528
Shares issued to acquire new entities	2,017,679	-	54,880,856	-	-	-	-	-	-	-	56,898,535
Employee stock option distributed to subsidiaries' employees	-	-	49,661	-	-	-	-	-	-	-	49,661
Issuance of stock from exercising employee stock options	915	19	576	-	-	-	-	-	-	-	1,510
The effects of subsidiaries' shareholding of the Company's stock recorded as treasury stock	-	-	70,145	-	-	-	-	-	-	-	70,145
Disposal of investments accounted for using the equity method	-	-	(86,357)	-	-	-	-	-	-	-	(86,357)
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	-	657,151	-	657,151
Adjustment arising from changes in the percentage of ownership in investees	-	-	31,103	-	-	-	-	-	-	-	31,103
Net loss not recognized as pension cost	-	-	-	-	-	-	-	(10,503)	-	-	(10,503)
Cumulative translation adjustments	-	-	-	-	-	-	(3,508,761)	-	-	-	(3,508,761)
Balance as of December 31, 2012	$ 13,493,702	$ 102	$ 79,551,866	$ 23,072,429	$ 2,210,312	$ 62,539,888	$ (5,762,265)	$ (10,503)	$ 700,343	$ (55,970)	$ 175,739,904

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

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

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

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

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

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

1. Organization and Operation

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

As of December 31, 2012 and 2011, total numbers of employees of the Company were 3,237 and 3,205, respectively.

2. Summary of Significant Accounting Policies

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

Cash Equivalents

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

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

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

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

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

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

Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

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

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

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

b. Bond portfolios with no active market

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

c. Financial assets carried at cost

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

d. Held-to-maturity financial assets

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

e. Available-for-sale financial assets

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

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

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

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

Evaluation of Impairment of Accounts Receivable

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

Inventories

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

Investment Accounted for Using the Equity Method

A. Long-term investments in which the Company holds an interest of 20% or more or has the ability to exercise significant influence are accounted for 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.

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

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

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

Property, Plant and Equipment

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

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

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

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

Intangible Assets

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

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

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

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

Asset Impairment

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

Capital Expenditures vs. Operating Expenditures

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

Revenue Recognition

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

Employee Retirement Benefits

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

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

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

Income Tax

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

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

C. Income taxes of 10% on undistributed earnings are recorded as expenses in the year when the shareholders have resolved that the earnings shall be retained.

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

Employee Stock Option

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

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

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

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

Employee Bonuses and Remunerations Paid to Directors and Supervisors

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

Earnings Per Share

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

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

Treasury Stock

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

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

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

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

Derivative Financial Instruments-Held for Trading

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

Operating Segments Information

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

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

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

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

3. Reasons and Effects for Change in Accounting Principles

(1) Effective January 1, 2011, the Company adopted the third revised R.O.C. SFAS No. 34, “Financial Instruments: Recognition and Measurement”. This change in accounting principles had no significant effect on the Company’s net income and earnings per share for the year ended December 31, 2011.

(2) Effective January 1, 2011, the Company adopted R.O.C. SFAS No. 41, “Operating Segments”, to present operating segment information. The newly issued R.O.C. SFAS No. 41 replaced R.O.C. SFAS No. 20, “Segment Reporting”.

4. Contents of Significant Accounts

(1) Cash and Cash Equivalents

	As of December 31,	
	2012	2011
Savings and checking accounts	$4,000,394	$3,537,268
Time deposits	24,288,080	23,600,000
Total	$28,288,474	$27,137,268

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

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

a.

	As of December 31,	
	2012	2011
Held-for-trading financial assets-Current		
Forward exchange contracts	$111	$-

b.

	As of December 31,	
	2012	2011
Held-for-trading financial liabilities-Current		
Forward exchange contracts	$2,592	$-

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.

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

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

As of December 31, 2012:
Held-for-trading financial assets

Financial instruments	Type	Maturity	Contract amount (US$'000)
Forward exchange contracts	Sell USD	January 2013	15,000

Held-for-trading financial liabilities

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

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

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

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

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

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

	As of December 31,	
	2012	2011
Funds	$1,716,165	$1,571,100
Depository receipts (Note)	20,808	56,436
Common shares (Note)	909,114	-
Total	$2,646,087	$1,627,536

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.

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

(5) Accounts Receivable-Net

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

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

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

(a) As of December 31, 2012:

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

(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	-	31,601	-	31,601	123,830
BNP Bank	-	20,857	-	20,857	65,000
Total		52,458	-	52,458	188,830

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

(6) Other Receivables

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

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

(7) Inventories-Net

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

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

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

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

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

(9) Financial Assets Carried at Cost-Noncurrent

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

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

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

(10)Bond Portfolios with No Active Market

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

a. In December 2005, the Company acquired series B preferred stocks ("Preferred B") of Chinatrust Financial Holding Company by NT$1,000,000 thousand. Terms and conditions of the stock are listed as follows:
   (a) Duration：7 years
   (b) Par value：$10 per share
   (c) Issuing price：$40 per share
   (d) Dividends:
   Dividend is at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.
   (e) Redemption at maturity:
   Preferred B is a 7-year preferred stock. Redemption price at maturity is at 100% of the issuing price, i.e. NT$40 per share.

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

(11)Investments Accounted for Using the Equity Method

a.

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

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

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

b. For the years ended December 31, 2012 and 2011, the Company recognized an investment gain accounted for using the equity method in the amount of NT$9,389,978 thousand and NT$8,662,095 thousand, respectively, based on the audited financial statements of the investee companies.

c. For the years ended December 31, 2012 and 2011, the Company recognized an unrealized gain (loss) of NT$834 thousand and NT$(273,266) thousand, respectively, in shareholders’ equity for the changes in fair value of available-for-sale financial assets held by its investee companies accounted for using the equity method.

d. The Company issued employee stock options to subsidiaries’ employees for the years ended December 31, 2012 and 2011, and recorded an increase in capital reserve in the aggregate amount of NT$49,661 thousand and NT$88,803 thousand, respectively. Please refer to note 4(19).

e. For the years ended December 31, 2012 and 2011, under the equity method, the Company recognized changes in investees’ capital reserve by NT$31,103 thousand and NT$844 thousand, respectively.

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

g. In 2011, the Company issued 55,533,588 new shares to exchange 100% shares of Ralink Technology Corp. and the record date of shares exchange was set on October 1, 2011. Ralink Technology Corp. was delisted from TWSE on October 1, 2011.

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

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

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

j. The Company's subsidiaries: Hsu-Ta Investment Limited, Hsu-Chia Investment Limited and Hsu-Kang Investment Limited carried out a capital reduction and returned capital in the aggregate amount of NT$8,108,258 thousand. Afterward, Hsu-Chia Investment Limited and Hsu-Kang Investment Limited were merged into Hsu-Ta Investment Limited on September 30, 2012. In addition, Hsu-Ta Investment Limited was reincorporated as a company limited by shares.

k. In October 2012, the Company conducted a corporate reorganization by paying NT$2,745,519 thousand to acquire all the shares of MediaTek Singapore Pte. Ltd. MediaTek Singapore Ltd. was previously held by the Company's subsidiary. Such a corporate reorganization had no effect on the Company's shareholders' equity.

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

(12) Property, Plant and Equipment

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

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

(13) Intangible Assets

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

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

	For the year ended December 31, 2011		
	Software	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	$2,436,050	$7,307,142	$9,743,192
Increase - separately acquired	116,613	590	117,203
Decrease - elimination and others	(2,047,122)	(3,665,713)	(5,712,835)
Balance at end of period	505,541	3,642,019	4,147,560
Accumulated amortization			
Balance at beginning of period	(2,214,366)	(5,722,947)	(7,937,313)
Increase - amortization	(213,862)	(813,487)	(1,027,349)
Decrease - elimination and others	2,049,097	3,665,421	5,714,518
Balance at end of period	(379,131)	(2,871,013)	(3,250,144)
Net	$126,410	$771,006	$897,416

(14) Short-Term Loans

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

(15) Accrued Pension Liabilities

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

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

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

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

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

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

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

d. The underlying actuarial assumptions

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

(16) Capital

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

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

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

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

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

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

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

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

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

(17) Legal Reserve

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

(18) Capital Reserve

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

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

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

(19) Employee Stock Options

a. In December 2007, July 2009, May 2010, August 2011 and August 2012, the Company was authorized by the Financial Supervisory Commission, Executive Yuan, to issue employee stock options of 5,000,000 units, 3,000,000 units, 3,500,000 units, 3,500,000 units and 3,500,000 units, respectively, each unit eligible to subscribe for one common share. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company's shareholding with voting rights, directly or indirectly, is more than fifty percent. The options are valid for ten years and exercisable at certain percentage subsequent to the second anniversary of the granted date. Under the terms of the plan, the options are granted at an exercise price equal to the closing price of the Company's common shares listed on the TWSE on the grant date.

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

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2008.03.31	1,134,119	447,964	447,964	$358.0
2008.08.28	1,640,285	724,729	724,729	344.5
2009.08.18	1,382,630	733,613	733,613	431.0
2010.08.27	1,605,757	965,055	965,055	404.8
2010.11.04	65,839	17,714	17,714	377.0
2011.08.24	2,109,871	1,839,262	1,839,262	277.4
2012.08.14	1,346,795	1,317,156	1,317,156	286.8

Note: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash, the appropriations of earnings, issuance of new shares in connection with merger, or issuance of new shares to acquire shares of other companies) in accordance with the plan.

The compensation cost was recognized under the fair value method and the Black-Scholes Option Pricing model was used to estimate the fair value of options granted. For the years ended December 31, 2012 and 2011, compensation costs recognized were NT$49,661 thousand and NT$88,803 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

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

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

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

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

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

		Outstanding Stock Options			Exercisable Stock Options	
	Range of Exercise Price(NTD)	Options (Unit)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Stock option plan of 2007	$344.5~358.0	1,172,693	2.01	$364.9	1,172,693	$349.7
Stock option plan of 2009	431.0	733,613	3.13	460.6	441,480	431.0
Stock option plan of 2010	377.0~404.8	982,769	4.17	429.2	296,663	404.3
Stock option plan of 2011	277.4	1,839,262	5.17	280.0	-	-
Stock option plan of 2012	286.8	1,317,156	6.13	291.0	-	-
		6,045,493		332.7	1,910,836	

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

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

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

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

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

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

	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)	$-	

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

Other information is disclosed as follows:

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

(20) Earnings Distribution and Dividends Distribution Policy

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

a. Income tax obligation;
b. Offsetting accumulated deficits, if any;
c. Legal reserve at 10% of net income after tax; where such legal reserve amounts to the total authorized capital, this provision shall not apply.
d. Special reserve in compliance with the Company Law or the Securities and Exchange Law;
e. Remuneration for directors and supervisors to a maximum of 0.5% of the remaining current year’s earnings after deducting item (a) through (d). Remuneration for directors and supervisors’ services is limited to cash payments.
f. The remaining after all above appropriations and distributions, combining with undistributed earnings from prior years, shall be fully for shareholders’ dividends and employees’ bonuses and may be retained or distributed proportionally. The portion of employees’ bonuses may not be less than 1% of total earnings resolved to distribute for shareholders’ dividends and employees’ bonuses. Employees’ bonuses may be distributed in the form of shares or cash, or a combination of both. Employees’ of the Company’s subsidiaries, meeting certain requirements determined by the board of directors, are also eligible for the employees’ stock bonuses.

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

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

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

During the years ended December 31, 2012 and 2011, the amounts of the employees' bonuses were estimated to be NT$895,875 thousand and NT$1,714,243 thousand, respectively. During the years ended December 31, 2012 and 2011, the amounts of remunerations to directors and supervisors were estimated to be NT$24,421 thousand and NT$24,687 thousand, respectively. Employees' bonuses were estimated based on a specific rate of net income for the years ended December 31, 2012 and 2011 (excluding the impact of employees' bonuses) while remunerations to directors and supervisors were estimated based on the Company's Articles of Incorporation. Estimated amount of employees' bonuses and remunerations paid to directors and supervisors were charged to current income. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, the Company shall recognize the change as an adjustment to income of next year.

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

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

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

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

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

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

(21) Treasury Stock

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

(a)

(i) For the year ended December 31, 2012

None

(ii) For the year ended December 31, 2011

(In thousands of shares)

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

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

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

b. The Company's shares owned by subsidiaries are accounted for as treasury stock. Details of the Company's shares owned by subsidiaries are shown as follows:

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

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

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

(22) Net Sales

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

(23) Personnel, Depreciation and Amortization Expenses

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

(24) Income Tax

a.

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

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

(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	$1,437,426	$244,363	$2,639,157	$448,657
Exceed the limitation of allowance for bad debt	-	-	83,999	14,280
Unrealized technology license fee	1,860,254	316,243	1,520,254	258,443
Unrealized foreign exchange loss	61,598	10,472	19,812	3,368
Unrealized allowance for sales discounts	1,558,024	264,864	-	-
Unrealized loss on asset impairment	12,126	2,061	12,126	2,061
Unrealized loss on valuation of financial assets	2,481	422	-	-
Investment tax credits		3,984,358		6,760,767
Deferred income tax assets		4,822,783		7,487,576
Valuation allowance for deferred income tax assets		(4,466,249)		(7,309,499)
Net deferred income tax assets		356,534		178,077
Deferred income tax liabilities				
Unrealized bad debt allowance	(18,035)	(3,066)	-	-
Unrealized amortization of intangible assets	(6,817,211)	(1,158,925)	(5,453,769)	(927,141)
Deferred income tax liabilities		(1,161,991)		(927,141)
Net deferred income tax assets and liabilities		$(805,457)		$(749,064)

	As of December 31,	
	2012	2011
Deferred income tax assets-current	$4,820,722	$3,015,917
Valuation allowance for deferred income tax assets-current	(4,466,249)	(2,943,442)
Net deferred income tax assets-current	354,473	72,475
Deferred income tax liabilities-current	(3,066)	-
Net deferred income tax assets and liabilities-current	$351,407	$72,475

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

	As of December 31,	
	2012	2011
Deferred income tax assets-noncurrent	$2,061	$4,471,659
Valuation allowance for deferred income tax assets-noncurrent	-	(4,366,057)
Net deferred income tax assets-noncurrent	2,061	105,602
Deferred income tax liabilities-noncurrent	(1,158,925)	(927,141)
Net deferred income tax assets and liabilities-noncurrent	$(1,156,864)	$(821,539)

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

d. The Company’s income tax returns for all the fiscal years up to 2009 have been assessed by the tax authorities. For the 2009 return, the tax authorities have assessed additional taxes. The discrepancy between the Company’s tax return filing and the result of tax authority’s assessment was mainly due to different interpretations by applying rules. Although the Company has vigorously filed several administrative appeals to tax authorities and courts, the Company has paid the amount in full.

e. The Company’s available investment tax credits as of December 31, 2012 are as follows:

Total credit amount	Unused amount	Year expired
$3,984,358	$3,984,358	2013

f.

Integrated income tax information	As of December 31,	
	2012	2011
Balance of the imputation credit account (ICA)	$1,207,765	$1,260,691

	2012	2011
Expected (Actual) creditable ratio	2.87% (Note)	2.56%

Note: The ratio was computed based on the amount of actual available shareholders’ tax credits plus estimated income tax payable as of December 31, 2012.

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

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

(25) Earnings Per Share

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

	Amount (Numerator)			Earnings per share (NT$)	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
For the year ended December 31, 2012					
Basic EPS					
Net income	$16,455,870	$15,687,528	1,216,422,577	$13.53	$12.90
Effect of dilutive potential common shares:					
Bonuses to employees	-	-	5,891,802		
Stock options to employees	-	-	194,395		
Diluted EPS	$16,455,870	$15,687,528	1,222,508,774	$13.46	$12.83

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

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

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

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

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

5. Related Party Transactions

(1) Related parties and relations with the Company

Related parties	Relations
King Yuan Electronics Co., Ltd. ("King Yuan")	The chairman of the Company and the chairman of King Yuan are close relatives
Airoha Technology Corp. ("Airoha")	Equity investee
ALi Corporation ("ALi")	Equity investee (Note 1)
JMicron Technology Corporation ("JMicron")	The Company's chairman doubles as JMicron's chairman
Andes Technologies, Inc. ("Andes")	The Company's chairman doubles as Andes's chairman
MediaTek Sigapore Pte. Ltd. ("MSL")	Affiliated company
MTK Wireless Limited-UK ("MUK")	Affiliated company
MediaTek Wireless, Inc.-USA ("MWS")	Affiliated company
Gaintech Co. Limited ("GCL")	Affiliated company
Core Tech Resources Inc. ("CTR")	Affiliated company
Lepower Technologies (Beijing) Inc. ("LEPB")	Affiliated company
MediaTek China Limited ("MHK")	Affiliated company
Ralink Technology Corp. ("Ralink")	Affiliated company (Note 2)
MediaTek Investment Corp. ("MIC")	Affiliated company
MediaTek Capital Corp. ("MCC")	Affiliated company
Hsu-Ta Investment Corp. ("Hsu-Ta")	Affiliated company
Hsu-Chia Investment Limited ("Hsu-Chia")	Affiliated company
Hsu-Kang Investment Limited ("Hsu-Kang")	Affiliated company
RollTech Technology, Co. Ltd. ("RollTech")	Affiliated company
Directors, supervisors and key managers	The Company's major managers

Note 1: Information disclosed herein includes only those transactions with ALi occurred before May 7, 2012, the day the Company sold part of shares of ALi and ceased using the equity method.

Note 2: Information disclosed herein includes only those transactions with Ralink occurred after October 1, 2011, the day Ralink became a subsidiary of the Company.

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

(2) Major transactions with related parties

a. Sales

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

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

b. IC testing, experimental services and manufacturing technology services

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

c. Rental Income

	Rental Income		Other Receivables	
	For the years ended December 31,		As of December 31,	
	2012	2011	2012	2011
JMicron	$8,759	$8,969	$766	$327
RollTech	1,920	480	168	168
Airoha	57	-	30	-
Andes	114	-	-	-
MIC	-	34	-	-
MCC	-	34	-	-
Hsu-Ta	-	34	-	-
Hsu-Chia	-	34	-	-
Hsu-Kang	-	34	-	-
Total	$10,850	$9,619	$964	$495

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

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

d. In 2012, the Company had made R&D payment on behalf of LEPB in the aggregate amount of NT$5,827 thousand, which was recorded in other receivables.

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

	As of December 31, 2012		As of December 31, 2011	
	Endorsement limit	Actual amount	Endorsement limit	Actual amount
MUK	$26,322	$26,322	$26,123	$26,123
MWS	55,677	55,677	76,629	76,629
GCL	15,000,000	5,827,200	15,000,000	2,877,550
CTR	2,000,000	-	2,000,000	-
MHK	7,000,000	874,080	7,000,000	-
Ralink	65,337	65,337	67,925	67,925
Total	$24,147,336	$6,848,616	$24,170,677	$3,048,227

f. Significant fixed asset transaction

		For the years ended December 31,	
	Transactions	2012	2011
Ralink	Purchase of fixed assets	$-	$1,400

(3) Receivables and payables resulted from the above transactions

a. Receivables from related parties

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

b. Payables to related parties

	As of December 31,			
	2012		2011	
	Amount	%	Amount	%
King Yuan	$116,392	1.75	$119,190	1.75

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

c. Remunerations paid to major managers

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

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

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

6. Assets Pledged As Collateral

(1) As of December 31, 2012

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

(2) As of December 31, 2011

	Amount	Party to which assets was pledged	Purpose of pledge
Restricted deposits-current	$6,917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,030	Customs Office	Customs clearance deposits
Total	$9,947		

7. Commitments and Contingencies

(1) Lawsuit:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company will handle these cases carefully.

(2) Operating Lease:

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

Lease Period	Amount
2013.01.01~2013.12.31	$30,371
2014.01.01~2014.12.31	30,371
2015.01.01~2015.12.31	30,371
2016.01.01~2016.12.31	30,371
2017.01.01~2017.12.31	30,371
2018.01.01~2027.12.31	183,677
Total	$335,532

8. Significant Casualty Loss

None

9. Significant Subsequent Events

None

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

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

(i) The fair values of the Company's short-term financial instruments approximate their carrying values at the reporting date due to their short maturities. This method was applied to cash and cash equivalents, receivables (including related parties), other receivables, short-term loans, payables (including related parties), accrued expenses and payables to contractors and equipment suppliers.

(ii) The fair values of the Company's refundable deposits, deposits received and restricted assets approximate their carrying value because the Company predicts the future cash inflows or outflows will be of similar amounts to the carrying values.

(iii) The fair values of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.

(iv) The bond portfolios with no active market have no quoted price from active market but have fixed or determinable payments. Fair values are estimated using the discounted cash flow method.

(v) The fair values of the Company's investments accounted for using the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.

(vi) The fair values of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.

(b) Losses recognized for the changes in fair values of financial assets estimated using valuation techniques were NT$562 thousand and NT$23,367 thousand for the years ended December 31, 2012 and 2011, respectively.

(c) As of December 31, 2012 and 2011, financial assets exposed to fair value risk from fixed interest rate were NT$24,440,359 thousand and NT$23,703,660 thousand, respectively, and financial liabilities exposed to fair value risk from fixed interest rate were NT$2,179,150 thousand and nil, respectively. Financial assets exposed to cash flow risk from variable interest rate were NT$9,834 thousand and NT$299,797 thousand, respectively, and financial liabilities exposed to cash flow risk from variable interest rate were nil.

(d) Interest income recognized from financial assets that were not at fair value through profit or loss amounted to NT$304,320 thousand and NT$390,100 thousand for the years ended December 31, 2012 and 2011, respectively. Interest expenses recognized from financial liabilities that were not at fair value through profit or loss were NT$1,734 thousand and NT$4,524 thousand for the years ended December 31, 2012 and 2011, respectively. The Company recognized unrealized gains of NT$660,882 thousand and NT$125,960 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2012 and 2011, respectively, and the amounts that were recycled from equity to gain (loss) were NT$4,565 thousand and NT$(7,890) thousand for the years ended December 31, 2012 and 2011, respectively. The Company also recognized an unrealized gain (loss) of NT$834 thousand and NT$(273,266) thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for using the equity method for the years ended December 31, 2012 and 2011, respectively. Please refer to Note 4.(11) to the financial statements for details.

(e) Impairment losses recognized from financial assets were NT$84,998 thousand and nil for the years ended December 31, 2012 and 2011, respectively.

b.

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

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

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

(b) Information of financial risks

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

Market risk

Market risk mainly includes currency risk. It comes from purchase or sale activities which are not denominated in the Company's functional currency. The Company reviews its assets and liabilities denominated in foreign currency and enters into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Had the USD moved against NTD by increasing 1 cent, the fair value of the forward exchange contracts would decrease by NT$550 thousand and nil as of December 31, 2012 and 2011, respectively. Credit-linked deposits and interest rate-linked deposits are affected by interest rates. When interest rate increases, the market value may decrease and may even be below the initial investment cost, and vice versa. The fair value of exchange rate-linked deposits is affected by interest rate fluctuation. The fair value of mutual fund, corporate bonds, government bonds and financial debentures will be exposed to fluctuations from other market factors as well as movement in interest rates.

Credit risk

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

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

Liquidity risk

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

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

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

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

Cash flow risk from variable interest rate

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

(2) Business combinations

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

a. Background of the acquired company:

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

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

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

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

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

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

e. Significant asset disposal decisions resulting from the business acquisition: None

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

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

(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)
Financial assets						
Monetary item						
USD	$309,475	$29.136	$9,016,877	$252,855	$30.29	$7,658,970
Investments accounted for using equity method						
USD	$2,030,337	$29.136	$59,155,913	$-	$-	$-
Financial liabilities						
Monetary item						
USD	$249,027	$29.136	$7,255,657	$243,966	$30.29	$7,389,724

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

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

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

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

11. Operating Segment Information

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

12. The Authorization of Financial Statements

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

13. IFRSs Adoption Information

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