

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

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS THEN ENDED
DECEMBER 31, 2013 AND 2012

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2013 and for the year then ended prepared under the International Accounting Standards No.27 “Consolidated and Separate Financial Statement” (referred to as “Consolidated Financial Statements”) are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

March 21, 2014

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
of MediaTek Inc.

We have audited the accompanying consolidated balance sheets of MediaTek Inc., and its subsidiaries as of December 31, 2013 and 2012 and January 1, 2012 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MediaTek Inc. and its subsidiaries as of December 31, 2013 and 2012 and January 1, 2012, and the results of its operations and its cash flows for the years then ended December 31, 2013 and 2012, in conformity with requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations committee and Standing Interpretations Committee as endorsed by Financial Supervisory Commission.

The Company has prepared Separate Financial Statements as of December 31, 2013 and 2012 for the years then ended. We have expressed an unqualified opinion on those separate financial statements.

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
March 21, 2014
Taipei, Taiwan
Republic of China



Notice to Readers

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

The accompanying consolidated financial statements are intended only to present the consolidated financial position, 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 consolidated financial statements are those generally accepted and applied in the R.O.C.

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2013, December 31, 2012 and January 1, 2012

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2013	%	December 31, 2012	%	January 1, 2012	%
Current assets							
Cash and cash equivalents	4, 6(1)	\$ 132,997,726	52	\$ 85,867,210	41	\$ 85,821,438	58
Financial assets at fair value through profit or loss-current	4, 5, 6(2)	2,132,090	1	629,912	-	1,617,416	1
Available-for-sale financial assets-current	4, 5, 6(3), 6(9)	3,426,121	1	3,979,013	2	2,545,354	2
Held-to-maturity financial assets-current	4, 6(5)	549,573	-	-	-	48,126	-
Bond investments for which no active market exists-current	4, 6(6), 8	113,678	-	113,598	-	1,013,112	1
Trade receivables, net	4, 5, 6(7)	7,627,591	3	6,584,610	3	7,360,317	5
Trade receivables from related parties, net	4, 6(7), 7	-	-	-	-	23,567	-
Other receivables	6(7), 7	3,652,885	1	5,076,122	2	2,961,830	2
Current tax assets	4, 5, 6(22)	30,226	-	59,501	-	65,174	-
Inventories, net	4, 5, 6(8)	9,346,792	4	13,867,311	7	9,392,282	6
Prepayments		1,404,263	1	1,141,023	1	689,987	1
Other current assets		459,984	-	426,062	-	282,585	-
Total current assets		161,740,929	63	117,744,362	56	111,821,188	76
Non-current assets							
Financial assets at fair value through profit or loss-noncurrent	4, 5, 6(2)	1,478,707	-	1,484,505	1	1,739,337	1
Available-for-sale financial assets-noncurrent	4, 5, 6(3)	4,487,354	2	3,206,895	2	2,810,668	2
Held-to-maturity financial assets-noncurrent	4, 6(5)	341,937	-	796,860	-	828,422	1
Financial assets measured at cost-noncurrent	4, 6(4)	2,061,563	1	2,083,114	1	2,017,613	1
Bond investments for which no active market exists-noncurrent	4, 6(6), 8	364	-	400	-	671	-
Investments accounted for using the equity method	4, 6(9)	59,669,761	23	57,393,909	27	1,980,983	1
Property, plant and equipment	4, 6(10)	11,312,107	4	10,732,494	5	9,861,430	7
Intangible assets	4, 6(11), 6(12)	15,509,193	6	15,727,448	8	16,150,659	11
Deferred tax assets	4, 5, 6(22)	1,778,859	1	915,791	-	269,382	-
Refundable deposits		137,593	-	206,393	-	265,431	-
Long-term prepaid rent		118,495	-	114,347	-	-	-
Total non-current assets		96,895,933	37	92,662,156	44	35,924,596	24
Total assets		<u>\$ 258,636,862</u>	<u>100</u>	<u>\$ 210,406,518</u>	<u>100</u>	<u>\$ 147,745,784</u>	<u>100</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2013, December 31, 2012 and January 1, 2012

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	December 31, 2013	%	December 31, 2012	%	January 1, 2012	%
Current liabilities							
Short-term borrowings	6(13)	\$ 29,051,500	11	\$ 8,880,430	4	\$ 4,089,150	3
Financial liabilities at fair value through profit or loss-current	4, 5, 6(2)	26,017	-	2,638	-	-	-
Trade payables		8,862,146	3	8,044,063	4	8,062,967	5
Trade payables to related parties	7	2,082,028	1	1,003,337	1	958,936	1
Other payables		16,835,299	7	13,356,034	6	15,865,576	11
Current tax liabilities	4, 5, 6(22)	3,151,805	1	1,053,591	1	681,003	-
Other current liabilities		1,345,847	1	610,139	-	752,407	-
Current portion of long-term liabilities		29,950	-	29,136	-	18,081	-
Total current liabilities		61,384,592	24	32,979,368	16	30,428,120	20
Non-current liabilities							
Long-term payables		86,855	-	113,630	-	147,662	-
Accrued pension liabilities	4, 6(14)	606,033	-	555,754	-	445,079	-
Deposits received	7	47,754	-	30,233	-	6,176	-
Deferred tax liabilities	4, 5, 6(22)	1,050,108	-	1,195,134	1	595,454	1
Non-current liabilities-others		108,121	-	74,675	-	49,351	-
Total non-current liabilities		1,898,871	-	1,969,426	1	1,243,722	1
Total liabilities		63,283,463	24	34,948,794	17	31,671,842	21
Equity attributable to owners of the parent							
Share capital	6(15)						
Common stock		13,494,667	5	13,493,702	6	11,475,108	8
Capital collected in advance		2,473	-	102	-	83	-
Capital surplus	6(15), 6(16)	68,474,910	26	79,672,498	38	24,488,409	16
Retained earnings	6(15)						
Legal reserve		24,641,182	10	23,072,429	11	21,710,122	15
Special reserve		5,072,425	2	2,210,312	1	4,198,121	3
Undistributed earnings		84,581,268	33	62,213,816	29	56,418,253	38
Other equity	6(15)	(895,749)	-	(5,183,374)	(2)	(2,210,495)	(1)
Treasury shares	4, 6(15)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		195,315,206	76	175,423,515	83	116,023,631	79
Non-controlling interests	4, 6(15)	38,193	-	34,209	-	50,311	-
Total equity		195,353,399	76	175,457,724	83	116,073,942	79
Total liabilities and equity		\$ 258,636,862	100	\$ 210,406,518	100	\$ 147,745,784	100

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2013 and 2012

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

Description	Notes	2013	%	2012	%
Net sales	4, 5, 6(17), 7	\$ 136,055,954	100	\$ 99,263,160	100
Operating costs	4, 5, 6(8), 6(18), 7	(76,250,370)	(56)	(58,204,139)	(59)
Gross profit		59,805,584	44	41,059,021	41
Operating expenses	6(18), 7				
Selling expenses		(4,561,934)	(3)	(3,114,867)	(3)
Administrative expenses		(3,545,988)	(3)	(2,912,173)	(3)
Research and development expenses		(26,453,942)	(19)	(22,629,206)	(22)
Total operating expenses		(34,561,864)	(25)	(28,656,246)	(28)
Operating income		25,243,720	19	12,402,775	13
Non-operating income and expenses					
Other income	4, 6(19), 7	2,402,627	2	2,391,629	2
Other gains and losses	4, 6(9), 6(20)	(103,672)	-	740,265	1
Finance costs	6(21)	(146,816)	-	(109,458)	-
Share of profit of associates accounted for using the equity method	4, 6(9)	2,150,963	1	1,059,870	1
Total non-operating income and expenses		4,303,102	3	4,082,306	4
Net income before income tax		29,546,822	22	16,485,081	17
Income tax expense	4, 5, 6(22)	(2,062,172)	(2)	(940,551)	(1)
Net income		27,484,650	20	15,544,530	16
Other comprehensive income	4, 6(9), 6(14), 6(15)				
Exchange differences resulting from translating the financial statements of foreign operations		1,811,177	1	(1,940,245)	(2)
Unrealized gains from available-for-sale financial assets		929,781	1	535,919	1
Actuarial losses on defined benefit plans		(42,044)	-	(103,084)	-
Share of other comprehensive income of associates accounted for using the equity method		1,554,911	1	(1,545,440)	(2)
Income tax relating to components of other comprehensive income		-	-	17,524	-
Other comprehensive income, net of tax		4,253,825	3	(3,035,326)	(3)
Total comprehensive income		<u>\$ 31,738,475</u>	<u>23</u>	<u>\$ 12,509,204</u>	<u>13</u>
Net income (loss) for the periods attributable to :					
Owners of the parent	6(23)	\$ 27,515,052		\$ 15,583,745	
Non-controlling interests	6(15)	(30,402)		(39,215)	
		<u>\$ 27,484,650</u>		<u>\$ 15,544,530</u>	
Total comprehensive income for the periods attributable to :					
Owners of the parent		\$ 31,760,633		\$ 12,525,306	
Non-controlling interests	6(15)	(22,158)		(16,102)	
		<u>\$ 31,738,475</u>		<u>\$ 12,509,204</u>	
Basic Earnings Per Share (in New Taiwan Dollars)	6(23)	<u>\$ 20.51</u>		<u>\$ 12.81</u>	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(23)	<u>\$ 20.42</u>		<u>\$ 12.75</u>	

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

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2013 and 2012
(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent										Non-controlling interests	Total equity
	Share capital		Capital surplus	Retained earnings			Other equity		Treasury shares	Equity attributable to owners of the parent		
	Common stock	Capital collected in advance		Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains from available-for-sale financial assets				
Balance as of January 1, 2012	\$ 11,475,108	\$ 83	\$ 24,488,409	\$ 21,710,122	\$ 4,198,121	\$ 56,418,253	\$ (2,253,687)	\$ 43,192	\$ (55,970)	\$ 116,023,631	\$ 50,311	\$ 116,073,942
Appropriation and distribution of 2011 earnings:												
Legal reserve	-	-	-	1,362,307	-	(1,362,307)	-	-	-	-	-	-
Special reserve	-	-	-	-	(1,987,809)	1,987,809	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(10,328,124)	-	-	-	(10,328,124)	-	(10,328,124)
Total	-	-	-	1,362,307	(1,987,809)	(9,702,622)	-	-	-	(10,328,124)	-	(10,328,124)
Profit for the year ended December 31, 2012	-	-	-	-	-	15,583,745	-	-	-	15,583,745	(39,215)	15,544,530
Other comprehensive income for the year ended December 31, 2012	-	-	-	-	-	(85,560)	(3,508,798)	535,919	-	(3,058,439)	23,113	(3,035,326)
Total comprehensive income	-	-	-	-	-	15,498,185	(3,508,798)	535,919	-	12,525,306	(16,102)	12,509,204
Share-based payment transactions	915	19	50,437	-	-	-	-	-	-	51,371	-	51,371
Shares issued to acquire a new entity	2,017,679	-	54,880,856	-	-	-	-	-	-	56,898,535	-	56,898,535
Adjustments due to dividends that subsidiaries received from parent company	-	-	70,145	-	-	-	-	-	-	70,145	-	70,145
Adjustments arising from changes in percentage of ownership in subsidiaries	-	-	151,548	-	-	-	-	-	-	151,548	-	151,548
Change in other capital surplus	-	-	31,103	-	-	-	-	-	-	31,103	-	31,103
Balance as of Dceember 31, 2012	13,493,702	102	79,672,498	23,072,429	2,210,312	62,213,816	(5,762,485)	579,111	(55,970)	175,423,515	34,209	175,457,724
Appropriation and distribution of 2012 earnings:												
Legal reserve	-	-	-	1,568,753	-	(1,568,753)	-	-	-	-	-	-
Special reserve	-	-	-	-	2,862,113	(2,862,113)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(674,690)	-	-	-	(674,690)	-	(674,690)
Cash distributed from capital surplus	-	-	(11,469,734)	-	-	-	-	-	-	(11,469,734)	-	(11,469,734)
Total	-	-	(11,469,734)	1,568,753	2,862,113	(5,105,556)	-	-	-	(12,144,424)	-	(12,144,424)
Profit for the year ended Dceember 31, 2013	-	-	-	-	-	27,515,052	-	-	-	27,515,052	(30,402)	27,484,650
Other comprehensive income for the year ended Dceember 31, 2013	-	-	-	-	-	(42,044)	3,357,844	929,781	-	4,245,581	8,244	4,253,825
Total comprehensive income	-	-	-	-	-	27,473,008	3,357,844	929,781	-	31,760,633	(22,158)	31,738,475
Share-based payment transactions	965	2,371	79,420	-	-	-	-	-	-	82,756	-	82,756
Adjustments due to dividends that subsidiaries received from parent company	-	-	70,145	-	-	-	-	-	-	70,145	-	70,145
Adjustments arising from changes in percentage of ownership in subsidiaries	-	-	10,546	-	-	-	-	-	-	10,546	26,142	36,688
Change in other capital surplus	-	-	112,035	-	-	-	-	-	-	112,035	-	112,035
Balance as of Dceember 31, 2013	\$ 13,494,667	\$ 2,473	\$ 68,474,910	\$ 24,641,182	\$ 5,072,425	\$ 84,581,268	\$ (2,404,641)	\$ 1,508,892	\$ (55,970)	\$ 195,315,206	\$ 38,193	\$ 195,353,399

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2013 and 2012
(Amounts in thousands of New Taiwan Dollars)

Description	2013	2012
Cash flows from operating activities :		
Profit before tax from continuing operations	\$ 29,546,822	\$ 16,485,081
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	1,182,191	1,218,375
Amortization	544,639	2,478,080
Bad debt reversal	(79,110)	(81,003)
Loss (gain) on financial assets and liabilities at fair value through profit or loss	9,155	(57,383)
Interest expenses	146,816	109,458
Interest income	(1,755,482)	(1,730,158)
Dividend income	(161,905)	(148,878)
Share-based payment expenses	75,799	49,661
Share of profit of associates accounted for using the equity method	(2,150,963)	(1,059,870)
Losses on disposal of property, plant and equipment	3,137	10,000
Loss (gain) on disposal of investments	48,008	(1,051,798)
Impairment of financial assets	478,110	588,747
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	(1,418,009)	1,227,038
Trade receivables	(983,242)	861,436
Trade receivables from related parties	-	23,567
Other receivables	1,186,065	(869,314)
Inventories	4,532,449	(4,462,887)
Prepayments	(263,240)	(450,822)
Other current assets	(33,922)	(119,134)
Trade payables	819,786	22,548
Trade payables to related parties	1,054,687	75,504
Other payables	3,376,421	(2,488,432)
Other current liabilities	736,536	(167,602)
Long-term payables	(25,961)	(23,108)
Accrued pension liabilities	8,235	25,115
Non-current liabilities-others	33,446	25,324
Cash generated from operating activities		
Interest received	1,991,816	1,487,073
Dividend received	1,738,796	148,878
Interest paid	(125,582)	(112,604)
Income tax paid	(942,777)	(609,960)
Net cash provided by operating activities	39,572,721	11,402,932
Cash flows from investing activities :		
Acquisition of available-for-sale financial assets	(1,377,363)	(403,716)
Proceeds from disposal of available-for-sale financial assets	1,469,999	234,448
Acquisition of bond investment for which no active market exists	(43)	(100,215)
Acquisition of held-to-maturity financial assets	(72,743)	(319,768)
Proceeds from disposal of held-to-maturity financial assets	-	372,684
Acquisition of financial assets measured at cost	(626,407)	(948,441)
Proceeds from disposal of financial assets measured at cost	299	44,749
Proceeds from capital return of financial assets measured at cost	322,344	-
Acquisition of investments accounted for using the equity method	(91,571)	(278,382)
Proceeds from disposal of investments accounted for using the equity method	-	1,528,400
Net cash outflows from acquisition of subsidiaries	-	(938,022)
Net cash inflows from disposal of subsidiaries	6,119	-
Proceeds from capital return of equity investees	-	1,457
Acquisition of property, plant and equipment	(1,628,684)	(2,246,318)
Proceeds from disposal of property, plant and equipment	43,510	2,799
Decrease in refundable deposits	68,800	59,038
Acquisition of intangible assets	(324,414)	(1,071,578)
Increase of long-term prepaid rent	(4,148)	(114,347)
Net cash used in investing activities	(2,214,302)	(4,177,212)
Cash flows from financing activities :		
Increase in short-term borrowings	19,983,850	4,791,280
Increase in deposits received	17,521	24,057
Proceeds from exercise of employee stock options	94,732	1,510
Cash dividends	(12,074,279)	(10,257,979)
Increase in non-controlling interests	26,142	20,097
Net cash provided by (used in) financing activities	8,047,966	(5,421,035)
Effect of changes in exchange rate on cash and cash equivalents	1,724,131	(1,758,913)
Net increase in cash and cash equivalents	47,130,516	45,772
Cash and cash equivalents at the beginning of the period	85,867,210	85,821,438
Cash and cash equivalents at the end of the period	\$ 132,997,726	\$ 85,867,210

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Organization and Operation

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

2. Date and Procedures of Authorization of Financial Statements for Issue

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on March 21, 2014.

3. Newly Issued or Revised Standards and Interpretations

- (1) Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission ("FSC"), but not yet adopted by MTK and its subsidiaries ("the Company") at the date of issuance of the Company's financial statements are listed below:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments which is divided in three distinct phases is designed by the International Accounting Standards Board ("IASB") to eventually replace IAS 39 "Financial Instruments: Recognition and Measurement" in its entirety. The first phase relates to the classification and measurement of financial assets and liabilities. The effective date has not been announced. The IASB will work on the remaining phases relate to impairment methodology and hedge accounting. However companies adopting International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by the FSC (collectively referred to as "TIFRS") may not early adopt IFRS 9. FSC will announce the local effective date for IFRS 9 in the future. Adopting the first phase of IFRS 9 will have an impact on the classification and measurement of financial assets. The impact of adopting the remaining two phases of IFRS 9 on the Company could not be determined at this stage.

- (2) Standards issued by IASB but not yet recognized by FSC at the date of issuance of the Company's financial statements are listed below:

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

Standards or Interpretations		
Numbers	The Projects of Standards or Interpretations	Effective Dates
Improvements to International Financial Reporting Standards (issued in 2010)		
IFRS 1	“First-time Adoption of International Financial Reporting Standards”	January 1, 2011
IFRS 3	“Business Combinations”	July 1, 2010
IFRS 7	“Financial Instruments: Disclosures”	January 1, 2011
IAS 1	“Presentation of Financial Statements”	January 1, 2011
IAS 34	“Interim Financial Reporting”	January 1, 2011
IFRIC 13	“Customer Loyalty Programmes”	January 1, 2011
IFRS 7	Limited Exemption from Comparative Disclosures for First-time Adopters (Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”)	July 1, 2010
IFRS 1	“First-time Adoption of International Financial Reporting Standards” - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter	July 1, 2011
IFRS 7	“Financial Instruments: Disclosures” (Amendment)	July 1, 2011
IAS 12(Amendment)	“Income Taxes” - Deferred Taxes: Recovery of Underlying Assets	January 1, 2012
IFRS 10	“Consolidated Financial Statements”	January 1, 2013
IAS 27	“Separate Financial Statements”	January 1, 2013
IFRS 11	“Joint Arrangements”	January 1, 2013
IAS 28	“Investments in Associates and Joint Ventures”	January 1, 2013
IFRS 12	“Disclosures of Interests in Other Entities”	January 1, 2013
IFRS 13	“Fair Value Measurement”	January 1, 2013
IAS 1	“Presentation of Financial Statements” - Presentation of Items of Other Comprehensive Income	July 1, 2012
IAS 19	“Employee Benefits” (Revised)	January 1, 2013
IFRS 1	“First-time Adoption of International Financial Reporting Standards” - Government Loans	January 1, 2013
IFRS 7(Amendment)	“Financial Instruments: Disclosures” - Disclosures - Offsetting Financial Assets and Financial Liabilities	January 1, 2013

(Continued)

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

(To be continued)

Standards or Interpretations		
Numbers	The Projects of Standards or Interpretations	Effective Dates
IAS 32(Amendment)	“Financial Instruments: Presentation” - Offsetting Financial Assets and Financial Liabilities	January 1, 2014
IFRIC 20	“Stripping Costs in the Production Phase of a Surface Mine”	January 1, 2013
Improvements to International Financial Reporting Standards (2009-2011 cycle):		
IFRS 1	“First-time Adoption of International Financial Reporting Standards”	January 1, 2013
IAS 1	“Presentation of Financial Statements”	January 1, 2013
IAS 16	“Property, Plant and Equipment”	January 1, 2013
IAS 32	“Financial Instruments: Presentation”	January 1, 2013
IAS 34	“Interim Financial Reporting”	January 1, 2013
IFRS 10	“Consolidated Financial Statements” (Amendment)	January 1, 2014
IAS 36	“Impairment of Assets” (Amendment)	January 1, 2014
IFRIC 21	“Levies”	January 1, 2014
IFRS 9	“Financial Instruments” - Hedge accounting	-
IAS 19	“Employee Benefits” - Defined benefit plans: employee contributions	July 1, 2014
Improvements to International Financial Reporting Standards (2010-2012 cycle):		
IFRS 2	“Share-based Payment”	July 1, 2014
IFRS 3	“Business Combinations”	July 1, 2014
IFRS 8	“Operating Segments”	July 1, 2014
IFRS 13	“Fair Value Measurement”	July 1, 2014
IAS 16	“Property, Plant and Equipment”	July 1, 2014
IAS 24	“Related Party Disclosures”	July 1, 2014
IAS 38	“Intangible Assets”	July 1, 2014
Improvements to International Financial Reporting Standards (2011-2013 cycle):		
IFRS 1	“First-time Adoption of International Financial Reporting Standards”	July 1, 2014
IFRS 3	“Business Combinations”	July 1, 2014
IFRS 13	“Fair Value Measurement”	July 1, 2014
IAS 40	“Investment Property”	July 1, 2014
IFRS 14	“Regulatory Deferral Accounts”	January 1, 2016

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A. Improvements to International Financial Reporting Standards (issued in 2010):

a. IFRS 7 “Financial Instruments: Disclosures”

The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

b. IAS 1 “Presentation of Financial Statements”

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

c. IAS 34 “Interim Financial Reporting”

The amendment clarifies that if a user of an entity's interim financial report have access to the most recent annual financial report of that entity, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report. Furthermore the amendment adds disclosure requirements of financial instruments and contingent liabilities/assets.

B. IFRS 10 “Consolidated Financial Statements”

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements and SIC-12. The changes introduced by IFRS 10 primarily relate to the elimination of the perceived inconsistency between IAS 27 and SIC-12 by introducing a new integrated control model. That is, IFRS 10 primarily relates to whether to consolidate another entity, but does not change how an entity is consolidated.

C. IFRS 12 “Disclosures of Interests in Other Entities”

IFRS 12 primarily integrates and makes consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

D. IFRS 13 “Fair Value Measurement”

IFRS 13 primarily relates to defining fair value, setting out in a single IFRS a framework for measuring fair value and requiring disclosures about fair value measurements to reduce complexity and improve consistency in application when measuring fair value. However, IFRS 13 does not change existing requirements in other IFRS as to when the fair value measurement or related disclosures required.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

E. IAS 1 “Presentation of Financial Statements” - Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that would be reclassified (or recycled) to profit or loss in the future would be presented separately from items that will never be reclassified.

F. IAS 19 “Employee Benefits” (Revised)

The revision includes: (1) For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. Actuarial gains and losses are now recognized in other comprehensive income. (2) Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). (3) New disclosures include quantitative information about the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption. (4) Termination benefits will be recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized under IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, etc.

G. Improvements to International Financial Reporting Standards (2009-2011 cycle):

IAS 34 “Interim Financial Reporting” (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 “Operating Segments”. Besides, total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity’s previous annual financial statements for that reportable segment.

H. IAS 36 “Impairment of Assets” (Amendment)

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

I. Improvements to International Financial Reporting Standards (2010-2012 cycle):

IFRS 8 “Operating Segments”

The amendments require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

J. Improvements to International Financial Reporting Standards (2011-2013 cycle):

IFRS 13 “Fair Value Measurement”

The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.

The abovementioned standards and interpretations issued by IASB have not yet been recognized by FSC at the date of issuance of the Company's financial statements, the local effective dates are to be determined by FSC. As the Company is still currently determining the potential impact of the standards and interpretations listed under A~J, it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations have no material impact on the Company.

4. Summary of Significant Accounting Policies

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and TIFRS as endorsed by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Basis of Consolidation

A. Preparation principle of consolidated financial statements

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Company loses control of a subsidiary, it:

- a. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- b. derecognizes the carrying amount of any non-controlling interest;
- c. recognizes the fair value of the consideration received;
- d. recognizes the fair value of any investment retained;
- e. recognizes any surplus or deficit in profit or loss; and
- f. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			December 31, 2013	December 31, 2012	January 1, 2012	
MTK	MediaTek Investment Corp.	General investing	100%	100%	100%	-
MTK	Hsu-Ta Investment Corp.	General investing	100%	100%	100%	1
MTK	Hsu-Chia Investment Limited	General investing	-	-	100%	1
MTK	Hsu-Kang Investment Limited	General investing	-	-	100%	1
MTK	MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100%	100%	-	2
MTK	Ralink Technology Corp.	Research, manufacturing and sales	100%	100%	100%	-
Hsu-Ta Investment Corp.	Core Tech Resources Inc.	General investing	100%	100%	34%	1
Hsu-Chia Investment Limited	Core Tech Resources Inc.	General investing	-	-	33%	1
Hsu-Kang Investment Limited	Core Tech Resources Inc.	General investing	-	-	33%	1
MediaTek Investment Corp.	MediaTek Capital Corp.	General investing	100%	100%	100%	-
MediaTek Investment Corp.	Gaintech Co. Limited	General investing	100%	100%	100%	-
Ralink Technology Corp.	Ralink Technology (Singapore) Corp. Pte. Ltd.	General investing	-	-	100%	3
Ralink Technology Corp.	T-Rich Technology (Cayman) Corp.	General investing	100%	100%	100%	-
Ralink Technology Corp.	MediaTek USA Inc.	Research	11%	11%	11%	-
T-Rich Technology (Cayman) Corp.	T-Rich Technology Corp.	Research, manufacturing and sales	-	100%	100%	16
MediaTek Singapore Pte. Ltd.	MTK Wireless L.L.C. (Dubai)	Technology services	100%	100%	100%	-
MediaTek Singapore Pte. Ltd.	MTK Wireless Limited (UK)	Research	-	-	100%	4

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			December 31, 2013	December 31, 2012	January 1, 2012	
MediaTek Singapore Pte. Ltd.	MediaTek Wireless Limited (Ireland)	Research	-	-	100%	5
MediaTek Singapore Pte. Ltd.	MediaTek Denmark Aps	Research	-	-	100%	4
MediaTek Capital Corp.	RollTech Technology, Co. Ltd.	Software development	67%	100%	100%	-
MediaTek Capital Corp.	E-Vehicle Semiconductor Technology Co. Ltd.	Research, manufacturing and sales	72%	69%	69%	-
Core Tech Resources Inc.	MediaTek India Technology Pvt. Ltd.	Research	0%	0%	0%	-
Gaintech Co. Limited	MediaTek China Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	MTK Wireless Limited (UK)	Research	100%	100%	-	4
Gaintech Co. Limited	MediaTek Denmark Aps	Research	100%	100%	-	4
Gaintech Co. Limited	MediaTek Japan Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek India Technology Pvt. Ltd.	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek Korea Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	Vogins Technology Co., Ltd.	General investing	-	80%	80%	17
Gaintech Co. Limited	MediaTek USA Inc.	Research	89%	89%	89%	-
Gaintech Co. Limited	Hesine Technologies International Worldwide Inc.	General investing	65%	65%	100%	6
Gaintech Co. Limited	Gold Rich International (Samoa) Limited	General investing	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			December 31, 2013	December 31, 2012	January 1, 2012	
Gaintech Co. Limited	Smarthead Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Lepower Limited	General investing	84%	71%	71%	-
Gaintech Co. Limited	Ralink Technology (Samoa) Corp.	General investing	100%	100%	100%	-
Gaintech Co. Limited	Shadow Investment Limited	General investing	-	100%	100%	13
Gaintech Co. Limited	MediaTek Sweden AB	Research	100%	100%	-	7
Gaintech Co. Limited	MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	-	-	100%	2
Gaintech Co. Limited	EcoNet (Cayman) Inc.	General Investing	100%	-	-	14
Gaintech Co. Limited	MediaTek Wireless FZ-LLC	Technology services	100%	-	-	18
MediaTek China Limited	MediaTek (Hefei) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Beijing) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Shenzhen) Inc.	Research and Technology services	100%	100%	100%	-
MediaTek China Limited	MediaTek (Chengdu) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Wuhan) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Shanghai) Inc.	Research	100%	100%	100%	-
MediaTek USA Inc.	MediaTek Wireless, Inc. (USA)	Research	-	100%	100%	12
MediaTek USA Inc.	Ralink Technology Corporation (USA)	Research	100%	100%	100%	-
Vogins Technology Co., Ltd.	Vogins Technology (Shanghai) Co., Ltd.	Software development	-	100%	100%	17

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			December 31, 2013	December 31, 2012	January 1, 2012	
Hesine Technologies International Worldwide Inc.	Hesine Technologies, Inc.	Technology services	100%	100%	100%	-
Gold Rich International (Samoa) Limited	Gold Rich International (HK) Limited	General investing	100%	100%	100%	-
Lepower Limited	Lepower (HK) Limited	General investing	100%	100%	100%	-
Lepower (HK) Limited	Lepower Technologies (Beijing) Inc.	Research, manufacturing and sales	100%	100%	-	11
E-Vehicle Semiconductor Technology Co. Ltd.	E-Vehicle Holding Corp.	General investing	100%	100%	-	8
E-Vehicle Holding Corp.	E-Vehicle Investment Limited	General investing	100%	100%	-	9
E-Vehicle Investment Limited	E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	100%	100%	-	10
EcoNet (Cayman) Inc.	Shadow Investment Limited	General Investing	100%	-	-	13
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	Research, manufacturing and sales	100%	-	-	15
Shadow Investment Limited	MediaTek (Suzhou) Inc.	Research	100%	100%	100%	-
Shadow Investment Limited	MediaTek (Nanjing) Inc.	Research	100%	100%	100%	-
Ralink Technology (Samoa) Corp.	AutoChips Inc.	Research, manufacturing and sales	100%	-	-	19

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

1. Hsu-Chia Investment Limited and Hsu-Kang Investment Limited were merged into Hsu-Ta Investment Limited on September 30, 2012. In addition, Hsu-Ta Investment Limited was reincorporated as a company limited by shares.
2. MTK acquired 100% shares of MediaTek Singapore Pte. Ltd. from Gaintech Co. Limited in October 2012.
3. Ralink Technology (Singapore) Corp. Pte. Ltd. has entered the process of liquidation since July 2012. The liquidation was complete in January 2013.
4. Gaintech Co. Limited acquired 100% shares of MTK Wireless Limited (UK) and MediaTek Denmark Aps from MediaTek Singapore Pte. Ltd. in August 2012.
5. MediaTek Wireless Limited (Ireland) has been liquidated in December 2012.
6. Gaintech Co. Limited partially disposed of shares of Hesine Technologies International Worldwide Inc. in October 2012. Therefore, the percentage of ownership of Hesine Technologies International Worldwide Inc. decreased to 65%.
7. Gaintech Co. Limited acquired 100% shares of MediaTek Sweden AB in April 2012.
8. E-Vehicle Semiconductor Technology Co. Ltd. established E-Vehicle Holding Corp. in September 2012.
9. E-Vehicle Holding Corp. established E-Vehicle Investment Limited in September 2012.
10. E-Vehicle Investment Limited established E-Vehicle Semiconductor (Shanghai) Co., Ltd. in September 2012.
11. Lepower (HK) Limited established Lepower Technologies (Beijing) Inc. in February 2012.
12. MediaTek Wireless, Inc. (USA) had been merged into MediaTek USA Inc. in January 2013.
13. EcoNet (Cayman) Inc. acquired 100% shares of Shadow Investment Limited from Gaintech Co. Limited in May 2013.
14. Gaintech Co. Limited established EcoNet (Cayman) Inc. in April 2013.
15. EcoNet (Cayman) Inc. established EcoNet (HK) Limited in April 2013.
16. T-Rich Technology Corp. Limited has been liquidated and returned the capital in December 2013.
17. Gaintech Co. Limited lost control over Vogins Technology Co., Ltd. due to the disposal of shares. Accordingly, Vogins Technology Co., Ltd. and its subsidiary Vogins Technology (Shanghai) Co., Ltd have been excluded from the Company's consolidated financial statements as of December 31, 2013. Nonetheless, revenues and expenses of Vogins Technology Co., Ltd. and its subsidiary occurred before losing control have been included in the Company's consolidated financial statements.
18. Gaintech Co. Limited established MediaTek Wireless FZ-LLC in December 2013.
19. Ralink Technology (Samoa) Corp. established AutoChips Inc. in November 2013.

The financial statements of all of consolidated subsidiaries listed above had been audited by auditors.

Foreign currency transactions

The Company's consolidated financial statements are presented in NT\$, which is also the parent company's functional currency. Each entity in the Company determines its functional currency upon its primary economic environment and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of foreign operations that result in a loss of control, loss of significant influence or joint control but retain partial equity is considering as disposal.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Current and non-current distinction

An asset is classified as current when:

- A. The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- B. The Company holds the asset primarily for the purpose of trading
- C. The Company expects to realize the asset within twelve months after the reporting period
- D. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- A. The Company expects to settle the liability in its normal operating cycle
- B. The Company holds the liability primarily for the purpose of trading
- C. The liability is due to be settled within twelve months after the reporting period
- D. The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Financial assets of the Company are classified as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Company determines the classification of its financial assets at initial recognition.

a. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

A financial asset is classified as held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in short term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- (a) it eliminates or significantly reduces a measurement or recognition inconsistency; or
- (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

b. Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

c. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

d. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or bond investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

e. Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that an individual or a group of financial asset other than the financial assets at fair value through profit or loss is impaired. An individual or a group of financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- (a) significant financial difficulty of the issuer or obligor; or
- (b) a breach of contract, such as a default or delinquency in interest or principal payments; or
- (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (d) the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

f. Derecognition of financial assets

A financial asset is derecognized when:

- (a) The rights to receive cash flows from the asset have expired
- (b) The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- (c) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

B. Financial liabilities and equity

a. Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

b. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

c. Financial liabilities

Financial liabilities within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on the subsequent measurement of liabilities held for trading including interest paid are recognized in profit or loss.

A financial liability is classified as held for trading if:

- i. it is acquired or incurred principally for the purpose of selling or repurchasing it in short term;
- ii. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- iii. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- i. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- ii. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

If the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

(b) Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(c) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

C. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

D. Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

Derivative financial instrument

The Company uses derivative financial instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges and hedges of net investments in foreign operations, which is recognized in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Inventories

Costs incurred in bringing each inventory to its present location and condition. Raw materials are valued at purchase cost. Finish goods and work in progress include cost of direct materials and related manufacturing overheads. Inventories are valued at lower of cost and net realizable value item by item. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventories that were not sold or moved for further production were assessed allowance and set aside to reflect the potential loss from stock obsolescence.

Investments accounted for using the equity method

The Company's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate. After the interest in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the Company's related interest in the associate.

When changes in the net assets of an associate occur and not those that are recognized in profit or loss or other comprehensive income and do not affects the Company's percentage of ownership interests in the associate, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate on a pro rata basis.

When the associate issues new stock, and the Company's interest in an associate is reduced or increased as the Company fails to acquire shares newly issued in the associate proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in capital surplus and investments accounted for using the equity method. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate.

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 "Property, plant and equipment". When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings and facilities	3~50 years
Machinery and equipment	3~5 years
Computer and telecommunication equipment	3~5 years
Testing equipment	3~5 years
Miscellaneous equipment	2~5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate, and are treated as changes in accounting estimates.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Leases

A. The Company as a lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

B. The Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

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.

The Company's intangible assets mainly include trademarks, patents, software, IPs and other which are acquired from third parties or by acquired other entities. A summary of the amortization policies applied to the Company's intangible assets is as follows:

Trademarks	Patents	Software	IPs and others
2~3 years	2~7 years	2~5 years	2~10 years
Amortized on a straight- line basis over the estimated useful life	Amortized on a straight- line basis over the estimated useful life	Amortized on a straight- line basis over the estimated useful life	Amortized on a straight- line basis over the estimated useful life

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The Company's intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 "Impairment of Assets" may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

A. Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- a. the significant risks and rewards of ownership of the goods have passed to the buyer;
- b. neither continuing managerial involvement nor effective control over the goods sold have been retained;
- c. the amount of revenue can be measured reliably;
- d. it is probable that the economic benefits associated with the transaction will flow to the entity; and
- e. the costs incurred in respect of the transaction can be measured reliably.

The amount of revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by entity. The Company estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue.

B. Interest income

For all financial assets measured at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and recognized in profit or loss.

C. Dividends

Revenue is recognized when the Company's right to receive the payment is established.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Post-employment benefits

All regular employees of MTK and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with MTK and its domestic subsidiaries. Therefore fund assets are not included in the Company's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, MTK and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. The Company recognizes all actuarial gains and losses in the period in which they occur in other comprehensive income. Actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings. Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

Share-based payment transactions

The cost of equity-settled transactions between the Company and its subsidiaries is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The Company elected to take the optional exemption under IFRS 1 “First-time Adoption of International Financial Reporting Standards” for the liabilities and the equity instruments in share-based payment transactions settled and vested before January 1, 2012 (the date of transition to TIFRS).

Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

A. Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the shareholders’ meeting.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

B. Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- a. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Interim period income tax expense is estimated using the tax rate that would be applicable to expected total annual earnings, that is, calculated by the pre-tax income of the interim period multiply by the estimated average annual effective income tax rate.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

When the Company acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the amount of the excess of the aggregate of the consideration transferred and the non-controlling interest over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The judgments and estimates made by the Company are based on historical experience and other related factors and continuously being evaluated and adjusted. Please refer to below description:

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

A. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example the discounted cash flows model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

B. Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Company uses judgment and estimate to determine the net realizable value of inventory at the end of each reporting period.

Due to the rapid technological changes, the Company estimates the net realizable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon.

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

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could cause future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

D. Revenue recognition - sales returns and discounts

The Company estimates sales returns and discounts based on historical experience and other known factors at the time of sale, which reduces the sales. The management periodically reviews the adequacy of the estimation used.

6. Contents of Significant Accounts**(1) Cash and cash equivalents**

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand and petty cash	\$1,102	\$1,010	\$2,020
Checking and savings accounts	13,315,702	9,763,010	11,069,943
Time deposits	119,680,922	76,103,190	74,749,475
Total	<u>\$132,997,726</u>	<u>\$85,867,210</u>	<u>\$85,821,438</u>

Time deposits include deposits whose maturities are under twelve months and are readily convertible to known amounts of cash with values subject to an insignificant risk of changes.

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

Cash and cash equivalents were not pledged.

(2) Financial assets and financial liabilities at fair value through profit or loss

Financial assets designated upon initial recognition at fair value through profit or loss:

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Current</u>			
Convertible bonds	\$221,777	\$-	\$103,510
Credit-linked deposits	319,603	281,259	-
Interest rate-linked deposits	562,835	348,409	1,513,840
Exchange rate-linked deposits	721,039	-	-
Index-linked deposits	297,942	-	-
Subtotal	2,123,196	629,668	1,617,350
<u>Noncurrent</u>			
Convertible bonds	94,583	-	119,000
Bonds-Repo	289,332	-	-
Credit-linked deposits	823,058	546,508	514,412
Interest rate-linked deposits	271,734	526,468	878,944
Exchange rate-linked deposits	-	411,529	226,981
Subtotal	1,478,707	1,484,505	1,739,337
Total	\$3,601,903	\$2,114,173	\$3,356,687

Financial assets and financial liabilities held for trading:

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Current assets</u>			
Forward exchange contracts	\$8,894	\$244	\$66
<u>Current liabilities</u>			
Forward exchange contracts	\$26,017	\$2,638	\$-

Financial assets at fair value through profit or loss were not pledged.

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

(3) Available-for-sale financial assets

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Current</u>			
Funds	\$1,570,378	\$2,567,128	\$2,371,197
Bonds	86,391	81,990	117,721
Depository receipts	22,577	20,808	56,436
Common shares	1,746,775	1,309,087	-
Subtotal	3,426,121	3,979,013	2,545,354
<u>Noncurrent</u>			
Funds	2,838,444	2,475,193	2,021,006
Bonds	1,648,910	731,702	789,662
Subtotal	4,487,354	3,206,895	2,810,668
Total	\$7,913,475	\$7,185,908	\$5,356,022

Available-for-sale financial assets were not pledged.

(4) Financial assets measured at cost

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Available-for-sale financial assets-noncurrent</u>			
Non-publicly traded stocks	\$905,074	\$869,371	\$1,166,627
Capital	1,156,489	1,213,743	850,986
Total	\$2,061,563	\$2,083,114	\$2,017,613

Financial assets measured at cost were not pledged.

(5) Held-to-maturity financial assets

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Current</u>			
Bonds	\$549,573	\$-	\$-
Structured deposits	-	-	48,126
Subtotal	549,573	-	48,126
<u>Noncurrent</u>			
Bonds	341,937	796,860	828,422
Total	\$891,510	\$796,860	\$876,548

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

(6) Bond investments for which no active market exists

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Current</u>			
Series B preferred stock	\$-	\$-	\$1,000,000
Time deposits	113,678	113,598	13,112
Subtotal	113,678	113,598	1,013,112
<u>Noncurrent</u>			
Time deposits	364	400	671
Total	\$114,042	\$113,998	\$1,013,783

Please refer to Note 8 for more details on bond investments for which no active market exists under pledge.

(7) Trade receivables and trade receivables from related parties

	December 31, 2013	December 31, 2012	January 1, 2012
Trade receivables	\$14,706,067	\$8,789,171	\$7,926,274
Less: allowance for doubtful debts	(84,875)	(162,859)	(247,826)
Less: allowance for sales returns and discounts	(6,993,601)	(2,041,702)	(318,131)
Subtotal	7,627,591	6,584,610	7,360,317
Trade receivables from related parties	-	-	23,567
Less: allowance for doubtful debts	-	-	-
Subtotal	-	-	23,567
Total	\$7,627,591	\$6,584,610	\$7,383,884

Trade receivables were not pledged.

Trade receivables are generally on 45-60 day terms. The movements in the provision for impairment of trade receivables and trade receivables from related parties are as follows (please refer to Note 12 for credit risk disclosure):

	Individually impaired	Collectively impaired	Total
As of January 1, 2013	\$-	\$162,859	\$162,859
Reversal for the current period	-	(79,110)	(79,110)
Exchange differences	-	1,126	1,126
As of December 31, 2013	\$-	\$84,875	\$84,875

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

	Individually impaired	Collectively impaired	Total
As of January 1, 2012	\$-	\$247,826	\$247,826
Reversal for the current period	-	(81,003)	(81,003)
Exchange differences	-	(3,964)	(3,964)
As of December 31, 2012	\$-	\$162,859	\$162,859

Aging analysis of trade receivables and trade receivables from related parties that are past due as of the end of the reporting period but not impaired is as follows:

As of	Neither past due nor impaired	Past due but not impaired		Total
		1 to 90 days	More than 91 days	
December 31, 2013	\$7,383,181	\$243,386	\$1,024	\$7,627,591
December 31, 2012	\$6,122,853	\$461,757	\$-	\$6,584,610
January 1, 2012	\$6,339,416	\$1,044,468	\$-	\$7,383,884

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 trade receivables, 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 trade receivables 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, 2013, December 31, 2012, and January 1, 2012. Receivables from banks due to factoring agreement were NT\$2,697,718 thousand, NT\$2,540,784 thousand and NT\$2,138,876 thousand, respectively.

As of December 31, 2013, December 31, 2012 and January 1, 2012, trade receivables derecognized were as follows:

(a) As of December 31, 2013:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	55,529	-	55,529	154,860
BNP Paribas	-	22,887	-	22,887	100,000
HSBC	-	294	-	294	800
TC Bank	-	11,364	-	11,364	13,500
Total		90,074	-	90,074	269,160

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

(b) As of December 31, 2012:

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

(c) As of January 1, 2012:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	45,717	-	45,717	129,946
BNP Paribas	-	24,896	-	24,896	65,000
Total		70,613	-	70,613	194,946

(8) Inventories

	December 31, 2013	December 31, 2012	January 1, 2012
Raw materials	\$4,787	\$3,452	\$-
Work in progress	7,320,888	9,979,682	7,499,193
Finished goods	5,268,422	5,855,477	5,424,535
Total	12,594,097	15,838,611	12,923,728
Less: allowance for inventory valuation losses	(3,247,305)	(1,971,300)	(3,531,446)
Net amount	\$9,346,792	\$13,867,311	\$9,392,282

For the years ended December 31, 2013 and 2012, the cost of inventories recognized in expenses amounts to NT\$76,250,370 thousand and NT\$58,204,139 thousand, including the write-down of inventories of NT\$1,271,330 thousand for the year ended December 31, 2013, and the reversal gain of the write-down of inventories of NT\$1,548,304 thousand for the year ended December 31, 2012 because of the circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed.

No inventories were pledged.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(9) Investments accounted for using the equity method**

Investees	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
MStar Semiconductor, Inc.						
(Cayman)	\$58,192,878	48	\$56,380,616	48	\$-	-
Airoha Technology, Inc.	284,779	32	223,709	39	207,792	39
Shenzhen Huiding Technology Co., Ltd.	704,232	24	428,852	24	-	-
Alpha Imaging Technology Corp.	135,913	15	131,371	15	146,840	15
ALi Corporation	-	-	-	-	1,423,683	21
Others	351,959	-	229,361	-	202,668	-
Total	<u>\$59,669,761</u>		<u>\$57,393,909</u>		<u>\$1,980,983</u>	

A. The carrying amount of investments in the associates for which there are published price quotations amounts to NT\$58,328,791 thousand, NT\$56,511,987 thousand and NT\$1,570,523 thousand, as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively. The fair value of these investments are NT\$88,354,325 thousand, NT\$55,533,117 thousand and NT\$2,076,422 thousand, as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively.

The share of profit of these associates accounted for using the equity method amounts to NT\$2,150,963 thousand and NT\$1,059,870 thousand for the years ended December 31, 2013 and 2012, respectively. The share of other comprehensive income of these associates accounted for using the equity method amounts to NT\$1,554,911 thousand and NT\$(1,545,440) thousand for the years ended December 31, 2013 and 2012, respectively.

The Company serves as a director of the board of directors of Alpha Imaging Technology Corp. and participates in its policy-setting processes. Therefore, the Company has significant influence over Alpha Imaging Technology Corp. even its ownership is lower than 20%.

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

In May 2012, the Company sold partial shares of ALi Corporation. As the Company had lost its significant influence over ALi Corporation, the Company recognized an investment disposal gain of NT\$958,957 thousand from the difference between the carrying amount of the investment at the disposal date and the aggregate amounts of the fair value of the remaining shares and the disposing proceeds of NT\$1,528,400 thousand. Moreover, the Company reclassified the remaining shares to available-for-sale financial assets-current at its fair value.

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

No investment in the associate was pledged.

B. The following table illustrates summarized financial information of the Company's investment in the associates:

	December 31, 2013	December 31, 2012	January 1, 2012
Total assets	\$49,504,796	\$44,112,647	\$8,211,144
Total liabilities	\$11,080,916	\$9,624,716	1,240,661

	Years ended December 31	
	2013	2012
Revenue	\$40,025,789	\$41,899,012
Profit	\$5,543,109	\$5,499,104

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

(10) Property, plant and equipment

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:								
As of January 1, 2013	\$1,273,869	\$6,789,307	\$125,761	\$2,071,672	\$3,013,052	\$1,166,230	\$2,141,493	\$16,581,384
Additions-acquired separately	-	319,349	3,668	271,900	312,339	30,348	751,478	1,689,082
Disposals	-	(12,588)	(7,077)	(109,531)	(116,064)	(8,755)	-	(254,015)
Transfers	-	1,969,228	(277)	1,276	14,765	4,199	(1,991,731)	(2,540)
Exchange differences	-	13,691	600	51,787	27,096	378	110,012	203,564
As of December 31, 2013	<u>\$1,273,869</u>	<u>\$9,078,987</u>	<u>\$122,675</u>	<u>\$2,287,104</u>	<u>\$3,251,188</u>	<u>\$1,192,400</u>	<u>\$1,011,252</u>	<u>\$18,217,475</u>
As of January 1, 2012	\$1,055,184	\$6,135,210	\$159,305	\$1,952,134	\$2,817,023	\$1,177,722	\$1,528,646	\$14,825,224
Additions-acquired separately	262,609	773,306	37,531	176,561	273,262	38,316	668,766	2,230,351
Additions-acquired through business combinations	-	-	-	-	71	4,606	-	4,677
Disposals	-	(113,946)	(33,038)	(56,724)	(76,517)	(25,624)	-	(305,849)
Transfers	-	-	-	-	-	-	(30,353)	(30,353)
Exchange differences	(43,924)	(5,263)	(38,037)	(299)	(787)	(28,790)	(25,566)	(142,666)
As of December 31, 2012	<u>\$1,273,869</u>	<u>\$6,789,307</u>	<u>\$125,761</u>	<u>\$2,071,672</u>	<u>\$3,013,052</u>	<u>\$1,166,230</u>	<u>\$2,141,493</u>	<u>\$16,581,384</u>

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Depreciation and impairment:								
As of January 1, 2013	\$-	\$1,591,536	\$108,287	\$1,390,119	\$2,065,704	\$693,244	\$-	\$5,848,890
Depreciation	-	222,096	7,023	376,020	393,617	183,435	-	1,182,191
Disposals	-	(6,749)	(7,077)	(91,551)	(94,447)	(7,544)	-	(207,368)
Transfers	-	(117)	(5)	-	291	(146)	-	23
Exchange differences	-	2,515	481	27,028	31,656	19,952	-	81,632
As of December 31, 2013	\$-	\$1,809,281	\$108,709	\$1,701,616	\$2,396,821	\$888,941	\$-	\$6,905,368
As of January 1, 2012	\$-	\$1,437,859	\$146,501	\$1,100,483	\$1,755,654	\$523,297	\$-	\$4,963,794
Depreciation	-	211,352	1,444	398,337	372,412	234,830	-	1,218,375
Disposals	-	(40,486)	(39,494)	(96,678)	(61,610)	(54,782)	-	(293,050)
Exchange differences	-	(17,189)	(164)	(12,023)	(752)	(10,101)	-	(40,229)
As of December 31, 2012	\$-	\$1,591,536	\$108,287	\$1,390,119	\$2,065,704	\$693,244	\$-	\$5,848,890
Net carrying amount as of:								
December 31, 2013	\$1,273,869	\$7,269,706	\$13,966	\$585,488	\$854,367	\$303,459	\$1,011,252	\$11,312,107
December 31, 2012	\$1,273,869	\$5,197,771	\$17,474	\$681,553	\$947,348	\$472,986	\$2,141,493	\$10,732,494
January 1, 2012	\$1,055,184	\$4,697,351	\$12,804	\$851,651	\$1,061,369	\$654,425	\$1,528,646	\$9,861,430

Property, plant and equipment were not pledged.

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

(11) Intangible assets

	Trademarks	Software	Patents, IPs and others	Goodwill	Total
Cost:					
As of January 1, 2013	\$32,985	\$1,005,067	\$8,083,810	\$13,949,611	\$23,071,473
Additions-acquired separately	-	61,395	263,019	-	324,414
Disposals	-	(398,935)	(4,077,108)	-	(4,476,043)
Transfers	-	2,563	-	-	2,563
Exchange differences	-	(127)	13,228	15,685	28,786
Others	(583)	(280)	(11,825)	-	(12,688)
As of December 31, 2013	<u>\$32,402</u>	<u>\$669,683</u>	<u>\$4,271,124</u>	<u>\$13,965,296</u>	<u>\$18,938,505</u>
As of January 1, 2012	\$32,300	\$892,000	\$6,670,723	\$13,428,387	\$21,023,410
Additions-acquired separately	-	91,045	980,533	-	1,071,578
Additions-acquired through business combinations	-	-	443,479	516,560	960,039
Transfers	-	29,296	1,057	-	30,353
Exchange differences	-	(965)	(26,944)	4,664	(23,245)
Others	685	(6,309)	14,962	-	9,338
As of December 31, 2012	<u>\$32,985</u>	<u>\$1,005,067</u>	<u>\$8,083,801</u>	<u>\$13,949,611</u>	<u>\$23,071,473</u>
Amortization and impairment:					
As of January 1, 2013	\$18,046	\$828,805	\$6,497,174	\$-	\$7,344,025
Amortization	14,356	123,845	406,438	-	544,639
Disposals	-	(398,935)	(4,077,108)	-	(4,476,043)
Exchange differences	-	(633)	4,074	-	3,441
Others	-	1,827	11,423	-	13,250
As of December 31, 2013	<u>\$32,402</u>	<u>\$554,909</u>	<u>\$2,842,001</u>	<u>\$-</u>	<u>\$3,429,312</u>
As of January 1, 2012	\$4,852	\$612,576	\$4,255,323	\$-	\$4,872,751
Amortization	13,194	221,185	2,243,701	-	2,478,080
Exchange differences	-	-	(1,938)	-	(1,938)
Others	-	(4,956)	88	-	(4,868)
As of December 31, 2012	<u>\$18,046</u>	<u>\$828,805</u>	<u>\$6,497,174</u>	<u>\$-</u>	<u>\$7,344,025</u>

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

Net carrying amount as of:

December 31, 2013	\$-	\$114,774	\$1,429,123	\$13,965,296	\$15,509,193
December 31, 2012	\$14,939	\$176,262	\$1,586,636	\$13,949,611	\$15,727,448
January 1, 2012	\$27,448	\$279,424	\$2,415,400	\$13,428,387	\$16,150,659

(12) Impairment testing of goodwill

The Company's goodwill allocated to each of cash-generating units or groups of cash-generating units is expected to benefit from synergies of the business combination. Key assumptions used in impairment testing are as follows:

The recoverable amount of the cash-generating unit is determined based on the value-in-use calculated using cash flow projections discounted by the pre-tax discount rate from financial budgets approved by management covering a five-year period. The projected cash flows reflect the change in demand for products and services. As a result of the analysis, the Company did not identify any impairment for the goodwill of NT\$13,965,296 thousand.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for the cash-generating unit is most sensitive to the following assumptions:

- (a) Gross margin
- (b) Discount rates
- (c) Growth rates of sales of budget period

Gross margins - Gross margins are based on the gross margins of latest fiscal year and future trend of the market.

Discount rates - Discount rates reflect the current market assessment of the risks specific to each cash generating unit (including the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted). The discount rate was estimated based on the weighted average cost of capital (WACC) for the Company, taking into account the particular situations of the Company and its operating segments. The WACC includes both the cost of liabilities and cost of equity. The cost of equity is derived from the expected returns of the Company's investors on capital, where the cost of liabilities is measured by the interest bearing loans that the Company has obligation to settle.

Growth rates of sales estimates - The growth rate of sales were estimated by historical experience. The long-term average growth rate the Company predicted was adjusted by considering the product life cycle and the macroeconomic environment.

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

With regard to the assessment of value-in-use of the cash-generating unit, the Company believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

(13) Short-term borrowings

	December 31, 2013	December 31, 2012	January 1, 2012
Unsecured bank loans	\$29,051,500	\$8,880,430	\$4,089,150
Interest rates	0.75~2.55%	0.49~1.10%	1.25~1.50%
Unused lines of credits	\$5,988,350	\$9,343,506	\$5,501,900

(14) Post-employment benefits

Defined contribution plans

MTK and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. MTK and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts. Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts. Pension benefits for employees of foreign subsidiaries are provided in accordance with the local regulations.

Pension expenses under the defined contribution plan for the years ended December 31, 2013 and 2012 are NT\$702,388 thousand and NT\$580,480 thousand, respectively.

Defined benefit plans

MTK and its domestic subsidiaries adopt a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, MTK and its domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee.

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

The summarization of defined benefits plan reflected in profit or loss is as follows:

	For the years ended December 31	
	2013	2012
Current service cost	\$4,764	\$2,461
Interest cost	9,413	8,755
Expected return on plan assets	(1,270)	(1,203)
Past service cost	-	-
Total	\$12,907	\$10,013

The cumulative amount of actuarial losses recognized in other comprehensive income is as follows:

	For the years ended December 31	
	2013	2012
As of January 1	\$103,084	\$-
Actuarial losses for the period	42,044	103,084
As of December 31	\$145,128	\$103,084

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Defined benefit obligation at present value	\$675,485	\$627,560	\$513,866
Plan assets at fair value	(69,452)	(71,806)	(68,787)
Funded status	606,033	555,754	445,079
Unrecognized past service cost	-	-	-
Accrued pension liabilities recognized on the consolidated balance sheets	\$606,033	\$555,754	\$445,079

Changes in present value of the defined benefit obligation are as follows:

	For the years ended December 31	
	2013	2012
Defined benefit obligation as of January 1	\$627,560	\$513,866
Current service cost	4,764	2,461
Interest cost	9,413	8,755
Actuarial losses	41,680	102,478
Benefits paid	(7,932)	-
Defined benefit obligation as of December 31	\$675,485	\$627,560

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

Changes in fair value of plan assets are as follows:

	For the years ended December 31	
	2013	2012
Fair value of plan assets as of January 1	\$71,806	\$68,787
Expected return on plan assets	1,270	1,203
Contributions by employer	2,022	2,422
Benefits paid	(7,932)	-
Actuarial losses	(364)	(606)
Others	2,650	-
Fair value of plan assets as of December 31	<u>\$69,452</u>	<u>\$71,806</u>

The Company expects to contribute NT\$14,076 thousand to its defined benefit plan for the year ended December 31, 2014.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	Pension plan (%) as of		
	December 31, 2013	December 31, 2012	January 1, 2012
Cash	26.96%	35.05%	31.48%
Equity instruments	44.77%	37.43%	40.75%
Debt instruments	27.48%	26.73%	27.77%
Others	0.79%	0.79%	-

The Company's actual return on plan assets was NT\$906 thousand and NT\$597 thousand for the years ended December 31, 2013 and 2012.

Employee pension fund is deposited under a trust administered by the Bank of Taiwan. The overall expected rate of return on assets is determined based on historical trend and analyst's expectation on the asset's return in its market over the obligation period. Furthermore, the utilization of the fund by the labor pension fund supervisory committee and the fact that the minimum earnings are guaranteed to be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks are also taken into consideration in determining the expected rate of return on assets.

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

The principal assumptions used in determining the Company's defined benefit plan are shown below:

	December 31, 2013	December 31, 2012	January 1, 2012
Discount rate	2.00%	1.50%	1.75%
Expected rate of return on plan assets	2.00%	1.75%	1.75%
Expected rate of salary increases	3.00~3.40%	3.00%	3.00%

A 0.5 percentage point change in discount rate on defined benefit obligation:

	For the years ended December 31			
	2013		2012	
	0.5% increase in discount rate	0.5% decreased in discount rate	0.5% increase in discount rate	0.5% decreased in discount rate
Effect on the aggregate service cost in next period	\$(189)	\$214	\$(234)	\$265
Effect on the defined benefit obligation	\$(73,400)	\$83,325	\$(72,229)	\$82,453

Other information on the defined benefit plan is as follows:

	For the years ended December 31	
	2013	2012
Defined benefit obligation at present value as of December 31	\$675,485	\$627,560
Plan assets at fair value as of December 31	(69,452)	(71,806)
Deficit in plan as of December 31	\$606,033	555,754
Experience adjustments on plan liabilities	\$(23,200)	\$(21,232)
Experience adjustments on plan assets	\$(364)	\$(606)

(15) Equity**A. Share capital**

MTK's authorized capital was NT\$20,000,000 thousand, NT\$20,000,000 thousand, and NT\$12,000,000 thousand, divided into 2,000,000,000 shares, 2,000,000,000 shares, and 1,200,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options at each period) as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively, each at a par value of NT\$10. MTK's issued capital was NT\$13,494,667 thousand, NT\$13,493,702 thousand, and NT\$11,475,108 thousand, divided into 1,349,466,701 shares, 1,349,370,189 shares, and 1,147,510,834 shares as of December 31, 2013, December 31, 2012, and January 1, 2012, respectively. Each share has one voting right and a right to receive dividends.

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

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

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

During 2013, MTK totally issued 333,580 new shares at par value of NT\$10 for the employee stock options exercised. Furthermore, 247,293 shares (NT\$2,473 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance.

B. Capital surplus

	December 31, 2013	December 31, 2012	January 1, 2012
Additional paid-in capital	\$66,585,671	\$78,042,994	\$23,161,573
Treasury share transactions	1,081,591	1,011,446	941,301
Adjustments arising from changes in percentage of ownership in subsidiaries	162,094	151,548	-
Donated assets	1,260	1,260	1,260
From share of changes in net assets of associates	51,144	36,634	2,719
Employee stock options	401,842	326,043	276,382
Others	191,308	102,573	105,174
Total	<u>\$68,474,910</u>	<u>\$79,672,498</u>	<u>\$24,488,409</u>

According to the Company Law, the capital surplus shall not be used except for offset the deficit of the company. When a company incurs no loss, it may distribute the capital surplus generated from the excess of the issuance price over the par value of share capital (including the shares issued for mergers and the surplus from treasury shares transactions) and donations. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

C. Treasury shares

As of December 31, 2013, December 31, 2012, and January 1, 2012, MTK's shares held by the subsidiary, MediaTek Capital Corp., were NT\$55,970 thousand, and the number of MTK's shares held were 7,794,085 shares. These shares held by MediaTek Capital Corp. were acquired for the purpose of financing before the amendment of the Company Act on November 12, 2001.

As of December 31, 2013, December 31, 2012 and January 1, 2012, MTK did not hold any other treasury shares.

D. Retained earnings and dividend policy

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

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

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

According to the Company Law, MTK needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to offset the deficit of MTK. When MTK incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Pursuant to existing regulations, MTK is required to set aside additional special reserve equivalent to the net debit balance of the other components of shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

Following the adoption of TIFRS, the FSC on April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded in shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside special reserve based on difference between the amount already set aside and the total debit balances of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

As of January 1, 2013, special reserve set aside for the first-time adoption of TIFRS amounts to nil.

During the years ended December 31, 2013 and 2012, the amounts of the employees' bonuses were estimated to be NT\$1,593,476 thousand and NT\$895,875 thousand, respectively. During the years ended December 31, 2013 and 2012, the amounts of remunerations to directors and supervisors were estimated to be NT\$56,784 thousand and NT\$24,421 thousand, respectively. The employees' bonuses were estimated based on a specific rate of net income for the years ended December 31, 2013 and 2012 (excluding the impact of employees' bonuses) while the remunerations to directors and supervisors were estimated based on MTK's Articles of Incorporation. Estimated amount of employees' bonuses and remunerations paid to directors and supervisors were charged to current income. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, MTK shall recognize the change as an adjustment to income of next year. 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 shares on the day preceding the shareholders' meeting.

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

The appropriations of earnings for 2012 and 2011 were resolved by the board of directors' meeting on May 10, 2013 and March 21, 2012, while the appropriations of earnings for 2012 and 2011 were resolved by the shareholders' general meeting on June 21, 2013 and June 13, 2012. 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:

	Appropriation of earnings		Dividend per share (NT\$)	
	2012	2011	2012	2011
Legal reserve	\$1,568,753	\$1,362,307	\$-	\$-
Special reserve (reversal)	2,862,113	(1,987,809)	\$-	\$-
Cash dividends-common stock	674,690	10,328,124	\$0.50	\$9.00
Directors' and supervisors' remunerations	28,141	28,497	\$-	\$-
Employees' bonuses-cash	895,875	1,714,243	\$-	\$-
Total	<u>\$6,029,572</u>	<u>\$11,445,362</u>		

On May 10, 2013, the board of directors resolved a cash distribution of NT\$9 per share (NT\$12,144,424 thousand in the amount), among which NT\$8.5 per share (NT\$11,469,734 thousand in the amount) is from capital surplus while the remaining is from earnings. The cash distribution was approved by the shareholders' meeting on June 21, 2013.

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 2012 are as follows:

Appropriations	The amount resolved by the shareholders' general meeting	Expense estimated	Difference	Difference reasons and the accounting treatment
Employees' bonuses-cash	\$895,875	\$895,875	\$-	-
Directors' and supervisors' remunerations	\$28,141	\$24,421	\$3,720	(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 2013.

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

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

	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains from available-for-sale financial assets	Total
As of January 1, 2013	\$(5,762,485)	\$579,111	\$(5,183,374)
Exchange differences resulting from translating the financial statements of foreign operations	1,802,933	-	1,802,933
Unrealized gains from available-for-sale financial assets	-	880,001	880,001
Unrealized gains reclassified to profit or loss upon disposal of available-for-sale financial assets	-	49,780	49,780
Share of other comprehensive income of associates accounted for using equity method	1,554,911	-	1,554,911
As of December 31, 2013	\$(2,404,641)	\$1,508,892	\$(895,749)
	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains from available-for-sale financial assets	Total
As of January 1, 2012	\$(2,253,687)	\$43,192	\$(2,210,495)
Exchange differences resulting from translating the financial statements of foreign operations	(1,963,358)	-	(1,963,358)
Unrealized gains from available-for-sale financial assets	-	534,085	534,085
Unrealized gains reclassified to profit or loss upon disposal of available-for-sale financial assets	-	1,834	1,834
Share of other comprehensive income of associates accounted for using equity method	(1,545,440)	-	(1,545,440)
As of December 31, 2012	\$(5,762,485)	\$579,111	\$(5,183,374)

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

F. Non-controlling interests

	For the years ended December 31	
	2013	2012
Beginning balance	\$34,209	\$50,311
Loss attributable to non-controlling interests	(30,402)	(39,215)
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	8,244	23,113
Acquisition of new shares in a subsidiary not in proportionate to ownership interest	26,142	-
Ending balance	\$38,193	\$34,209

(16) Share-based payment plans

Certain employees of the Company are entitled to share-based payment as part of their remunerations. Services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

In December 2007, July 2009, May 2010, August 2011, August 2012 and August 2013, MTK was authorized by the Financial Supervisory Commission, Executive Yuan, to issue employee stock options of 5,000,000 units, 3,000,000 units, 3,500,000 units, 3,500,000 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 MTK or any of its domestic or foreign subsidiaries, in which MTK's shareholding with voting rights, directly or indirectly, is more than fifty percent. The options are valid for ten years and exercisable at certain percentage subsequent to the second anniversary of the granted date. Under the terms of the plan, the options are granted at an exercise price equal to the closing price of MTK's common shares listed on the TWSE on the grant date.

Detail information relevant to the share-based payment plan 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	381,504	381,504	\$358.0
2008.08.28	1,640,285	595,726	595,726	344.5
2009.08.18	1,382,630	681,073	681,073	431.0
2010.08.27	1,605,757	874,892	525,546	404.8
2010.11.04	65,839	14,634	8,778	377.0
2011.08.24	2,109,871	1,543,898	406,395	277.4
2012.08.14	1,346,795	1,167,038	-	286.8
2013.08.22	1,436,343	1,382,426	-	368.0

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

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

The compensation cost was recognized under the fair value method and the Black-Scholes Option Pricing model was used to estimate the fair value of options granted. Assumptions used in calculating the fair value are disclosed as follows:

	Employee Stock Option
Expected dividend yield (%)	2.43%~6.63%
Expected volatility (%)	32.9%~50.06%
Risk free interest rate (%)	0.93%~2.53%
Expected life (Years)	6.5 years

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The following table contains further details on the aforementioned share-based payment plan:

	For the years ended December 31			
	2013		2012	
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	6,045,493	\$332.7	5,198,793	\$359.6
Granted	1,436,343	368.0	1,346,795	286.8
Exercised	(285,885)	314.6	-	-
Forfeited (Expired)	(554,760)	289.1	(500,095)	337.6
Outstanding at end of period	<u>6,641,191</u>	341.3	<u>6,045,493</u>	332.7
Exercisable at end of period	<u>2,599,022</u>		<u>1,910,836</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$96.5</u>		<u>\$90.5</u>	

The weighted average share price at the date of exercise of those options was NT\$397.3 for the year ended December 31, 2013.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

The information on the outstanding share-based payment plan as of December 31, 2013 and 2012 is as follows:

Date of grant	Range of Exercise Price (NTD)	For the years ended December 31			
		2013		2012	
		Outstanding stock options		Outstanding stock options	
		Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NTD)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NTD)
2007.12.19	\$344.5~358.0	1.00	\$349.8	2.01	\$349.7
2009.07.27	431.0	2.13	431.0	3.13	431.0
2010.05.10	377.0~404.8	3.17	404.3	4.17	404.3
2011.08.09	277.4	4.17	277.4	5.17	277.4
2012.08.09	286.8	5.13	286.8	6.13	286.8
2013.08.09	368.0	6.17	368.0	-	-

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

Details of Ralink's share-based payment plan 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	-	-	15.7
2007.09.30	560,000	149,568	47,368	-	-	15.7
2007.12.30	17,000	944	299	-	-	15.7
2007.12.31	1,000,000	277,490	87,895	-	-	16.7

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

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

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

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

The aforementioned expected option life is based on historical data of period for previously granted options and current expectations are not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

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

	For the years ended December 31			
	2013		2012	
	Options	Weighted-average Exercise Price per Share (NTD)	Options	Weighted-average Exercise Price per Share (NTD)
Employee Stock Option	(Unit)		(Unit)	
Outstanding at beginning of period	52,483	\$16.4	144,735	\$16.3
Granted	-	-	-	-
Exercised	(47,695)	16.4	(92,252)	16.2
Forfeited (Expired)	(4,788)	16.2	-	-
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)	\$-	-	\$-	-

The weighted average share price at the date of exercise of those options were NT\$347.6 and NT\$284.9 for the years ended December 31, 2013 and 2012, respectively.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

The information on the outstanding share-based payment plan as of December 31, 2013 and 2012 is as follows:

		As of December 31			
		2013		2012	
		Outstanding stock options		Outstanding stock options	
		Weighted- average Expected Remaining	Weighted- average Exercise Price per Share	Weighted- average Expected Remaining	Weighted- average Exercise Price per Share
Date of grant	Range of Exercise Price (NTD)	Years	(NTD)	Years	(NTD)
2007.01.29	\$15.7	-	\$15.7	-	\$15.7
2007.10.30	16.7	-	16.7	-	16.7

The expense recognized for employee services received for the years ended December 31, 2013 and 2012, is shown in the following table:

		For the years ended December 31	
		2013	2012
Total equity-settled transactions		\$75,799	\$49,661

There have been no cancellations or modifications to any of the plans during the years ended December 31, 2013 and 2012.

(17) Sales

		For the years ended December 31	
		2013	2012
Sale of goods		\$156,364,494	\$111,230,467
Other operating revenues		1,061,939	784,272
Less: Sales returns and discounts		(21,370,479)	(12,751,579)
Net sales		\$136,055,954	\$99,263,160

(18) Summary of employee benefits, depreciation and amortization expenses by function for the years ended December 31, 2013 and 2012:

	For the years ended December 31					
	2013			2012		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$194,538	\$16,839,520	\$17,034,058	\$198,580	\$13,445,398	\$13,643,978
Labor and health insurance	\$17,371	\$731,776	\$749,147	\$12,838	\$673,106	\$685,944
Pension	\$11,484	\$703,811	\$715,295	\$11,804	\$578,689	\$590,493
Others	\$ 5,984	\$701,033	\$707,017	\$5,279	\$571,517	\$576,796
Depreciation	\$2,791	\$1,179,400	\$1,182,191	\$2,857	\$1,215,518	\$1,218,375
Amortization	\$-	\$544,639	\$544,639	\$246	\$2,477,834	\$2,478,080

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

(19) Other income

	For the years ended December 31	
	2013	2012
Rental income	\$9,812	\$9,167
Interest income	1,755,482	1,730,158
Dividend income	167,855	148,878
Gain on reversal of bad debts	79,110	81,003
Others	390,368	422,423
Total	<u>\$2,402,627</u>	<u>\$2,391,629</u>

(20) Other gains and losses

	For the years ended December 31	
	2013	2012
Losses on disposal of property, plant and equipment	\$(3,137)	\$(10,000)
(Loss) gain on disposal of investments		
Financial assets measured at cost	1,772	15,510
Available-for-sale financial assets	(49,780)	(1,834)
Investment accounted for using the equity method	-	1,038,122
Foreign exchange gains	545,463	119,544
Impairment losses		
Financial assets measured at cost	(380,210)	(264,452)
Available-for-sale financial assets	(97,900)	(324,295)
(Loss) gain on financial assets at fair value through profit or loss	(39,529)	79,251
Losses on financial liabilities at fair value through profit or loss	(26,017)	(2,638)
Others	(54,334)	91,057
Total	<u>\$(103,672)</u>	<u>\$740,265</u>

(21) Finance costs

	For the years ended December 31	
	2013	2012
Interest expenses on short-term borrowings	<u>\$146,816</u>	<u>\$109,458</u>

(22) Income tax

The major components of income tax expense are as follows:

	For the years ended December 31	
	2013	2012
Current income tax expenses	\$2,998,863	\$901,941
Deferred tax income	(1,008,094)	(29,205)
Others	71,403	67,815
Total income tax expense recognized in profit or loss	<u>\$2,062,172</u>	<u>\$940,551</u>

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

A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the years ended December 31	
	2013	2012
Accounting profit before tax from continuing operations	\$29,546,822	\$16,485,081
Tax at the domestic rates applicable to profits in the country concerned	\$6,091,788	\$3,968,382
Tax effect of revenues exempt from taxation	(2,564,637)	(1,180,571)
Tax effect of expenses not deductible for tax purposes	(1,368,278)	(1,861,562)
Investment tax credits	(1,058,197)	(392,045)
Tax effect of deferred tax assets/liabilities	178,457	(196,088)
10% surtax on undistributed retained earnings	1,058,197	392,045
Others	(275,158)	210,390
Total income tax expense recognized in profit or loss	\$2,062,172	\$940,551

For the year ended December 31, 2013

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized allowance for inventory obsolescence	\$36,514	\$325,652	\$-	\$-	\$-	\$362,166
Allowance for sales returns and discounts	46,338	736,904	-	-	-	783,242
Amortization of difference for tax purpose	69,067	113,281	-	-	-	182,348
Amortization of goodwill difference for tax purpose	(1,158,926)	117,178	-	-	-	(1,041,748)
Unused foreign tax losses	152,757	20,069	-	-	-	172,826
Unused tax credits	490,160	(346,797)	-	-	-	143,363
Others	84,747	41,807	-	-	-	126,554
Deferred tax income		\$1,008,094	\$-	\$-	\$-	
Net deferred tax assets (liabilities)	<u>\$(279,343)</u>					<u>\$728,751</u>
Reflected in balance sheet as follows:						
Deferred tax assets	<u>\$915,791</u>					<u>\$1,778,859</u>
Deferred tax liabilities	<u>\$(1,195,134)</u>					<u>\$(1,050,108)</u>

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

For the year ended December 31, 2012

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized allowance for inventory obsolescence	\$50,739	\$(14,225)	\$-	\$-	\$-	\$36,514
Allowance for sales returns and discounts	4,388	41,950	-	-	-	46,338
Amortization of difference for tax purpose	37,901	31,166	-	-	-	69,067
Amortization of goodwill difference for tax purpose	(927,141)	(231,785)	-	-	-	(1,158,926)
Unused foreign tax losses	128,677	24,080	-	-	-	152,757
Unused tax credits	267,108	223,052	-	-	-	490,160
Others	112,256	(45,033)	17,524	-	-	84,747
Deferred tax income		<u>\$29,205</u>	<u>\$17,524</u>	<u>\$-</u>	<u>\$-</u>	
Net deferred tax assets (liabilities)	<u>\$(326,072)</u>					<u>\$(279,343)</u>
Reflected in balance sheet as follows:						
Deferred tax assets	<u>\$269,382</u>					<u>\$915,791</u>
Deferred tax liabilities	<u>\$(595,454)</u>					<u>\$(1,195,134)</u>

Details of MTK and domestic subsidiaries' unused tax credit are as follows:

Pursuant to the "Statute for Upgrading Industries", MTK and subsidiary - Ralink Technology Corp. are qualified as a technical service industry and is therefore entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. MTK has elected the tax exemption periods from January 1, 2009 through December 31, 2013, January 1, 2010 through December 31, 2014 and January 1, 2011 through December 31, 2015. The subsidiary, Ralink Technology Corp. has elected the tax exemption periods from March 1, 2007 through February 29, 2012 and January 1, 2012 through December 31, 2016.

Laws and regulations	Items	Unused tax credits as of			Expiration year
		December 31, 2013	December 31, 2012	January 1, 2012	
The Statute for Upgrading Industries	Investment tax credit relates to research and development	\$-	\$-	\$2,448,042	2012
The Statute for Upgrading Industries	Investment tax credit relates to research and development	-	4,241,929	4,727,169	2013
		<u>\$-</u>	<u>\$4,241,929</u>	<u>\$7,175,211</u>	

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

	December 31, 2013	December 31, 2012	January 1, 2012
Balance of the imputation credit account	<u>\$1,892,716</u>	<u>\$1,257,643</u>	<u>\$1,220,357</u>

The estimated and actual creditable ratios for 2013 and 2012 were 5.50% and 2.83%, respectively.

MTK's earnings generated in the year ended December 31, 1997 and prior years have been fully appropriated.

The assessment of income tax returns

As of December 31, 2013, the assessment of the income tax returns of MTK and its subsidiaries are as follows:

	The assessment of income tax returns	Notes
MTK	Assessed and approved up to 2011	(Note)
Subsidiary-Ralink Technology Corp.	Assessed and approved up to 2010	(Note)

Note: For the tax returns of 2011, 2010, 2009 of MTK, and the tax return of 2010 of subsidiary-Ralink Technology Corp., 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 paid the amount in full.

(23) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity owners of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity owners of the parent entity by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	For the years ended December 31	
	2013	2012
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	<u>\$27,515,052</u>	<u>\$15,583,745</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	<u>1,341,660,900</u>	<u>1,216,422,577</u>
Basic earnings per share (NT\$)	<u>\$20.51</u>	<u>\$12.81</u>

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

	For the years ended December 31	
	2013	2012
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$27,515,052	\$15,583,745
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,341,660,900	1,216,422,577
Effect of dilution:		
Employee bonuses-stock (share)	4,851,460	5,891,802
Employee stock options (share)	652,161	73,131
Weighted average number of ordinary shares outstanding after dilution (share)	1,347,164,521	1,222,387,510
Diluted earnings per share (NT\$)	\$20.42	\$12.75

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

(24) Business combinations

Acquisition of MediaTek Sweden AB

The Company's subsidiary Gaintech Co. Limited ("GCL") acquired 100% shares of Coresonic AB on April 10, 2012. Coresonic AB is a non-public company, and specializing in the Digital signal processing (DSP) architecture. The Company has acquired Coresonic AB because it significantly enlarges the range of framework and technologies products of wireless communication that can be more competitive in market for relative solution. After the merger, Coresonic AB became 100%-owned by GCL and was renamed "MediaTek Sweden AB".

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

The fair value of the identifiable assets and liabilities of MediaTek Sweden AB as of the date of acquisition were:

	Fair value recognized on the acquisition date (US\$'000)
Cash and cash equivalents	3,235
Trade receivables	36
Other receivables	22
Prepayments	49
Property, plant and equipment	138
Intangible assets-IPs	15,221
	<hr/> 18,701 <hr/>
Trade payables	(74)
Other payables	(40)
Current tax liabilities	(434)
Other current liabilities	(882)
	<hr/> (1,430) <hr/>
Identifiable net assets	<hr/> 17,271 <hr/>

Goodwill of MediaTek Sweden AB is as follows:

Purchase consideration	35,000
Less: identifiable net assets at fair value	(17,271)
Goodwill	<hr/> 17,729 <hr/>

Cash flows on acquisition:

Net cash acquired with the subsidiary	3,235
Transaction costs attributable to cash paid	(35,000)
Net cash flow on acquisition	<hr/> (31,765) <hr/>

The goodwill of USD17,729 thousand comprises the value of expected synergies arising from the acquisition. The goodwill recognized is expected not to be deductible for income tax purposes.

MediaTek Sweden AB contributed NT\$91,086 thousand from the date of acquisition (April 10, 2012) to December 31, 2012 to net loss before tax of the Company. If the combination had taken place at the beginning of that year, revenue would have been NT\$1,049 thousand and the net loss before tax for the Company would have been NT\$149,152 thousand.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(25) Changes in parent's ownership interests in subsidiaries**Changes in ownership of subsidiaries

In October 2012, Gaintech Co. Limited disposed of certain shares of Hesine Technologies International Worldwide Inc. and received certain publicly quoted equity investments as the considerations. Therefore, the percentage of ownership of Hesine Technologies International Worldwide Inc. decreased to 65%. The Company did not lose control over Hesine Technologies International Worldwide Inc. under the disposal and therefore the disposal was recorded as an equity transaction. The difference of NT\$151,548 thousand between the fair value of the consideration received and the non-controlling interests was recognized directly in equity.

Lepower Limited, E-Vehicle Semiconductor Technology Co. Ltd. and RollTech Technology, Co. Ltd. issued new shares on February, April and July 2013, respectively. The Company did not purchase new shares in proportionate to its original ownership interest. Consequently, the ownership interest in these companies was changed but control over these companies remains. The difference between the fair value of purchased equity investments and the increase in the non-controlling interest was NT\$10,546 thousand and was recognized in equity.

7. Related Party Transactions**(1) Significant transactions with related parties****A. Sales**

	For the years ended December 31	
	2013	2012
Associates	\$-	\$874

For the years ended December 31, 2013 and 2012, 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.

B. IC testing, experimental services, and manufacturing technology services

	For the years ended December 31	
	2013	2012
Other related parties	\$6,908,329	\$4,936,842

C. Royalty Expense

	For the years ended December 31	
	2013	2012
Other related parties	\$26,807	\$-

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

D. Rental income

	For the years ended December 31	
	2013	2012
Associates	\$500	\$57
Other related parties	9,187	8,873
	<u>\$9,687</u>	<u>\$8,930</u>

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

E. Trade receivables from related parties

	December 31, 2013	December 31, 2012	January 1, 2012
Associates	<u>\$-</u>	<u>\$-</u>	<u>\$23,567</u>

F. Other receivables from related parties

	December 31, 2013	December 31, 2012	January 1, 2012
Associates	\$60	\$30	\$-
Other related parties	340	766	327
	<u>\$400</u>	<u>\$796</u>	<u>\$327</u>

Other receivables from related parties are composed mainly of rent receivables as of December 31, 2013 and 2012 and January 1, 2012.

G. Trade payables to related parties

	December 31, 2013	December 31, 2012	January 1, 2012
Other related parties	<u>\$2,082,028</u>	<u>\$1,003,337</u>	<u>\$958,936</u>

H. Key management personnel compensation

	For the years ended December 31	
	2013	2012
Short-term employee benefits (Note)	\$564,280	\$290,826
Post-employment benefits	2,610	2,099
Total	<u>\$566,890</u>	<u>\$292,925</u>

Note: The Company estimated the management personnel compensation of short-term employee benefits based on the accrued bonuses and the actual proportion of earning appropriation in the past.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

8. Assets Pledged as Collateral

The following table lists assets of the Company pledged as security:

Assets pledged for security	Carrying amount			Purpose of pledge
	December 31, 2013	December 31, 2012	January 1, 2012	
Bond investments for which no active market exists-current	\$6,917	\$6,917	\$6,917	Land lease guarantee
Bond investments for which no active market exists-current	3,104	3,067	3,030	Customs clearance deposits
Bond investments for which no active market exists-current	102,000	102,000	-	Project performance deposits
Bond investments for which no active market exists-current	1,657	1,547	3,165	Credit guarantee
Bond investments for which no active market exists-current	-	67	-	Customs clearance deposits
Bond investments for which no active market exists-noncurrent	243	267	671	Customs clearance deposits
Bond investments for which no active market exists-noncurrent	121	133	-	Lease execution deposits
Total	<u>\$114,042</u>	<u>\$113,998</u>	<u>\$13,783</u>	

9. Contingencies and Off Balance Sheet Commitments**(1) Operating lease commitments-the Company as lessee**

The Company has entered into commercial leases, and these leases have an average life of three to ten years with no renewal options included in the contracts. There are no restrictions placed upon the Company by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Not later than one year	\$374,715	\$311,865	\$141,427
Later than one year and not later than five years	753,028	673,326	346,365
Later than five years	181,444	284,296	249,276
Total	<u>\$1,309,187</u>	<u>\$1,269,487</u>	<u>\$737,068</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(2) Legal claim contingency

- a. Freescale Semiconductor, Inc. (“Freescale”) filed a complaint with the U.S. International Trade Commission against MTK and two other Respondents on June 8, 2011 alleging infringement of United States Patents No. 5,467,455. Freescale alleged that MTK’s DTV chips infringe its patent and sought to prevent the accused products from being imported into the United States. U.S. International Trade Commission issued an Initial Determination for the above referenced matter on July 12, 2012 that found no violation of Section 337 of the Tariff Act by MTK’s products, Freescale failed to establish the domestic industry element, Freescale’s asserted patent claims are invalid, and MTK’s products do not infringe the asserted patent claims. On September 12, 2012, the U.S. International Trade Commission issued a Notice of its affirmation of all of the findings listed above and the termination of this investigation.

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- b. Azure Networks, LLC (“Azure”) and Tri-County Excelsior Foundation (“TCEF”) filed a complaint in the United States District Court for the Eastern District of Texas against 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 and TCEF filed a complaint in the United States District Court for the Eastern District of Texas against MTK alleging infringement of the same patent referenced above. The operation of MTK and subsidiaries Ralink and Ralink Technology Corporation (USA) would not be materially affected by those patent litigations. On May 30, 2013, the Court entered a judgment in favor of Ralink and other defendants, dismissing the earlier case subject to the plaintiffs’ right to appeal. An appeal has been filed by plaintiffs on June 20, 2013. On June 10, 2013, the Court entered a judgment dismissing the later case pursuant to the parties' joint stipulation.
- c. Commonwealth Scientific and Industrial Research Organization filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA), along with other defendants on August 27, 2012 alleging infringement of United States Patent No. 5,487,069. The operations of MTK and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA) would not be materially affected by this case.
- d. Palmchip Technology Corporation (“Palmchip”) filed a complaint in the Superior Court of California in the County of Santa Clara against MTK and subsidiaries MediaTek USA Inc., Ralink and Ralink Technology Corporation (USA) on October 19, 2012, asserting claims of breach of contract. The operations of MTK and subsidiaries MediaTek USA Inc., Ralink and Ralink Technology Corporation (USA) would not be materially affected by this case.

Palmchip filed a complaint in the United States District Court for the Central District of California against MTK and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA) on August 30, 2013, alleging infringement of United States Patents Nos. 6,601,126, 6,769,046, and 7,124,376. The operations of the Company and subsidiaries MediaTek USA Inc., Ralink and Ralink Technology Corporation (USA) would not be materially affected by this case.

- e. Lake Cherokee Hard Drive Technologies, LLC filed a complaint in the United States District Court for the Eastern District of Texas against MTK, and subsidiary MediaTek USA Inc., along with other defendants on July 23, 2013 alleging that MTK’s optical disc drive chips infringe United States Patents Nos. 5,991,911 and 6,048,090. The operations of MTK and subsidiary MediaTek USA Inc., would not be materially affected by this case.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- f. Optical Devices, LLC (“Optical Devices”) filed a complaint with the U.S. International Trade Commission against MTK and subsidiary MediaTek USA Inc. on September 3, 2013 alleging infringement of United States Patent No. 8,416,651. Optical Devices alleged that MTK’s optical disc drive chips infringe its patent and sought to prevent the accused products from being imported into the United States. Also on September 3, 2013, Optical Devices filed a complaint in the United States District Court for the District of Delaware against MTK and subsidiary MediaTek USA Inc., alleging that MTK’s optical disc drive chips infringe the above referenced patent. The operations of MTK and subsidiary MediaTek USA Inc., would not be materially affected by this case.
- g. Vantage Point Technology, Inc. filed a complaint in the United States District Court for the Eastern District of Texas against MediaTek USA Inc. on November 21, 2013, alleging infringement of United State Patent Nos. 5,463,750 and 6,374,329. The operations of MediaTek and subsidiary MediaTek USA Inc. would not be materially affected by this case.

The Company will handle these cases carefully.

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

The merger with MStar Semiconductor, Inc. (Cayman)

The merger was approved by the Extraordinary Shareholders Meeting of MTK on October 12, 2012. Based on the resolution of the Extraordinary Shareholders Meeting, MTK paid 0.794 company shares and NT\$1 in cash for each share of MStar Semiconductor, Inc. (Cayman) (“MStar”).

The merger was approved by Ministry of Commerce of the People’s Republic of China (“MOFCOM”) on August 26, 2013, contingent upon the completion of a working plan which should be reviewed by MOFCOM. On November 26, 2013, the working plan was approved by MOFCOM. MTK has successfully obtained all relevant domestic and foreign regulators approvals. The merger effective date was set on February 1, 2014. MTK acquired the remaining 52% ownership of MStar by issuing 221,123,877 shares and paying NT\$278,494 thousands in cash. As of March 21, 2014, the business registration of MTK’s new share issuance is still in process. MStar was delisted and dissolved.

According to MOFCOM’s conditional approval, following the delist of MStar, its mobile phone chips and wireless communication business can be integrated into MTK while TV chips and related business operation has to be maintained by MStar Semiconductor, Inc. (“MStar Taiwan”) for three years post merger. MStar Taiwan can be further integrated with MTK after the third anniversary, subject to condition removal. Synergy from the merger at this stage will be primarily reflected in mobile phone chips and wireless communication business. Through the integration of research and development team and technology resources, MTK can enhance its technology and product development capabilities. In addition, MTK will expand its global business operation and further strengthen the industry leading position to optimize shareholder value.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****12. Others****(1) Financial instruments****A. Categories of financial instruments**Financial assets

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$8,894	\$244	\$66
Financial assets designated upon initial recognition at fair value through profit or loss	3,601,903	2,114,173	3,356,687
Subtotal	3,610,797	2,114,417	3,356,753
Available-for-sale financial assets	7,913,475	7,185,908	5,356,022
Financial assets measured at cost	2,061,563	2,083,114	2,017,613
Held-to-maturity financial assets	891,510	796,860	876,548
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand and petty cash)	132,996,624	85,866,200	85,819,418
Bond investments for which no active market exists	114,042	113,998	1,013,783
Trade receivables (including related parties)	7,627,591	6,584,610	7,383,884
Other receivables	3,652,885	5,076,122	2,961,830
Subtotal	144,391,142	97,640,930	97,178,915
Total	<u>\$158,868,487</u>	<u>\$109,821,229</u>	<u>\$108,785,851</u>

Financial liabilities

	December 31, 2013	December 31, 2012	January 1, 2012
Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$26,017	\$2,638	\$-
Financial liabilities at amortized cost:			
Short-term borrowings	29,051,500	8,880,430	4,089,150
Trade payables (including related parties)	10,944,174	9,047,400	9,021,903
Other payables	16,835,299	13,356,034	15,865,576
Long-term payables (including current portion)	116,805	142,766	165,743
Subtotal	56,947,778	31,426,630	29,142,372
Total	<u>\$56,973,795</u>	<u>\$31,429,268</u>	<u>\$29,142,372</u>

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****B. Fair values of financial instruments****a. The methods and assumptions applied in determining the fair value of financial instruments:**

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- (a) The carrying amount of cash and cash equivalents, trade receivables (including related parties), other receivables, short-term borrowings, trade payables (including related parties), other payables approximate their fair value due to their short maturities.
- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds) at the reporting date.
- (c) The fair value of derivative financial instrument is based on market quotations. For unquoted derivatives that are not options, the fair value is determined based on discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the option pricing model.
- (d) The fair value of other financial assets and liabilities is determined using discounted cash flow analysis, the interest rate and discount rate are selected with reference to those of similar financial instruments.

b. Fair value of financial instruments measured at amortized cost

Other than those listed in the table below, the carrying amount of the Company's financial assets and liabilities measured at amortized cost approximate their fair value:

	Carrying amount as of			Fair value as of		
	December 31, 2013	December 31, 2012	January 1, 2012	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets						
Held-to-maturity financial assets						
Structure deposits	\$-	\$-	\$48,126	\$-	\$-	\$48,126
Bonds	\$891,510	\$796,860	\$828,422	\$912,021	\$810,845	\$821,049
Bond investments for which no active market exists						
Series B preferred stock	\$-	\$-	\$1,000,000	\$-	\$-	\$1,059,128

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

c. Assets measured at fair value

The following table contains the fair value of financial instruments after initial recognition and the details of the three levels of fair value hierarchy:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2013

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Bonds	\$546,109	\$-	\$59,583	\$605,692
Derivative financial instruments	-	8,894	-	8,894
Linked deposits	-	1,912,174	1,084,037	2,996,211
Available-for-sale financial assets				
Depository receipts	22,577	-	-	22,577
Common shares	1,746,775	-	-	1,746,775
Bonds	1,536,906	-	198,395	1,735,301
Funds	4,408,822	-	-	4,408,822
Total	<u>\$8,261,189</u>	<u>\$1,921,068</u>	<u>\$1,342,015</u>	<u>\$11,524,272</u>

Financial liabilities

Financial liabilities at fair value through profit or loss

Derivative financial instruments	<u>\$-</u>	<u>\$26,017</u>	<u>\$-</u>	<u>\$26,017</u>
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MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**As of December 31, 2012

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Derivative financial instruments	\$-	\$244	\$-	\$244
Linked deposits	-	1,796,576	317,597	2,114,173
Available-for-sale financial assets				
Depository receipts	20,808	-	-	20,808
Common shares	1,309,087	-	-	1,309,087
Bonds	636,911	-	176,781	813,692
Funds	5,042,321	-	-	5,042,321
Total	<u>\$7,009,127</u>	<u>\$1,796,820</u>	<u>\$494,378</u>	<u>\$9,300,325</u>

Financial liabilities

Financial liabilities at fair value through profit or loss

Derivative financial instruments	<u>\$-</u>	<u>\$2,638</u>	<u>\$-</u>	<u>\$2,638</u>
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As of January 1, 2012

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Bonds	\$103,510	\$-	\$119,000	\$222,510
Derivative financial instruments	-	66	-	66
Linked deposits	-	3,134,177	-	3,134,177
Available-for-sale financial assets				
Depository receipts	56,436	-	-	56,436
Bonds	724,775	-	182,608	907,383
Funds	4,392,203	-	-	4,392,203
Total	<u>\$5,276,924</u>	<u>\$3,134,243</u>	<u>\$301,608</u>	<u>\$8,712,775</u>

For the years ended December 31, 2013 and 2012, there were no transfers between Level 1 and Level 2.

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

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy is as follows:

	Financial assets at fair value through profit or loss		Available-for-sale financial assets	Total
	Bonds	Linked deposits	Bonds	
As of January 1, 2013	\$-	\$317,597	\$176,781	\$494,378
Amount recognized in profit or loss	(315)	(4,986)	-	(5,301)
Amount recognized in OCI	-	-	21,614	21,614
Acquisitions	59,898	1,483,150	-	1,543,048
Settlements	-	(711,724)	-	(711,724)
As of December 31, 2013	\$59,583	\$1,084,037	\$198,395	\$1,342,015

	Financial assets at fair value through profit or loss		Available-for-sale financial assets	Total
	Bonds	Linked deposits	Bonds	
As of January 1, 2012	\$119,000	\$-	\$182,608	\$301,608
Amount recognized in profit or loss	-	4,582	-	4,582
Amount recognized in OCI	-	-	(5,827)	(5,827)
Acquisitions	-	313,015	-	313,015
Settlements	(119,000)	-	-	(119,000)
As of December 31, 2012	\$-	\$317,597	\$176,781	\$494,378

Total gains (losses) recognized for the years ended December 31, 2013 and 2012 contain gains and losses related to bonds, derivative financial instruments and linked deposits on hand as of December 31, 2013 and 2012 in the amount of NT\$387 thousand and NT\$4,582 thousand, respectively.

C. Derivative financial instruments

The Company's derivative financial instruments held for trading were forward exchange contracts. The related information is as follows:

The Company entered into forward exchange contracts to manage its exposure to financial risk, but these contracts are not designated as hedging instruments. The table below lists the information related to forward exchange contracts:

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

Forward exchange contracts	Currency	Contract amount (‘000)	Maturity
As of December 31, 2013	TWD to USD	Sell USD200,000	January 2014
As of December 31, 2012	TWD to USD	Sell USD69,000	January 2013
As of January 1, 2012	TWD to USD	Sell USD14,000	January 2012

The Company entered into forward foreign exchange contracts to hedge foreign currency risk of net assets or net liabilities. As there will be corresponding cash inflows or outflows upon maturity and the Company has sufficient operating funds, the cash flow risk is insignificant.

(2) Financial risk management objectives

The Company’s principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Company identifies, measures and manages the aforementioned risks based on the Company’s policy and risk tendency.

The Company has established appropriate policies, procedures and internal controls for financial risk management. The plans for material treasury activities are reviewed by Board of Directors in accordance with relevant regulations and internal controls. The Company complies with its financial risk management policies at all times.

A. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk.

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there are usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

a. Foreign currency risk

The Company’s exposure to the risk of changes in foreign exchange rates relates primarily to the Company’s operating activities (when revenue or expense are denominated in a different currency from the Company’s functional currency) and the Company’s net investments in foreign subsidiaries.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company's foreign currency risk is mainly related to the volatility in the exchange rates for USD. The information of the sensitivity analysis is as follows:

When NTD appreciates or depreciates against USD by 1 cent, the profit for the years ended December 31, 2013 and 2012 decreases or increases by NT\$1,399 thousand and NT\$983 thousand, while equity decrease/increase by NT\$18,669 thousand and NT\$16,881 thousand, respectively.

b. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans and receivables at variable interest rates, bank borrowings with fixed interest rates and variable interest rates. Moreover, the market value of the Company's investment in credit-linked deposits and interest rate-linked deposits are affected by interest rate. The market value would decrease (even lower than the principal) when the interest rate increases, and vice versa. The market values of exchange rate-linked deposits are affected by interest rates and changes in the value and volatility of the underlying. The following sensitivity analysis focuses on interest rate risk and does not take into account the interdependencies between risk variables.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, including investments and borrowings with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause the profit for the years ended December 31, 2013 and 2012 to decrease/increase by NT\$2,570 thousand and NT\$4,327 thousand, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

c. Other price risk

The Company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company's listed equity securities are classified under available-for-sale financial assets (including financial assets measured at cost). The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves certain equity investments according to level of authority.

At the reporting date, a change of 1% in the price of the listed equity securities classified under available-for-sale could only impact the Company's equity, but has no effect on profit or loss. The price risk related to unlisted equity securities classified under available-for-sale is insignificant.

B. Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for trade receivables) and from its financing activities, including bank deposits and other financial instruments.

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria etc. Certain customer's credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment.

As of December 31, 2013, December 31, 2012, and January 1, 2012, receivables from top ten customers represent 65.45%, 65.14% and 65.45% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables is insignificant.

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.

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

Credit risk of credit-linked deposits, interest rate-linked deposits, exchange-linked deposit, index-linked deposit 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.

C. Liquidity risk management

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments and bank borrowings. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of December 31, 2013</u>			
Borrowings	\$29,094,447	\$-	\$29,094,447
Trade payables (including related parties)	10,944,174	-	10,944,174
Other payables	16,812,303	-	16,812,303
Long-term payables	29,950	86,855	116,805
Total	<u>\$56,880,874</u>	<u>\$86,855</u>	<u>\$56,967,729</u>
<u>As of December 31, 2012</u>			
Borrowings	\$8,893,436	\$-	\$8,893,436
Trade payables (including related parties)	9,047,400	-	9,047,400
Other payables	13,356,034	-	13,356,034
Long-term payables	29,136	113,630	142,766
Total	<u>\$31,326,006</u>	<u>\$113,630</u>	<u>\$31,439,636</u>
<u>As of January 1, 2012</u>			
Borrowings	\$4,116,309	\$-	\$4,116,309
Trade payables (including related parties)	9,021,903	-	9,021,903
Other payables	15,865,576	-	15,865,576
Long-term payables	18,081	147,662	165,743
Total	<u>\$29,021,869</u>	<u>\$147,662</u>	<u>\$29,169,531</u>

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

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of December 31, 2013</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$590,400	\$-	\$590,400
Outflow	(599,000)	-	(599,000)
Net	(8,600)	-	(8,600)
Net settlement			
Forward exchange contracts	(25,930)	-	(25,930)
Total	<u>\$(34,530)</u>	<u>\$-</u>	<u>\$(34,530)</u>
	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of December 31, 2012</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$1,161,790	\$-	\$1,161,790
Outflow	(1,165,440)	-	(1,165,440)
Net	(3,650)	-	(3,650)
Net settlement			
Forward exchange contracts	(468)	-	(468)
Total	<u>\$(4,118)</u>	<u>\$-</u>	<u>\$(4,118)</u>

There were no outstanding forward exchange contracts which were included in financial instruments as of January 1, 2012.

The table above contains the undiscounted net cash flows of derivative financial instruments.

(3) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

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

	December 31, 2013			December 31, 2012			January 1, 2012		
	Foreign Currency (thousand)	Exchange rate	NTD (thousand)	Foreign Currency (thousand)	Exchange rate	NTD (thousand)	Foreign Currency (thousand)	Exchange rate	NTD (thousand)
Financial assets									
Monetary item:									
USD	\$3,222,505	\$29.950	\$96,514,018	\$2,185,217	\$29.136	\$63,668,506	\$1,812,357	\$30.290	\$54,472,301
CNY	\$3,000	\$4.947	\$14,841	\$-	-	\$-	\$-	-	\$-
Non-monetary item:									
USD	\$312,787	\$29.950	\$9,367,985	\$221,165	\$29.136	\$6,443,874	\$202,736	\$30.290	\$6,140,882
CNY	\$58,203	\$4.947	\$287,924	\$-	-	\$-	\$179,899	\$4.813	\$865,782
Financial liabilities									
Monetary item:									
USD	\$1,528,514	\$29.950	\$45,778,992	\$620,047	\$29.136	\$18,065,696	\$508,035	\$30.290	\$15,388,386

(4) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. Segment Information**(1) General Information**

The major sales of the Company come from multimedia and mobile phone chips and other integrated circuit design products. The chief operating decision maker reviews the overall operating results to make decisions about resources to be allocated to and evaluates the overall performance. Therefore, the Company is aggregated into a single segment.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

(2) Geographical information

a. Sales to other than consolidated entities

	For the years ended December 31	
	2013	2012
Taiwan	\$8,690,900	\$10,201,827
Asia	126,687,863	87,290,990
Others	677,191	1,770,343
Total	\$136,055,954	\$99,263,160

Sales are presented by customers' country.

b. Non-current assets

	December 31, 2013	December 31, 2012	January 1, 2013
Taiwan	\$22,226,180	\$22,343,544	\$22,662,060
Asia	3,757,147	3,176,727	3,186,171
Others	956,468	1,054,018	163,858
Total	\$26,939,795	\$26,574,289	\$26,012,089

(3) Major customers

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

Customers	For the years ended December 31			
	2013		2012	
	Amounts	%	Amounts	%
A	\$20,855,656	15.33	\$10,465,080	10.54
B	14,004,694	10.29	14,057,376	14.16
Total	\$34,860,350	25.62	\$24,522,456	24.70

14. First-time Adoption of TIFRS

For all periods up to and including the year ended December 31, 2012, the Company prepared its financial statements in accordance with generally accepted accounting principles in R.O.C. (R.O.C. GAAP). The consolidated financial statements for the year ended December 31, 2013 are the first the Company has prepared in accordance with TIFRS.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Accordingly, the Company has prepared financial statements which comply with TIFRS and the Regulations Governing the Preparation of Financial Reports by Securities Issuers for periods beginning January 1, 2013 as described in the accounting policies under Note 4. Furthermore the first interim financial statements prepared under TIFRS also comply with the requirements under IFRS 1 First-time Adoption of International Financial Reporting Standards. The Company's opening balance sheet was prepared as of January 1, 2012, the Company's date of transition to TIFRS.

Exemptions applied in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards"

IFRS 1 "First-time Adoption of International Financial Reporting Standards" allows first-time adopters certain exemptions from the retrospective application of certain IFRS. The Company has applied the following exemptions:

- (1) IFRS 3 "Business Combinations" has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2012. By applying this exemption, immediately after the business combination, the carrying amount in accordance with R.O.C. GAAP of assets acquired and liabilities assumed in that business combination, shall be their deemed costs in accordance with TIFRS at that date. The subsequent measurement of these assets and liabilities will be in accordance with TIFRS. Under IFRS 1 "First-time Adoption of International Financial Reporting Standards", the carrying amount of goodwill in the opening balance sheet shall be its carrying amount in accordance with R.O.C. GAAP at December 31, 2011, after testing for impairment and reclassifying amounts to intangible assets that are required to be recognized. The Company has performed goodwill impairment testing as of the date of transition to TIFRS and no impairment loss has been recognized as of that date.
- (2) The Company has recognized all cumulative actuarial gains and losses on pensions as of the date of transition to TIFRS directly in retained earnings.
- (3) The Company has elected to disclose amounts required by paragraph 120A(p) of IAS 19 prospectively from the date of transition to TIFRS.
- (4) IFRS 2 has not been applied to equity instruments in share-based payment transactions that vested before the date (January 1, 2012) of transition to TIFRS.
- (5) The Company has applied the transitional provision in IFRIC 4 and has assessed all arrangements whether include lease transaction as of January 1, 2012.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (6) IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities” requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. The Company needs not comply with these requirements for changes in such liabilities that occurred before the date of transition to TIFRS by adopting the first-time adoption exemption.

Impacts of transitioning to TIFRS

The following tables contain reconciliation of balance sheets as of January 1 and December 31, 2012 and statements of comprehensive income for the year ended December 31, 2012:

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

Reconciliation of consolidated balance sheet items as of January 1, 2012 (the date of transition to TIFRS)

R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Current assets					Current assets	
Cash and cash equivalents	\$85,821,438	\$-	\$-	\$85,821,438	Cash and cash equivalents	
Financial assets at fair value through profit or loss-current	1,617,416	-	-	1,617,416	Financial assets at fair value through profit or loss-current	
Available-for-sale financial assets-current	2,545,354	-	-	2,545,354	Available-for-sale financial assets-current	
Held-to-maturity investments-current	48,126	-	-	48,126	Held-to-maturity investments-current	
Bond portfolios with no active market -current	1,000,000	-	13,112	1,013,112	Bond investments for which no active market exists-current	9
Accounts receivables, net	7,360,317	-	-	7,360,317	Trade receivables, net	
Receivables from related parties, net	23,567	-	-	23,567	Trade receivables from related parties, net	
Other receivables	3,027,004	-	(65,174)	2,961,830	Other receivables	9
-	-	-	65,174	65,174	Current tax assets	9
Inventories, net	9,392,282	-	-	9,392,282	Inventories	
Prepayments	689,987	-	-	689,987	Prepayments	
Other current assets	282,585	-	-	282,585	Other current assets	
Deferred income tax assets-current	220,940	-	(220,940)	-	-	8
Restricted assets-current	13,112	-	(13,112)	-	-	9
Total current assets	112,042,128	-	(220,940)	111,821,188	Total current assets	
Funds and investments					Non-current assets	
Financial assets at fair value through income statement-noncurrent	1,739,337	-	-	1,739,337	Financial assets at fair value through profit or loss-noncurrent	
Available-for-sale financial assets-noncurrent	2,810,668	-	-	2,810,668	Available-for-sale financial assets - noncurrent	
Held-to-maturity investments-noncurrent	828,422	-	-	828,422	Held-to-maturity investments-noncurrent	
Financial assets measured at cost-noncurrent	2,203,872	(186,259)	-	2,017,613	Financial assets measured at cost-noncurrent	2
-	-	-	671	671	Bond investments for which no active market exists-noncurrent	9
Investments accounted for using the equity method	1,834,664	146,319	-	1,980,983	Investments accounted for using the equity method	2
Total funds and investments	9,416,963					
Property, plant and equipment, net	9,810,051	-	51,379	9,861,430	Property, plant and equipment	9
Intangible assets	16,150,659	-	-	16,150,659	Intangible assets	
Other assets						
Refundable deposit	265,431	-	-	265,431	Refundable deposit	
Deferred charges	51,379	-	(51,379)	-	-	9
Deferred income tax assets-noncurrent	-	43,272	226,110	269,382	Deferred tax assets	4,8
Restricted assets-noncurrent	671	-	(671)	-	-	9
Other assets	3,826	(3,826)	-	-	-	4
Total other assets	321,307	(494)	226,110	35,924,596	Total noncurrent assets	
Total assets	\$147,741,108	\$(494)	\$5,170	\$147,745,784	Total assets	

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

R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Current liabilities					Current liabilities	
Short-term borrowings	\$4,089,150	\$-	\$-	\$4,089,150	Short-term borrowings	
Accounts payables	8,062,967	-	-	8,062,967	Trade payables	
Payables to related parties	958,936	-	-	958,936	Trade payables to related parties	
Income tax payable	681,003	-	-	681,003	Current tax liabilities	
Accrued expenses	15,714,455	-	(15,714,455)	-	-	9
Payables to contractors and equipment suppliers	76,861	-	(76,861)	-	-	9
Other payables	74,260	-	15,791,316	15,865,576	Other payables	9
Current portion of long-term payables	18,081	-	-	18,081	Current portion of long-term liabilities	
Other current liabilities	752,407	-	-	752,407	Other current liabilities	
Total current liabilities	30,428,120	-	-	30,428,120	Total current liabilities	
Long-term liabilities					Non-current liabilities	
Long-term payables	147,662	-	-	147,662	Long-term payables	
Other liabilities						
Accrued pension liabilities	190,538	254,541	-	445,079	Accrued pension liabilities	4
Deposits received	6,176	-	-	6,176	Deposits received	
Deferred income tax liabilities-noncurrent	590,934	(650)	5,170	595,454	Deferred tax liabilities	4,8
Other liabilities-others	49,351	-	-	49,351	Non-current liabilities-others	
Total other liabilities	836,999	253,891	5,170	1,243,722	Total non-current liabilities	
Total liabilities	31,412,781	253,891	5,170	31,671,842	Total liabilities	
Share capital					Share capital	
Common stock	11,475,108	-	-	11,475,108	Common stock	
Capital collected in advance	83	-	-	83	Capital collected in advance	
Capital reserve	24,605,882	(117,473)	-	24,488,409	Capital surplus	2,5
Retained earnings					Retained earnings	
Legal reserve	21,710,122	-	-	21,710,122	Legal reserve	
Special reserve	4,198,121	-	-	4,198,121	Special reserve	
Undistributed earnings	56,554,982	(136,729)	-	56,418,253	Undistributed earnings	2,4,5
Adjusting items in shareholders' equity					Other equity	
Unrealized gain (loss) on financial instruments	43,192	-	-	43,192	Unrealized gains (losses) from available-for-sale financial assets	
					Exchange differences resulting from translating the financial statements of a foreign operation	2
Cumulative translation adjustment	(2,253,504)	(183)	-	(2,253,687)	Treasury shares	
Treasury stock	(55,970)	-	-	(55,970)	Equity attributable to owners of the parent	
Total shareholders' equity attributable to parent company	116,278,016	(254,385)	-	116,023,631	Non-controlling interest	
Minority interest	50,311	-	-	50,311	Total equity	
Total shareholders' equity	116,328,327	(254,385)	-	116,073,942		
Total liabilities and shareholders' equity	\$147,741,108	\$(494)	\$5,170	\$147,745,784	Total liabilities and equity	

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

Reconciliation of consolidated balance sheet items as of December 31, 2012

R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Current assets					Current assets	
Cash and cash equivalents	\$85,867,210	\$-	\$-	\$85,867,210	Cash and cash equivalents	
Financial assets at fair value through profit or loss-current	629,912	-	-	629,912	Financial assets at fair value through profit or loss-current	
Available-for-sale financial assets-current	3,779,013	200,000	-	3,979,013	Available-for-sale financial assets-current	1
-	-	-	113,598	113,598	Bond investments for which no active market exists-current	9
Accounts receivables, net	6,584,610	-	-	6,584,610	Trade receivables, net	
Other receivables	5,135,613	-	(59,491)	5,076,122	Other receivables	9
-	-	-	59,501	59,501	Current tax assets	9
Inventories, net	13,867,311	-	-	13,867,311	Inventories	
Prepayments	1,141,033	-	(10)	1,141,023	Prepayments	9
Other current assets	426,062	-	-	426,062	Other current assets	
Deferred income tax assets-current	526,731	-	(526,731)	-	-	8
Restricted assets-current	113,598	-	(113,598)	-	-	9
Total current assets	118,071,093	200,000	(526,731)	117,744,362	Total current assets	
Funds and investments					Non-current assets	
Financial assets at fair value through income statement-noncurrent	1,484,505	-	-	1,484,505	Financial assets at fair value through profit or loss-noncurrent	
Available-for-sale financial assets-noncurrent	3,206,895	-	-	3,206,895	Available-for-sale financial assets - noncurrent	
Held-to-maturity investments-noncurrent	796,860	-	-	796,860	Held-to-maturity investments-noncurrent	
Financial assets measured at cost-noncurrent	2,469,373	(386,259)	-	2,083,114	Financial assets measured at cost-noncurrent	1,2
-	-	-	400	400	Bond investments for which no active market exists-noncurrent	9
Investments accounted for using the equity method	57,162,699	231,210	-	57,393,909	Investments accounted for using the equity method	2
Total funds and investments	65,120,332					
Property, plant and equipment, net	10,707,589	-	24,905	10,732,494	Property, plant and equipment	9
Intangible assets	15,842,236	(441)	(114,347)	15,727,448	Intangible assets	3,4
Other assets						
Refundable deposit	206,393	-	-	206,393	Refundable deposit	
Deferred charges	24,905	-	(24,905)	-	-	9
Deferred income tax assets-noncurrent	266,785	117,148	531,858	915,791	Deferred tax assets	2,4,8
-	-	-	114,347	114,347	Long-term prepaid rent	3
Restricted assets-noncurrent	400	-	(400)	-	-	9
Other assets	3,223	(3,223)	-	-	-	4
Total other assets	501,706	(41,565)	531,858	92,662,156	Total noncurrent assets	
Total assets	\$210,242,956	\$158,435	\$5,127	\$210,406,518	Total assets	

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

R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Current liabilities					Current liabilities	
Short-term borrowings	\$8,880,430	\$-	\$-	\$8,880,430	Short-term borrowings	
Financial liability at fair value through profit or loss-current	2,638	-	-	2,638	Financial liability at fair value through profit or loss-current	
Accounts payables	8,044,063	-	-	8,044,063	Trade payables	
Payables to related parties	1,003,337	-	-	1,003,337	Trade payables to related parties	
Income tax payable	1,053,591	-	-	1,053,591	Current tax liabilities	
Accrued expenses	13,139,736	114,144	(13,253,880)	-	-	4,9
Payables to contractors and equipment suppliers	60,894	-	(60,894)	-	-	9
Other payables	41,260	-	13,314,774	13,356,034	Other payables	9
Current portion of long-term payables	29,136	-	-	29,136	Current portion of long-term liabilities	
Deferred income tax liabilities-current	8,123	-	(8,123)	-	-	8
Other current liabilities	610,139	-	-	610,139	Other current liabilities	
Total current liabilities	32,873,347	114,144	(8,123)	32,979,368	Total current liabilities	
Long-term liabilities					Non-current liabilities	
Long-term payables	113,630	-	-	113,630	Long-term payables	
Other liabilities						
Accrued pension liabilities	220,083	335,671	-	555,754	Accrued pension liabilities	4
Deposits received	30,233	-	-	30,233	Deposits received	
Deferred income tax liabilities-noncurrent	1,156,875	25,009	13,250	1,195,134	Deferred tax liabilities	2,4,8
Other liabilities-others	74,675	-	-	74,675	Non-current liabilities-others	
Total other liabilities	1,481,866	360,680	13,250	1,969,426	Total non-current liabilities	
Total liabilities	34,468,843	474,824	5,127	34,948,794	Total liabilities	
Share capital					Share capital	
Common stock	13,493,702	-	-	13,493,702	Common stock	
Capital collected in advance	102	-	-	102	Capital collected in advance	
Capital reserve	79,551,866	120,632	-	79,672,498	Capital surplus	2,5,6
Retained earnings					Retained earnings	
Legal reserve	23,072,429	-	-	23,072,429	Legal reserve	
Special reserve	2,210,312	-	-	2,210,312	Special reserve	
Undistributed earnings	62,539,888	(326,072)	-	62,213,816	Undistributed earnings	2,4,5,6
Adjusting items in shareholders' equity					Other equity	
Unrealized gain (loss) on financial instruments	700,343	(121,232)	-	579,111	Unrealized gains (losses) from available-for-sale financial assets	2
Net loss not recognized as pension cost	(10,503)	10,503	-	-	-	4
					Exchange differences resulting from translating the financial statements of a foreign operation	2
Cumulative translation adjustment	(5,762,265)	(220)	-	(5,762,485)		
Treasury stock	(55,970)	-	-	(55,970)	Treasury shares	
Total shareholders' equity attributable to parent company	175,739,904	(316,389)	-	175,423,515	Equity attributable to owners of the parent	
Minority interest	34,209	-	-	34,209	Non-controlling interest	
Total shareholders' equity	175,774,113	(316,389)	-	175,457,724	Total equity	
Total liabilities and shareholders' equity	\$210,242,956	\$158,435	\$5,127	\$210,406,518	Total liabilities and equity	

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

Reconciliation of statement of comprehensive income items for the year ended December 31, 2012

R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Net sales	\$99,263,160	\$-	\$-	\$99,263,160	Net sales	
Operating costs	(58,200,706)	(3,433)	-	(58,204,139)	Operating costs	4
Gross profit	41,062,454	(3,433)	-	41,059,021	Gross profit	
Operating expenses					Operating expenses	
Selling expenses	(3,109,276)	(5,591)	-	(3,114,867)	Selling expenses	4
Administrative expenses	(3,064,310)	(5,414)	157,551	(2,912,173)	Administrative expenses	4,7,9
Research and development expenses	(22,383,562)	(88,093)	(157,551)	(22,629,206)	Research and development expenses	4,7,9
Total	(28,557,148)	(99,098)	-	(28,656,246)		
Operating income	12,505,306	(102,531)	-	12,402,775	Operating income	
Non-operating income					Non-operating income and expenses	
Interest revenue	1,730,158	-	661,471	2,391,629	Other income	7,9
					Share of profit (loss) of associates and joint ventures accounted for using the equity method	2
Gain on equity investments, net	1,074,451	(14,581)	-	1,059,870		7,9
Dividend income	148,878	-	(148,878)	-		2,6,7,9
Gain on disposal of investments	829,865	221,933	(311,533)	740,265	Other gains (losses)	7,9
Foreign exchange gain, net	119,544	-	(119,544)	-		7,9
Valuation gain on financial assets	79,251	-	(79,251)	-		7,9
Others	609,123	-	(609,123)	-		7,9
Total	4,591,270					
Non-operating expenses						
Interest expense	(109,458)	-	-	(109,458)	Finance costs	
Loss on disposal of property, plant and equipment	(10,000)	-	10,000	-		7,9
Impairment loss	(349,450)	(239,297)	588,747	-		2,7,9
Valuation loss on financial liabilities	(2,638)	-	2,638	-		7,9
Others	(5,473)	-	5,473	-		7,9
Total	(477,019)	(31,945)	-	4,082,306	Total non-operating income and expenses	
Profit before tax	16,619,557	(134,476)	-	16,485,081	Profit before tax	
Income tax expense	(971,244)	30,693	-	(940,551)	Income tax expense	2,4,8
Consolidated net income	\$15,648,313	(103,783)	-	15,544,530	Profit	
-				(1,940,245)	Exchange differences resulting from translating the financial statements of a foreign operation	
-				535,919	Unrealized gain or loss from available-for-sale financial assets	
-				(103,084)	Actuarial losses on defined benefit plans	
-					Share of other comprehensive income of associates accounted for using the equity method	
-				(1,545,440)		
-					Income tax relating to components of other comprehensive income	
-				17,524		
-				(3,035,326)	Other comprehensive income, net of tax	
-				\$12,509,204	Total comprehensive income	

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**Material adjustments to the consolidated statement of cash flows for the year ended December 31, 2012

The transition from R.O.C. GAAP to TIFRS has not had a material impact on the statement of cash flows. The statement of cash flow prepared under R.O.C. GAAP was reported using the indirect method. Furthermore, cash flows from interest and dividends received and interest paid were classified as cash flows from operating activities and interest and dividends received were not disclosed separately. However, in accordance with the requirements under IAS 7 “Statement of Cash Flows”, the interest received for the year ended December 31, 2012, are disclosed in the statement of cash flow in the amount of NT\$1,487,073 thousand. The dividends received for the year ended December 31, 2012, are disclosed in the statement of cash flow in the amount of NT\$148,878 thousand.

Apart from the aforementioned differences, there were no material differences between the statements of cash flows prepared under R.O.C. GAAP and TIFRS.

(1) Financial assets measured at cost

Under the previous accounting policies, equity investments in unlisted entities were measured at cost and net of impairment loss if objective evidence of impairment exists. However under the requirements of IAS 39 “Financial Instruments: Recognition and Measurement”, only investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured could be measured at cost. Therefore these investments in unlisted entities are measured at fair value and reclassified to available-for-sale financial assets. The following table illustrates the impact of the adjustments:

As of December 31, 2012

		Differences			
		Carrying amount		Recognized in	
Classification under		under R.O.C. GAAP		Recognized in	
R.O.C. GAAP	Classification under TIFRS	GAAP	under TIFRS	or losses from available-for-sale financial assets	Retained earnings
Financial assets measured at cost-noncurrent	Available-for-sale financial assets -current	\$200,000	\$200,000	-	-

Financial assets measured at cost did not affected by the adjustment as of January 1, 2012.

Unrealized valuation gains and losses from available-for-sale financial assets were nil for the year ended December 31, 2012 was recognized under other comprehensive income.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(2) Investments accounted for under the equity method

Under the requirements of IAS 28 “Investments in Associates”, the Company remeasured and reclassified financial assets carried at cost-noncurrent to investments accounted for using the equity method. As of January 1 and December 31, 2012, the Company’s financial assets measured at cost-noncurrent were decreased by NT\$186,259 thousand and NT\$186,259 thousand, respectively, investments accounted for under the equity method were increased by NT\$147,883 thousand and NT\$132,303 thousand, respectively, capital reserve were increased by NT\$2,514 thousand and NT\$2,714 thousand, respectively, exchange differences resulting from translating the financial statements of a foreign operation were decreased by NT\$183 thousand and NT\$220 thousand, respectively, and retained earnings were decreased by NT\$40,707 thousand and NT\$56,450 thousand, respectively. Moreover, the non-operating income and expenses of associates accounted for using the equity method for the year ended December 31, 2012 were decreased by NT\$15,743 thousand.

Under the requirements of IAS 28 “Investments in Associates”, the associates’ accounting policy should conform to the investor’s when the associate’s financial statements are used by the investor in applying the equity method. Therefore, investments accounted for using the equity method were decreased by NT\$1,564 thousand and NT\$402 thousand, respectively, capital reserve were increased by NT\$205 thousand and NT\$205 thousand, respectively, retained earnings were decreased by NT\$1,769 thousand and NT\$607 thousand, respectively, as of January 1 and December 31, 2012. Additionally, the non-operating income and expenses of associates accounted for using the equity method for the year ended December 31, 2012 were increased by NT\$1,162 thousand.

According to IFRSs, when the Company’s equity investment increases and the significant influence is obtained, the Company shall remeasure the entire equity investment at fair value and the investment costs would be the fair value at the acquired date. As of December 31, 2012, the Company’s investments accounted for using the equity method and retained earnings were increased by NT\$99,309 thousand and NT\$99,309 thousand, respectively. Also, the gains on disposal of investments (other gains or losses) was increased by NT\$99,309 thousand for the year ended December 31, 2012.

Under IFRSs, when the Company loses its significant influence to associates, the Company shall remeasure the remaining investment at fair value and recognize the difference between the book value of the entire investment and the fair value of the remaining investment plus the proceeds of the disposal as a gain or loss. After that, the Company shall account for the investment according to the accounting standards of financial instruments. As of December 31, 2012, the Company’s retained earnings, deferred income asset-noncurrent, deferred income tax liabilities-noncurrent and unrealized gains (losses) from available-for-sale financial assets were increased(decreased) by NT\$134,495 thousand, NT\$40,680 thousand, NT\$27,417 thousand and NT\$(121,232) thousand, respectively. Moreover, the Company’s gains on disposal of investments (other gains or losses), impairment losses (other gains or losses) and income tax expenses were increased (decreased) by NT\$274,172 thousand, NT\$239,297 thousand and NT\$(13,263) thousand for the year ended December 31, 2012, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(3) Reclassification of land use rights to long-term prepaid rent

Land use rights were classified as intangible assets under R.O.C. GAAP. Upon transitioning to TIFRS, in accordance with the requirements of IAS 17 “Leases”, land use rights were reclassified to long-term prepaid rent under non-current assets. As of December 31, 2012, land use rights reclassified to long-term prepaid rent were NT\$114,347 thousand.

(4) Employee benefits

The Company used actuarial techniques to calculate the defined benefit obligation and recognized related pension costs and accrued pension liabilities under R.O.C. GAAP. Upon transitioning to TIFRS, actuarial calculations were made in accordance with the requirements under IAS 19 “Employee Benefits”. Under the requirement of IFRS 1, the Company re-performed actuarial calculation on defined benefit obligations as of January 1, and December 31, 2012, adjusted its cumulative actuarial gains and losses to zero, and recognized all unrecognized transitional net benefit obligations as of the date of transition to TIFRS. As of January 1, and December 31, 2012, the Company’s accrued pension liabilities were increased by NT\$254,541 thousand and NT\$335,671 thousand, respectively, other assets-prepaid pension costs were decreased by NT\$3,826 thousand and NT\$3,223 thousand, respectively, intangible assets-deferred pension costs were decreased by nil and NT\$441 thousand, respectively, deferred income tax assets-noncurrent were increased by NT\$43,272 thousand and NT\$57,064 thousand, respectively, deferred income tax liabilities-noncurrent were decreased by NT\$650 thousand and NT\$2,408 thousand, respectively, retained earnings were decreased by NT\$214,445 thousand and NT\$290,366 thousand, respectively, and net loss not recognized as pension costs were decreased by nil and NT\$10,503 thousand, respectively.

Furthermore, as the Company adopts the accounting policy of recognizing all actuarial gains or losses to other comprehensive income after transitioning to TIFRS, and combining with the effect of the aforementioned adjustments, the pension costs for the year ended December 31, 2012 was decreased by NT\$11,613 thousand, income tax expenses was increased by NT\$1,974 thousand. The actuarial gains and losses under other comprehensive income for the year ended December 31, 2012 was decreased by NT\$85,560 thousand.

Under the requirement of IAS 19 “Employee Benefits”, the Company shall recognize unused accumulating compensated absences. Therefore, accrued expenses (other payables) were increased by nil and NT\$114,144 thousand, respectively, deferred income tax assets-noncurrent were increased by nil and NT\$19,404 thousand, respectively, and retained earnings were decreased by nil and NT\$94,740 thousand, respectively, as of January 1 and December 31, 2012. Furthermore, the operating costs and operating expenses were increased by NT\$114,144 thousand and the income tax expense was decreased by NT\$19,404 thousand for the year ended December 31, 2012.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (5) Adjustments of capital reserve-share of changes in net assets of associates for using the equity method

As of January 1 and December 31, 2012, capital reserve-share of changes in net assets of associates accounted for using the equity method were decreased by NT\$120,192 thousand and NT\$33,835 thousand, respectively, retained earnings were increased by NT\$120,192 thousand and NT\$33,835 thousand, respectively, due to incompliance with IFRSs, respectively.

- (6) Changes in ownership of subsidiaries-not loses control

Under the requirements of IAS 27 “Consolidated and Separated Financial Statements”, the transactions shall be measured as equity transaction, when the Company still possesses control after disposed part shares of a subsidiary. Therefore, the Company’s capital reserve and retained earnings were increased (decreased) by NT\$151,548 thousand and NT\$(151,548) thousand as of December 31, 2012, respectively. Furthermore, the gain of disposal investment (other gains or losses) was decreased by NT\$151,548 thousand for the year ended December 31, 2012.

- (7) Reconciliations of consolidated statement of comprehensive income

Upon transitioning to TIFRS, in order to comply with the presentation of financial statements under TIFRS and the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers, certain items on the statement of comprehensive income have been reclassified. All other impact on the statement of comprehensive income as results of adjustments upon transitioning to TIFRS has been described in item 1-6.

- (8) Income tax

Classification and valuation of deferred tax

Under the requirements of R.O.C. GAAP, the current and noncurrent deferred tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount. However under the requirements of IAS 12 “Income Taxes”, an entity shall offset deferred tax assets and deferred tax liabilities when the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and if the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Under the requirements of R.O.C. GAAP, a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or non-current. If a deferred tax asset or liability is not related to an asset or liability for financial reporting, it should be classified as current or non-current according to the expected reversal date of the temporary difference. However under the requirements of IAS 1 “Presentation of Financial Statements”, deferred tax assets or liabilities are classified as non-current. Therefore as of January 1 and December 31, 2012, deferred tax assets reclassified to non-current assets were NT\$226,110 thousand and NT\$531,858 thousand, respectively, reclassified to non-current liabilities were NT\$5,170 thousand and NT\$5,127 thousand, respectively. Moreover, as of January 1 and December 31, 2012, deferred tax liabilities reclassified to non-current liabilities were nil and NT\$8,123 thousand, respectively.

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

The following tables illustrate the deferred tax effects of all adjustments relating to the transitioning to TIFRS:

Income tax expense:

		Year ended
	Note	December 31, 2012
Recognized in profit or loss:		
Employee benefits	4	\$(17,430)
Adjustment from investments accounted for using the equity method	2	(13,263)
		<u>\$(30,693)</u>

Recognized in other comprehensive income:

Employee benefits	4	<u>\$17,524</u>
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Deferred tax assets and liabilities:

		January 1, 2012		December 31, 2012	
	Note	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Employee benefits	4	\$43,272	\$(650)	\$76,468	\$(2,408)
Adjustment from investments accounted for using the equity method	2	-	-	40,680	27,417
Total		<u>\$43,272</u>	<u>\$(650)</u>	<u>\$117,148</u>	<u>\$25,009</u>

(9) Others

Certain items in the financial statements prepared based on R.O.C. GAAP have been reclassified for comparison purposes.