

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 THREE MONTHS THEN ENDED

MARCH 31, 2014 AND 2013

English Translation of a Report Originally Issued in Chinese

Review Report of Independent Accountants

To the Board of Directors and Shareholders
of MediaTek Inc.

We have reviewed the accompanying consolidated balance sheets of MediaTek Inc. and its subsidiaries as of March 31, 2014 and March 31, 2013 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

We conducted our reviews in accordance with the Statements of Auditing Standards No. 36, "Review of Financial Statements" of the Republic of China (R.O.C.). A review is limited primarily to applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the requirements of Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" as recognized by Financial Supervisory Commission.



Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
April 30, 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 financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the R.O.C. and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the R.O.C.

MEDIATEK INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS****As of March 31, 2014, December 31, 2013, and March 31, 2013**

(March 31, 2014 and 2013 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	March 31, 2014	%	December 31, 2013	%	March 31, 2013	%
Current assets							
Cash and cash equivalents	6(1)	\$ 166,999,036	56	\$ 132,997,726	52	\$ 94,091,283	43
Financial assets at fair value through profit or loss-current	6(2)	2,473,160	1	2,132,090	1	1,395,748	1
Available-for-sale financial assets-current	6(3)	3,650,008	1	3,426,121	1	3,148,713	1
Held-to-maturity financial assets-current	6(5)	783,567	-	549,573	-	-	-
Bond investments for which no active market exists-current	6(6), 8	11,709	-	113,678	-	113,594	-
Trade receivables, net	6(7)	13,572,139	5	7,627,591	3	6,795,262	3
Other receivables	6(7), 7	4,318,985	1	3,652,885	1	3,902,461	2
Current tax assets		46,909	-	30,226	-	63,629	-
Inventories, net	6(8)	16,649,438	6	9,346,792	4	12,843,869	6
Prepayments		1,678,226	1	1,404,263	1	971,579	-
Other current assets		700,721	-	459,984	-	439,742	-
Total current assets		<u>210,883,898</u>	<u>71</u>	<u>161,740,929</u>	<u>63</u>	<u>123,765,880</u>	<u>56</u>
Non-current assets							
Financial assets at fair value through profit or loss-noncurrent	6(2)	937,883	-	1,478,707	-	1,705,030	1
Available-for-sale financial assets-noncurrent	6(3)	4,255,419	1	4,487,354	2	3,838,850	2
Held-to-maturity financial assets-noncurrent	6(5)	397,393	-	341,937	-	817,071	-
Financial assets measured at cost-noncurrent	6(4)	2,884,943	1	2,061,563	1	1,999,388	1
Bond investments for which no active market exists-noncurrent	6(6), 8	382	-	364	-	413	-
Investments accounted for using the equity method	6(9)	1,645,672	1	59,669,761	23	59,319,500	27
Property, plant and equipment	6(10)	14,770,255	5	11,312,107	4	11,180,152	5
Intangible assets	4, 6(11), 6(12), 6(24)	60,583,941	20	15,509,193	6	15,600,284	7
Deferred tax assets	6(22)	1,916,537	1	1,778,859	1	1,098,436	1
Refundable deposits		150,006	-	137,593	-	207,991	-
Long-term prepaid rent		116,923	-	118,495	-	117,018	-
Total non-current assets		<u>87,659,354</u>	<u>29</u>	<u>96,895,933</u>	<u>37</u>	<u>95,884,133</u>	<u>44</u>
Total assets		<u>\$ 298,543,252</u>	<u>100</u>	<u>\$ 258,636,862</u>	<u>100</u>	<u>\$ 219,650,013</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 March 31, 2014, December 31, 2013, and March 31, 2013**

(March 31, 2014 and 2013 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	March 31, 2014	%	December 31, 2013	%	March 31, 2013	%
Current liabilities							
Short-term borrowings	6(13)	\$ 22,100,970	7	\$ 29,051,500	11	\$ 12,784,775	6
Financial liabilities at fair value through profit or loss-current	6(2)	22,349	-	26,017	-	9,579	-
Trade payables		15,584,856	5	8,862,146	3	6,508,817	3
Trade payables to related parties	7	1,836,555	1	2,082,028	1	863,898	-
Other payables		20,936,214	7	16,835,299	7	12,448,082	6
Current tax liabilities	6(22)	6,749,315	2	3,151,805	1	1,401,428	1
Other current liabilities		1,267,924	1	1,345,847	1	1,199,343	-
Current portion of long-term liabilities		32,036	-	29,950	-	29,875	-
Total current liabilities		68,530,219	23	61,384,592	24	35,245,797	16
Non-current liabilities							
Long-term payables		79,326	-	86,855	-	109,044	-
Accrued pension liabilities	4, 6(14)	609,305	-	606,033	-	557,703	-
Deposits received	7	64,653	-	47,754	-	30,020	-
Deferred tax liabilities	6(22)	732,076	1	1,050,108	-	1,167,266	1
Non-current liabilities-others		129,334	-	108,121	-	78,538	-
Total non-current liabilities		1,614,694	1	1,898,871	-	1,942,571	1
Total liabilities		70,144,913	24	63,283,463	24	37,188,368	17
Equity attributable to owners of the parent							
Share capital	6(15)						
Common stock		15,708,379	5	13,494,667	5	13,493,702	6
Capital collected in advance		1,510	-	2,473	-	237	-
Capital surplus	6(15), 6(16)	88,050,023	29	68,474,910	26	79,685,711	36
Retained earnings	6(15)						
Legal reserve		24,641,182	8	24,641,182	10	23,072,429	11
Special reserve		5,072,425	2	5,072,425	2	2,210,312	1
Undistributed earnings		94,728,634	32	84,581,268	33	65,954,720	30
Other equity	6(15)	192,154	-	(895,749)	-	(1,923,449)	(1)
Treasury shares	6(15)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		228,338,337	76	195,315,206	76	182,437,692	83
Non-controlling interests	6(15)	60,002	-	38,193	-	23,953	-
Total equity		228,398,339	76	195,353,399	76	182,461,645	83
Total liabilities and equity		<u>\$ 298,543,252</u>	<u>100</u>	<u>\$ 258,636,862</u>	<u>100</u>	<u>\$ 219,650,013</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
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31, 2014 and 2013

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

Description	Notes	Three Months Ended March 31			
		2014	%	2013	%
Net sales	6(17), 7	\$ 46,005,002	100	\$ 23,974,209	100
Operating costs	6(8), 6(18), 7	(23,779,339)	(52)	(13,884,058)	(58)
Gross profit		22,225,663	48	10,090,151	42
Operating expenses	6(18), 7				
Selling expenses		(1,133,935)	(3)	(849,226)	(3)
Administrative expenses		(1,363,338)	(3)	(662,188)	(3)
Research and development expenses		(8,915,460)	(19)	(5,491,352)	(23)
Total operating expenses		(11,412,733)	(25)	(7,002,766)	(29)
Operating income		10,812,930	23	3,087,385	13
Non-operating income and expenses					
Other income	6(19), 7	742,204	2	464,717	1
Other gains and losses	6(20), 6(24)	(455,815)	(1)	(111,463)	-
Finance costs	6(21)	(82,099)	-	(15,882)	-
Share of profit of associates accounted for using the equity method	6(9)	483,744	1	497,324	2
Total non-operating income and expenses		688,034	2	834,696	3
Net income before income tax		11,500,964	25	3,922,081	16
Income tax expense	6(22)	(1,361,623)	(3)	(186,315)	(1)
Net income		10,139,341	22	3,735,766	15
Other comprehensive income	6(9), 6(15)				
Exchange differences resulting from translating the financial statements of foreign operations		1,428,233	3	1,435,349	6
Unrealized gains (losses) from available-for-sale financial assets		(298,445)	(1)	408,034	2
Share of other comprehensive income of associates accounted for using the equity method		(11,789)	-	1,411,424	6
Income tax relating to components of other comprehensive income		-	-	-	-
Other comprehensive income, net of tax		1,117,999	2	3,254,807	14
Total comprehensive income		<u>\$ 11,257,340</u>	<u>24</u>	<u>\$ 6,990,573</u>	<u>29</u>
Net income (loss) for the periods attributable to :					
Owners of the parent	6(23)	\$ 10,147,366		\$ 3,740,904	
Non-controlling interests	6(15)	(8,025)		(5,138)	
		<u>\$ 10,139,341</u>		<u>\$ 3,735,766</u>	
Total comprehensive income for the periods attributable to :					
Owners of the parent		\$ 11,235,269		\$ 7,000,829	
Non-controlling interests	6(15)	22,071		(10,256)	
		<u>\$ 11,257,340</u>		<u>\$ 6,990,573</u>	
Basic Earnings Per Share (in New Taiwan Dollars)	6(23)	<u>\$ 6.82</u>		<u>\$ 2.79</u>	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(23)	<u>\$ 6.80</u>		<u>\$ 2.78</u>	

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

MEDIATEK INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2014 and 2013

(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 (losses) from available-for-sale financial assets				
Balance as of January 1, 2013	\$ 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
Profit for the three months ended March 31, 2013	-	-	-	-	-	3,740,904	-	-	-	3,740,904	(5,138)	3,735,766
Other comprehensive income for the three months ended March 31, 2013	-	-	-	-	-	-	2,851,891	408,034	-	3,259,925	(5,118)	3,254,807
Total comprehensive income	-	-	-	-	-	3,740,904	2,851,891	408,034	-	7,000,829	(10,256)	6,990,573
Share-based payment transactions	-	135	13,213	-	-	-	-	-	-	13,348	-	13,348
Balance as of March 31, 2013	<u>\$ 13,493,702</u>	<u>\$ 237</u>	<u>\$ 79,685,711</u>	<u>\$ 23,072,429</u>	<u>\$ 2,210,312</u>	<u>\$ 65,954,720</u>	<u>\$ (2,910,594)</u>	<u>\$ 987,145</u>	<u>\$ (55,970)</u>	<u>\$ 182,437,692</u>	<u>\$ 23,953</u>	<u>\$ 182,461,645</u>
Balance as of January 1, 2014	\$ 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
Profit for the three months ended March 31, 2014	-	-	-	-	-	10,147,366	-	-	-	10,147,366	(8,025)	10,139,341
Other comprehensive income for the three months ended March 31, 2014	-	-	-	-	-	-	1,386,348	(298,445)	-	1,087,903	30,096	1,117,999
Total comprehensive income	-	-	-	-	-	10,147,366	1,386,348	(298,445)	-	11,235,269	22,071	11,257,340
Share-based payment transactions	2,473	(963)	18,297	-	-	-	-	-	-	19,807	-	19,807
Shares issued to acquire a new entity	2,211,239	-	19,451,526	-	-	-	-	-	-	21,662,765	-	21,662,765
Adjustments arising from changes in percentage of ownership in subsidiaries	-	-	14,008	-	-	-	-	-	-	14,008	(262)	13,746
Change in other capital surplus	-	-	91,282	-	-	-	-	-	-	91,282	-	91,282
Balance as of March 31, 2014	<u>\$ 15,708,379</u>	<u>\$ 1,510</u>	<u>\$ 88,050,023</u>	<u>\$ 24,641,182</u>	<u>\$ 5,072,425</u>	<u>\$ 94,728,634</u>	<u>\$ (1,018,293)</u>	<u>\$ 1,210,447</u>	<u>\$ (55,970)</u>	<u>\$ 228,338,337</u>	<u>\$ 60,002</u>	<u>\$ 228,398,339</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

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2014 and 2013

(Amounts in thousands of New Taiwan Dollars)

Description	2014	2013
Cash flows from operating activities :		
Profit before tax from continuing operations	\$ 11,500,964	\$ 3,922,081
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	303,702	298,954
Amortization	425,437	157,837
Bad debt provision (reversal)	13,593	(17,471)
(Gain) loss on financial assets and liabilities at fair value through profit or loss	(5,586)	2,750
Interest expenses	82,099	15,882
Interest income	(615,533)	(368,845)
Dividend income	(51,828)	(18,365)
Share-based payment expenses	18,659	12,844
Share of profit of associates accounted for using the equity method	(483,744)	(497,324)
Losses on disposal of property, plant and equipment	111	398
Losses on disposal of investments	7,839	30,682
Impairment of financial assets	-	109,261
Changes in operating assets and liabilities :		
Financial assets at fair value through profit or loss	276,847	(931,747)
Trade receivables	(1,828,193)	(430,702)
Other receivables	(42,953)	1,499,968
Inventories	(3,520,772)	1,085,233
Prepayments	(142,552)	169,444
Other current assets	(233,831)	(13,680)
Trade payables	3,576,307	(1,557,297)
Trade payables to related parties	(269,477)	(161,231)
Other payables	(31,303)	(1,073,960)
Other current liabilities	(139,288)	589,204
Long-term payables	(5,443)	(3,847)
Accrued pension liabilities	2,669	1,949
Non-current liabilities-others	21,213	3,862
Cash generated from operating activities		
Interest received	414,477	279,054
Dividend received	51,828	18,365
Interest paid	(95,187)	(12,864)
Income tax paid	(89,789)	(53,118)
Net cash provided by operating activities	9,140,266	3,057,317
Cash flows from investing activities :		
Acquisition of available-for-sale financial assets	(290,000)	(369,513)
Proceeds from disposal of available-for-sale financial assets	21,357	979,451
Acquisition of bond investment for which no active market exists	(97)	-
Acquisition of financial assets measured at cost	(788,752)	(78,522)
Proceeds from disposal of financial assets measured at cost	-	299
Proceeds from capital return of financial assets measured at cost	3,304	101,467
Acquisition of investments accounted for using the equity method	(76,094)	-
Net cash inflows from acquisition of subsidiaries	33,097,485	-
Acquisition of property, plant and equipment	(602,933)	(549,594)
Proceeds from disposal of property, plant and equipment	63,462	156
Decrease (increase) in refundable deposits	9,026	(1,598)
Acquisition of intangible assets	(256,432)	(5,530)
Decrease (increase) in long-term prepaid rent	1,572	(2,671)
Net cash provided by investing activities	31,181,898	73,945
Cash flows from financing activities :		
(Decrease) increase in short-term borrowings	(7,137,750)	3,734,375
Decrease in long-term borrowings	(651,000)	-
Decrease in deposits received	(6,584)	(213)
Proceeds from exercise of employee stock options	50,471	221
Decrease in non-controlling interests	(262)	-
Net cash (used in) provided by financing activities	(7,745,125)	3,734,383
Effect of changes in exchange rate on cash and cash equivalents	1,424,271	1,358,428
Net increase in cash and cash equivalents	34,001,310	8,224,073
Cash and cash equivalents at the beginning of the period	132,997,726	85,867,210
Cash and cash equivalents at the end of the period	\$ 166,999,036	\$ 94,091,283

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 UNAUDITED 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 April 30, 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") and effective for annual periods beginning on or after January 1, 2015, 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:

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

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MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED 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
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
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

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MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED 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 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”	January 1, 2014
		(Amendment)	

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

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.

The abovementioned standards and interpretations issued by IASB and have been recognized by FSC are effective for annual periods beginning on or after January 1, 2015. As the Company is still currently determining the potential impact of the standards and interpretations listed under A~G, 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IAS 36	"Impairment of Assets" (Amendment)	January 1, 2014
IFRIC 21	"Levies"	January 1, 2014
IAS 39	"Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRS 9	"Financial Instruments"	-
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

A. IFRS 9 "Financial Instruments"

IFRS 9 which is divided in three distinct phases is designed by the 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 IASB is working on the remaining phases relating to impairment and hedge accounting, and eliminated the requirements which are effective for annual periods beginning on or after January 1, 2015.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

B. 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.

C. 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.

D. 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~D, 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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 IAS 34 “Interim Financial Reporting” 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.

Basis of Consolidation

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 UNAUDITED 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
			March 31, 2014	December 31, 2013	March 31, 2013	
MTK	MediaTek Investment Corp.	General investing	100%	100%	100%	-
MTK	Hsu-Ta Investment Corp.	General investing	100%	100%	100%	-
MTK	MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100%	100%	100%	-
MTK	Ralink Technology Corp.	Research, manufacturing and sales	100%	100%	100%	-
MTK	MStar Semiconductor Pte. Ltd.	General investing	100%	-	-	1
Hsu-Ta Investment Corp.	Core Tech Resources Inc.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Capital Corp.	General investing	100%	-	-	2
MediaTek Investment Corp.	MediaTek Capital Corp.	General investing	-	100%	100%	2
MediaTek Investment Corp.	Gaintech Co. Limited	General investing	100%	100%	100%	-
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%	3
MediaTek Singapore Pte. Ltd.	MTK Wireless LLC (Dubai)	Technology services	100%	100%	100%	-
MediaTek Capital Corp.	RollTech Technology, Co. Ltd.	Software development	67%	67%	100%	-
MediaTek Capital Corp.	E-Vehicle Semiconductor Technology Co. Ltd.	Research, manufacturing and sales	72%	72%	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%	-

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED 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
			March 31, 2014	December 31, 2013	March 31, 2013	
Gaintech Co. Limited	MTK Wireless Limited (UK)	Research	100%	100%	100%	-
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%	5
Gaintech Co. Limited	MediaTek USA Inc.	Research	-	89%	89%	4
Gaintech Co. Limited	Hesine Technologies International Worldwide Inc.	General investing	65%	65%	65%	-
Gaintech Co. Limited	Gold Rich International (Samoa) Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Smarthead Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Lepower Limited	General investing	100%	84%	84%	-
Gaintech Co. Limited	Ralink Technology (Samoa) Corp.	General investing	100%	100%	100%	-
Gaintech Co. Limited	Shadow Investment Limited	General investing	-	-	100%	6
Gaintech Co. Limited	MediaTek Sweden AB	Research	-	100%	100%	4
Gaintech Co. Limited	EcoNet (Cayman) Inc.	General Investing	100%	100%	-	7
Gaintech Co. Limited	MediaTek Wireless FZ-LLC	Technology services	100%	100%	-	8
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%	-

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED 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
			March 31, 2014	December 31, 2013	March 31, 2013	
MediaTek China Limited	MediaTek (Wuhan) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Shanghai) Inc.	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Sweden AB	Research	100%	-	-	4
MTK Wireless Limited (UK)	MediaTek USA Inc.	Research	89%	-	-	4
MTK Wireless Limited (UK)	MediaTek Denmark Aps	Research	100%	-	-	4
MediaTek USA Inc.	Ralink Technology Corporation (USA)	Research	100%	100%	100%	-
Vogins Technology Co., Ltd.	Vogins Technology (Shanghai) Co., Ltd.	Software development	-	-	100%	5
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	91%	100%	100%	-
E-Vehicle Semiconductor Technology Co. Ltd.	E-Vehicle Holding Corp.	General investing	100%	100%	100%	-
E-Vehicle Holding Corp.	E-Vehicle Investment Limited	General investing	100%	100%	100%	-
E-Vehicle Investment Limited	E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	100%	100%	100%	-
EcoNet (Cayman) Inc.	Shadow Investment Limited	General investing	100%	100%	-	6
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	Research, manufacturing and sales	100%	100%	-	9

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED 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
			March 31, 2014	December 31, 2013	March 31, 2013	
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%	100%	-	10
MStar Semiconductor Pte. Ltd.	MStar Semiconductor B.V.	General investing	100%	-	-	1
MStar Semiconductor Pte. Ltd.	Light Up International Corp.	General investing	100%	-	-	1
MStar Semiconductor B.V.	MStar Semiconductor, Inc.	Research, manufacturing and sales	100%	-	-	1
MStar Semiconductor B.V.	White Dwarf Limited	General investing	100%	-	-	1
White Dwarf Limited	MStar India Private Limited	Software and customer development	100%	-	-	1
MStar Semiconductor, Inc.	MStar France SAS	Software development	100%	-	-	1
MStar Semiconductor, Inc.	Shunfonger Investment Holding Limited	General investing	100%	-	-	1
MStar Semiconductor, Inc.	IStar Technology Ltd.	General investing and sales	100%	-	-	1
MStar Semiconductor, Inc.	MStar Co., Ltd.	General investing	100%	-	-	1
MStar Semiconductor, Inc.	Digimoc Holdings Limited	General investing	100%	-	-	1
MStar Semiconductor, Inc.	MStar Semiconductor UK Ltd.	Software and customer development	100%	-	-	1
Shunfonger Investment Holding Limited	Cheng Du All Fresh Food Co., Ltd.	Domestic wholesale	100%	-	-	1

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED 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
			March 31, 2014	December 31, 2013	March 31, 2013	
IStar Technology Ltd.	IStar (HK) Technology Ltd.	General investing and sales	100%	-	-	1
MStar Co. Ltd.	MStar Software R&D (Shenzhen), Ltd.	Software and customer development	100%	-	-	1
Digimoc Holdings Limited	Bubbly Bay Holdings Limited	General investing	100%	-	-	1
MStar Software R&D (Shenzhen), Ltd.	MStar Chen Si Electronics Technology (Shanghai) Co., Ltd.	Research and technology services	100%	-	-	1

1. MTK acquired de facto control over MStar Semiconductor, Inc (Cayman) ("MStar") after obtaining relevant domestic and foreign regulators approvals in January, 2014. MStar and its subsidiaries were included in the consolidation entities thereafter. In February, 2014, MTK acquired the remaining 52% ownership of MStar by issuing new shares and paying cash. After that, MStar was delisted and dissolved.
2. In January 2014, MediaTek Investment Corp. carved out MediaTek Capital Corp. and transferred all its shares to Hsu-Ta Investment Corp.
3. T-Rich Technology Corp. has been liquidated and returned the capital in December 2013.
4. MTK Wireless Limited (UK) acquired 100% shares of MeidaTek Sweden AB, 100% shares of MediaTek Denmark Aps and 89% shares of MediaTek USA Inc. from Gaintech Co. Limited in March, 2014.
5. 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.
6. EcoNet (Cayman) Inc. acquired 100% shares of Shadow Investment Limited from Gaintech Co. Limited in May 2013.
7. Gaintech Co. Limited established EcoNet (Cayman) Inc. in April 2013.
8. Gaintech Co. Limited established MediaTek Wireless FZ-LLC in November 2013.
9. EcoNet (Cayman) Inc. established EcoNet (HK) Limited in April 2013.
10. Ralink Technology (Samoa) Corp. established AutoChips Inc. in November 2013.

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Except for the accounting policies listed below, the same accounting policies have been followed in this consolidated financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2013. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2013.

A. 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.

B. 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, customer relationship, IPs and others 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	Customer relationship	IPs and others
2~6 years	2~10 years	2~5 years	5 years	2~10 years

Abovementioned intangible assets are amortized on a straight-line basis over the estimated useful life.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED 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 are 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.

5. Significant Accounting Judgments, Estimates and Assumptions

The same significant accounting judgments, estimates and assumptions have been followed in this consolidated financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2013. For the summary of significant accounting judgments, estimates and assumptions, please refer to the consolidated financial statements for the year ended December 31, 2013.

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	March 31, 2014	December 31, 2013	March 31, 2013
Cash on hand and petty cash	\$7,140	\$1,102	\$1,049
Checking and savings accounts	49,292,305	13,315,702	6,526,611
Time deposits	117,699,591	119,680,922	87,563,623
Total	<u>\$166,999,036</u>	<u>\$132,997,726</u>	<u>\$94,091,283</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.

Cash and cash equivalents were not pledged.

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

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Current</u>			
Convertible bonds	\$227,738	\$221,777	\$-
Credit-linked deposits	599,187	319,603	238,187
Interest rate-linked deposits	580,538	562,835	857,978
Exchange rate-linked deposits	722,226	721,039	298,750
Index-linked deposits	295,493	297,942	-
Subtotal	2,425,182	2,123,196	1,394,915
<u>Noncurrent</u>			
Convertible bonds	95,475	94,583	51,400
Bonds-Repo	285,955	289,332	287,546
Credit-linked deposits	556,453	823,058	398,796
Interest rate-linked deposits	-	271,734	540,063
Exchange rate-linked deposits	-	-	427,225
Subtotal	937,883	1,478,707	1,705,030
Total	\$3,363,065	\$3,601,903	\$3,099,945

Financial assets and financial liabilities held for trading:

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Current assets</u>			
Stock	\$12,311	\$-	\$-
Cross currency swap contracts	-	-	600
Forward exchange contracts	35,667	8,894	233
Total	\$47,978	\$8,894	\$833
<u>Current liabilities</u>			
Cross currency swap contracts	\$-	\$-	\$305
Forward exchange contracts	22,349	26,017	9,274
Total	\$22,349	\$26,017	\$9,579

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

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

(3) Available-for-sale financial assets

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Current</u>			
Funds	\$1,883,567	\$1,570,378	\$1,742,509
Bonds	88,060	86,391	88,605
Depository receipts	27,636	22,577	21,986
Common shares	1,650,745	1,746,775	1,295,613
Subtotal	3,650,008	3,426,121	3,148,713
<u>Noncurrent</u>			
Funds	2,601,148	2,838,444	2,745,054
Bonds	1,654,271	1,648,910	1,093,796
Subtotal	4,255,419	4,487,354	3,838,850
Total	\$7,905,427	\$7,913,475	\$6,987,563

Available-for-sale financial assets were not pledged.

(4) Financial assets measured at cost

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Available-for-sale financial assets-noncurrent</u>			
Non-publicly traded stocks	\$929,063	\$905,074	\$778,934
Capital	1,955,880	1,156,489	1,220,454
Total	\$2,884,943	\$2,061,563	\$1,999,388

Financial assets measured at cost were not pledged.

(5) Held-to-maturity financial assets

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Current</u>			
Bonds	\$783,567	\$549,573	\$-
<u>Noncurrent</u>			
Bonds	397,393	341,937	817,071
Total	\$1,180,960	\$891,510	\$817,071

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED 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**

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Current</u>			
Time deposits	\$11,709	113,678	113,594
<u>Noncurrent</u>			
Time deposits	382	364	413
Total	<u>\$12,091</u>	<u>\$114,042</u>	<u>\$114,007</u>

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

(7) Trade receivables

	March 31, 2014	December 31, 2013	March 31, 2013
Trade receivables	\$21,152,345	\$14,706,067	\$9,068,856
Less: allowance for doubtful debts	(148,649)	(84,875)	(146,460)
Less: allowance for sales returns and discounts	(7,431,557)	(6,993,601)	(2,127,134)
Total	<u>\$13,572,139</u>	<u>7,627,591</u>	<u>6,795,262</u>

Trade receivables were not pledged.

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

	Individually impaired	Collectively impaired	Total
As of January 1, 2014	\$-	\$84,875	\$84,875
Charge for the current period	-	13,593	13,593
Effect of acquisition of subsidiaries		50,000	50,000
Exchange differences	-	181	181
As of March 31, 2014	<u>-</u>	<u>\$148,649</u>	<u>\$148,649</u>

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED 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, 2013	\$-	\$162,859	\$162,859
Reversal for the current period	-	(17,471)	(17,471)
Exchange differences	-	1,072	1,072
As of March 31, 2013	\$-	\$146,460	\$146,460

Aging analysis of trade receivables 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	
March 31, 2014	\$13,169,213	\$402,926	\$-	\$13,572,139
December 31, 2013	\$7,383,181	\$243,386	\$1,024	\$7,627,591
March 31, 2013	\$5,914,422	\$877,610	\$3,230	\$6,795,262

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 March 31, 2014, December 31, 2013, and March 31, 2013. Receivables from banks due to factoring agreement were NT\$2,852,119 thousand, NT\$2,697,718 thousand, and NT\$2,777,300 thousand, respectively.

As of March 31, 2014, December 31, 2013, and March 31, 2013, trade receivables derecognized were as follows:

A. As of March 31, 2014:

The Factor (Transferee)	Interest rate	Trade receivables	Cash	Unutilized (US\$'000)	Credit line (US\$'000)
		derecognized (US\$'000)	withdrawn (US\$'000)		
Taishin International Bank	-	72,796	-	72,796	151,495
BNP Paribas	-	13,661	-	13,661	100,000
HSBC	-	221	-	221	800
TC Bank	-	6,803	-	6,803	15,000
Total		93,481	-	93,481	267,295

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

B. 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

C. As of March 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	-	82,941	-	82,941	154,861
BNP Paribas	-	9,670	-	9,670	100,000
HSBC	-	241	-	241	468
TC Bank	-	112	-	112	1,500
Total		92,964	-	92,964	256,829

(8) Inventories

	March 31, 2014	December 31, 2013	March 31, 2013
Raw materials	\$957,834	\$4,787	\$5,372
Work in progress	14,957,788	7,320,888	9,592,948
Finished goods	6,958,683	5,268,422	5,959,149
Total	22,874,305	12,594,097	15,557,469
Less: allowance for inventory valuation losses	(6,224,867)	(3,247,305)	(2,713,600)
Net amount	\$16,649,438	\$9,346,792	\$12,843,869

For the three months ended March 31, 2014 and 2013, the cost of inventories recognized in expenses amounts to NT\$23,779,339 thousand and NT\$13,884,058 thousand, including the write-down of inventories of NT\$1,885,919 thousand and NT\$731,129 thousand for the three months ended March 31, 2014 and 2013.

No inventories were pledged.

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

A. The following table lists the investments accounted for using the equity method of the Company:

Investees	March 31, 2014		December 31, 2013		March 31, 2013	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
MStar Semiconductor, Inc. (Cayman)	\$-	-	\$58,192,878	48	\$58,305,138	48
Airoha Technology, Inc.	390,606	31	284,779	32	228,118	33
Shenzhen Huiding Technology Co., Ltd.	763,008	24	704,232	24	430,795	24
Alpha Imaging Technology Corp.	128,770	15	135,913	15	131,317	15
Others	363,288	-	351,959	-	224,132	-
Total	<u>\$1,645,672</u>		<u>\$59,669,761</u>		<u>\$59,319,500</u>	

The carrying amount of investments in the associates for which there are published price quotations amounts to NT\$128,770 thousand, NT\$58,328,791 thousand, and NT\$58,436,455 thousand, as of March 31, 2014, December 31, 2013, and March 31, 2013, respectively. The fair value of these investments are NT\$148,051 thousand, NT\$88,354,325 thousand, and NT\$62,409,114 thousand, as of March 31, 2014, December 31, 2013, and March 31, 2013, respectively.

The share of profit of these associates accounted for using the equity method amounts to NT\$483,744 thousand and NT\$497,324 thousand for the three months ended March 31, 2014 and 2013, respectively. The share of other comprehensive income of these associates accounted for using the equity method amounts to NT\$(11,789) thousand and NT\$1,411,424 thousand for the three months then ended March 31, 2014 and 2013, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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%.

In 2012, MTK totally acquired 254,115,685 shares (48% of MStar's outstanding shares) of MStar 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. In January 2014, MTK obtained de facto control over MStar. Therefore MStar was included in the consolidation entities. Please refer to Note 6. (24) for more details.

No investment in the associate was pledged.

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

	March 31, 2014	December 31, 2013	March 31, 2013
Total assets	\$6,491,419	\$49,504,796	\$46,421,384
Total liabilities	\$839,339	\$11,080,916	\$9,813,813
	Three months ended March 31		
	2014	2013	
Revenue	\$1,796,076	\$8,593,226	
Profit	\$437,795	\$1,235,221	

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED 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, 2014	\$1,273,869	\$9,078,987	\$122,675	\$2,287,104	\$3,251,188	\$1,192,400	\$1,011,252	\$18,217,475
Additions-acquired separately	-	12,185	1,819	118,862	116,247	45,178	289,695	583,986
Additions-acquired through business combinations	1,857,153	1,283,605	202,873	-	226,893	516,588	15,457	4,102,569
Disposals	-	(2,140)	(96,110)	(20,987)	(71,461)	(23,194)	-	(213,892)
Transfers	-	13,929	-	4,704	7,784	-	(26,417)	-
Exchange differences	8,193	(8,991)	1,880	1,314	(2,452)	4,855	(4,195)	604
As of March 31, 2014	<u>\$3,139,215</u>	<u>\$10,377,575</u>	<u>\$233,137</u>	<u>\$2,390,997</u>	<u>\$3,528,199</u>	<u>\$1,735,827</u>	<u>\$1,285,792</u>	<u>\$22,690,742</u>
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	-	187,448	819	93,669	24,176	616	381,423	688,151
Disposals	-	(191)	(233)	(5,358)	(8,810)	(676)	-	(15,268)
Transfers	-	1,794,206	(263)	-	11,517	-	(1,810,785)	(5,325)
Exchange differences	-	4,380	466	29,340	18,571	1,326	54,598	108,681
As of March 31, 2013	<u>\$1,273,869</u>	<u>\$8,775,150</u>	<u>\$126,550</u>	<u>\$2,189,323</u>	<u>\$3,058,506</u>	<u>\$1,167,496</u>	<u>\$766,729</u>	<u>\$17,357,623</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED 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, 2014	\$-	\$1,809,281	\$108,709	\$1,701,616	\$2,396,821	\$888,941	\$-	\$6,905,368
Depreciation	-	67,811	5,330	85,138	92,083	53,340	-	303,702
Depreciation due to business combination	-	187,302	107,175	-	159,303	402,369	-	856,149
Disposals	-	(802)	(56,663)	(20,195)	(52,455)	(20,204)	-	(150,319)
Exchange differences	-	25	1,440	485	(1,229)	4,866	-	5,587
As of March 31, 2014	\$-	\$2,063,617	\$165,991	\$1,767,044	\$2,594,523	\$1,329,312	\$-	\$7,920,487
As of January 1, 2013	\$-	\$1,591,536	\$108,287	\$1,390,119	\$2,065,704	\$693,244	\$-	\$5,848,890
Depreciation	-	46,092	2,167	94,304	108,933	47,458	-	298,954
Disposals	-	(48)	(233)	(5,177)	(8,680)	(576)	-	(14,714)
Transfers	-	(117)	(4)	-	121	-	-	-
Exchange differences	-	980	476	21,060	10,975	10,850	-	44,341
As of March 31, 2013	\$-	\$1,638,443	\$110,693	\$1,500,306	\$2,177,053	\$750,976	\$-	\$6,177,471
Net carrying amount as of:								
March 31, 2014	\$3,139,215	\$8,313,958	\$67,146	\$623,953	\$933,676	\$406,515	\$1,285,792	\$14,770,255
December 31, 2013	\$1,273,869	\$7,269,706	\$13,966	\$585,488	\$854,367	\$303,459	\$1,011,252	\$11,312,107
March 31, 2013	\$1,273,869	\$7,136,707	\$15,857	\$689,017	\$881,453	\$416,520	\$766,729	\$11,180,152

Property, plant and equipment were not pledged

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(11) Intangible assets

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Cost:						
As of January 1, 2014	\$32,402	\$669,683	\$-	\$4,271,124	\$13,965,296	\$18,938,505
Additions-acquired separately	-	176,797	-	79,635	-	256,432
Additions-acquired through business combinations	380,004	1,108,486	1,800,993	7,280,308	39,285,646	49,855,437
Disposals	-	(41,062)	-	(81,299)	-	(122,361)
Transfers	-	(96)	-	96	-	-
Exchange differences	1,676	466	7,945	22,499	142,991	175,577
As of March 31, 2014	<u>\$414,082</u>	<u>\$1,914,274</u>	<u>\$1,808,938</u>	<u>\$11,572,363</u>	<u>\$53,393,933</u>	<u>\$69,103,590</u>
As of January 1, 2013	\$32,985	\$1,005,067	\$-	\$8,083,810	\$13,949,611	\$23,071,473
Additions-acquired separately	-	4,939	-	591	-	5,530
Transfers	-	5,325	-	-	-	5,325
Exchange differences	-	(177)	-	6,899	13,722	20,444
Others	-	(359)	-	-	-	(359)
As of March 31, 2013	<u>\$32,985</u>	<u>\$1,014,795</u>	<u>\$-</u>	<u>\$8,091,300</u>	<u>\$13,963,333</u>	<u>\$23,102,413</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Amortization and impairment:						
As of January 1, 2014	\$32,402	\$554,909	\$-	\$2,842,001	\$-	\$3,429,312
Amortization	10,983	75,504	56,265	282,685	-	425,437
Amortization due to business combinations	-	1,006,899	-	3,780,913	-	4,787,812
Disposals	-	(41,062)	-	(81,299)	-	(122,361)
Exchange differences	-	(214)	-	(337)	-	(551)
As of March 31, 2014	<u>\$43,385</u>	<u>\$1,596,036</u>	<u>\$56,265</u>	<u>\$6,823,963</u>	<u>\$-</u>	<u>\$8,519,649</u>
As of January 1, 2013	\$18,046	\$828,805	\$-	\$6,497,174	\$-	\$7,344,025
Amortization	3,593	40,504	-	113,740	-	157,837
Exchange differences	-	(119)	-	745	-	626
Others	-	(359)	-	-	-	(359)
As of March 31, 2013	<u>\$21,639</u>	<u>\$868,831</u>	<u>\$-</u>	<u>\$6,611,659</u>	<u>\$-</u>	<u>\$7,502,129</u>
Net carrying amount as of:						
March 31, 2014	<u>\$370,697</u>	<u>\$318,238</u>	<u>\$1,752,673</u>	<u>\$4,748,400</u>	<u>\$53,393,933</u>	<u>\$60,583,941</u>
December 31, 2013	<u>\$-</u>	<u>\$114,774</u>	<u>\$-</u>	<u>\$1,429,123</u>	<u>\$13,965,296</u>	<u>\$15,509,193</u>
March 31, 2013	<u>\$11,346</u>	<u>\$145,964</u>	<u>\$-</u>	<u>\$1,479,641</u>	<u>\$13,963,333</u>	<u>\$15,600,284</u>

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(12) Impairment testing of goodwill and intangible assets with indefinite lives**

The Company has no intangible assets with indefinite lives. Goodwill acquired through business combination has been allocated to each group of cash-generating units which is expected to benefit from synergies of the business combination and has been assessed for impairment of the recoverable amount of goodwill at the end of each year. The recoverable amount has been determined based on the value-in-use calculated using cash flow projections discounted by the pre-tax discount rate from a five-year period financial budgets. 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 of goodwill for the three months ended March 31, 2014 and 2013.

(13) Short-term borrowings

	March 31, 2014	December 31, 2013	March 31, 2013
Unsecured bank loans	\$22,100,970	\$29,051,500	\$12,784,775
Interest rates	0.74~2.92%	0.75~2.55%	0.49~1.10%
Unused lines of credits	\$13,500,562	\$5,988,350	\$18,374,850

(14) Post-employment benefits**Defined contribution plan**

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 three months ended March 31, 2014 and 2013 are NT\$216,655 thousand and NT\$167,457 thousand, respectively.

Defined benefits plan

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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Pension expenses under the defined benefits for the three months ended March 31, 2014 and 2013 are NT\$4,051 thousand and NT\$2,645 thousand.

(15) Equity

A. Share capital

MTK's authorized capital as of March 31, 2014, December 31, 2013 and March 31, 2013 was NT\$20,000,000 thousand, divided into 2,000,000,000 shares, 2,000,000,000 shares, and 2,000,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options at each period), each at a par value of NT\$10. MTK's issued capital was NT\$15,708,379 thousand, NT\$13,494,667 thousand, and NT\$13,493,702 thousand, divided into 1,570,837,871 shares, 1,349,466,701 shares, and 1,349,370,189 shares as of March 31, 2014, December 31, 2013 and March 31, 2013, respectively. Each share has one voting right and a right to receive dividends.

In February, 2014, MTK acquired the remaining 52% ownership of MStar by issuing 221,123,877 shares, each at a par value of NT\$10. MTK has successfully obtained relevant regulators approvals.

For the three months then ended March 31, 2014, MTK totally issued 151,011 new shares at par value of NT\$10 for the employee stock options exercised. These shares (NT\$1,510 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance.

B. Capital surplus

	March 31, 2014	December 31, 2013	March 31, 2013
Additional paid-in capital	\$86,116,241	\$66,585,671	\$78,042,994
Treasury share transactions	1,081,591	1,081,591	1,011,446
Adjustments arising from changes in percentage of ownership in subsidiaries	176,102	162,094	151,548
Donated assets	1,260	1,260	1,260
From share of changes in net assets of associates	93,466	51,144	36,917
Employee stock options	420,139	401,842	338,887
Others	161,224	191,308	102,659
Total	<u>\$88,050,023</u>	<u>\$68,474,910</u>	<u>\$79,685,711</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

C. Treasury shares

As of March 31, 2014, December 31, 2013, and March 31, 2013, 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 March 31, 2014, December 31, 2013, and March 31, 2013, 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

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 to 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 to special reserve based on the difference between the amount already set aside and the total debit balance 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.

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

During the three months ended March 31, 2014 and 2013, the amounts of the employees' bonuses were estimated to be NT\$655,076 thousand and NT\$210,783 thousand, respectively. During the three months ended March 31, 2014 and 2013, the amounts of remunerations to directors and supervisors were estimated to be NT\$18,913 thousand and NT\$6,761 thousand, respectively. The employees' bonuses were estimated based on a specific rate of net income for the three months ended March 31, 2014 and 2013 (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.

The appropriations of earnings for 2013 were resolved by the board of directors' meeting on April 30, 2014, subject to the resolution of shareholders' meeting which will be held on June 12, 2014. The appropriations of earning for 2012 were resolved by the general shareholders' meeting on June 21, 2013. The details of the distribution are as follows:

	<u>Appropriation of earnings</u>		<u>Dividend per share (NT\$)</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Legal reserve	\$2,751,505	\$1,568,753	\$-	\$-
Special reserve (reversal)	(4,176,676)	2,862,113	\$-	\$-
Cash dividends-common stock	23,565,323	674,690	\$15.00	\$0.50
Directors' and supervisors' remunerations	57,880	28,141	\$-	\$-
Employees' bonuses-cash	1,593,476	895,875	\$-	\$-
Total	<u>\$23,791,508</u>	<u>\$6,029,572</u>		

On May 10, 2013, the board of directors resolved a cash distribution of NT\$9.0 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.

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

The difference between the resolution of the board of directors' meeting and the estimated expense of the directors' and supervisors' remuneration and the employees' bonuses for 2013 are as follows:

Appropriations	The amount resolved by the board of directors' meeting	Expense estimated	Difference	Difference reasons and the accounting treatment
Employees' bonuses-cash	\$1,593,476	\$1,593,476	\$-	-
Directors' and supervisors' remunerations	\$57,880	\$56,784	\$1,096	(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 2014.

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

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, 2014	\$(2,404,641)	\$1,508,892	\$(895,749)
Exchange differences resulting from translating the financial statements of foreign operations	1,398,137	-	1,398,137
Unrealized gains from available-for-sale financial assets	-	(315,152)	(315,152)
Unrealized gains reclassified to profit or loss upon disposal of available-for-sale financial assets	-	16,707	16,707
Share of other comprehensive income of associates accounted for using equity method	(11,789)	-	(11,789)
As of March 31, 2014	\$(1,018,293)	\$1,210,447	\$192,154

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

	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	1,440,467	-	1,440,467
Unrealized gains from available-for-sale financial assets	-	377,351	377,351
Unrealized gains reclassified to profit or loss upon disposal of available-for-sale financial assets	-	30,683	30,683
Share of other comprehensive income of associates accounted for using equity method	1,411,424	-	1,411,424
As of March 31, 2013	\$(2,910,594)	\$987,145	\$(1,923,449)

F. Non-controlling interests

	Three months ended March 31	
	2014	2013
Beginning balance	\$38,193	\$34,209
Loss attributable to non-controlling interests	(8,025)	(5,138)
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	30,096	(5,118)
Adjustments arising from changes in percentage of ownership in subsidiaries	(262)	-
Ending balance	\$60,002	\$23,953

(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.

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

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	363,828	363,828	\$358.0
2008.08.28	1,640,285	557,166	557,166	344.5
2009.08.18	1,382,630	656,002	656,002	431.0
2010.08.27	1,605,757	844,334	498,894	404.8
2010.11.04	65,839	14,634	8,778	377.0
2011.08.24	2,109,871	1,469,780	344,285	277.4
2012.08.14	1,346,795	1,149,171	-	286.8
2013.08.22	1,436,343	1,364,253	-	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.

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.

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

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

Employee Stock Option	Three months ended March 31			
	2014		2013	
	Options (Unit)	Weighted-average Exercise Price per Share (NTD)	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Outstanding at beginning of period	6,641,191	\$341.3	6,045,493	\$332.7
Granted	-	-	-	-
Exercised	(151,011)	334.3	-	-
Forfeited (Expired)	(71,012)	347.4	(71,089)	314.9
Outstanding at end of period	6,419,168	341.4	5,974,404	332.9
Exercisable at end of period	2,428,953		1,900,941	
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 was NT\$443.0 for three months then ended March 31, 2014.

The information on the outstanding share-based payment plan as of March 31, 2014 and 2013 is as follows:

		Three months ended March 31			
		2014		2013	
		Outstanding stock options		Outstanding stock options	
Date of grant	Range of Exercise Price (NTD)	Weighted- average Expected Remaining	Weighted- average Exercise Price per Share (NTD)	Weighted- average Expected Remaining	Weighted- average Exercise Price per Share (NTD)
		Years		Years	
2007.12.19	\$344.5~358.0	0.75	\$349.8	1.76	\$349.7
2009.07.27	431.0	1.88	431.0	2.88	431.0
2010.05.10	377.0~404.8	2.92	404.3	3.92	404.3
2011.08.09	277.4	3.92	277.4	4.92	277.4
2012.08.09	286.8	4.88	286.8	5.88	286.8
2013.08.09	368.0	5.92	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.

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

The employee stock options issued by MTK to replace Ralink's share-based payment were all expired in 2013. For the summary of the weighted-average exercise price of the options granted to replace Ralink's options for the three months ended March 31, 2013, please refer to the consolidated financial statements for the three months ended March 31, 2013.

The expense recognized for employee services received for the three months ended March 31, 2014 and 2013, is shown in the following table:

	Three months ended March 31	
	2014	2013
Total equity-settled transactions	\$18,659	\$12,844

There have been no cancellations or modifications to any of the plans during the three months ended March 31, 2014 and 2013.

(17) Sales

	Three months ended March 31	
	2014	2013
Sale of goods	\$52,322,512	\$27,247,523
Other operating revenues	523,904	138,143
Less: Sales returns and discounts	(6,841,414)	(3,411,457)
Net sales	\$46,005,002	\$23,974,209

(18) Summary statement of employee benefits, depreciation and amortization expenses by function for the three months ended March 31, 2014 and 2013:

	Three months ended March 31					
	2014			2013		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$59,384	\$6,126,191	\$6,185,575	\$47,699	\$3,347,692	\$3,395,391
Labor and health insurance	\$4,886	\$275,997	\$280,883	\$4,514	\$180,327	\$184,841
Pension	\$3,108	\$217,598	\$220,706	\$2,785	\$167,317	\$170,102
Others	\$1,151	\$189,447	\$190,598	\$1,011	\$127,682	\$128,693
Depreciation	\$697	\$303,005	\$303,702	\$699	\$298,255	\$298,954
Amortization	\$-	\$425,437	\$425,437	\$-	\$157,837	\$157,837

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(19) Other income

	Three months ended March 31	
	2014	2013
Rental income	\$2,831	\$2,485
Interest income	615,533	368,845
Dividend income	51,828	18,365
Gain on reversal of bad debts	-	17,471
Others	72,012	57,551
Total	<u>\$742,204</u>	<u>\$464,717</u>

(20) Other gains and losses

	Three months ended March 31	
	2014	2013
Losses on disposal of property, plant and equipment	\$(111)	\$(398)
(Losses) gains on disposal of investments		
Available-for-sale financial assets	(16,707)	(30,682)
Investments accounted for using the equity method	8,868	-
Foreign exchange (losses) gains	(243,489)	94,547
Impairment losses-financial assets measured at cost	-	(109,261)
Losses on financial assets at fair value		
through profit or loss	(85,849)	(12,495)
Losses on financial liabilities at fair value		
through profit or loss	(22,349)	(9,579)
Others	(96,178)	(43,595)
Total	<u>\$(455,815)</u>	<u>\$(111,463)</u>

(21) Finance costs

	Three months ended March 31	
	2014	2013
Interest expenses on short-term borrowings	<u>\$82,099</u>	<u>\$15,882</u>

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(22) Income tax**

The major components of income tax expense are as follows:

	Three months ended March 31	
	2014	2013
Current income tax	\$1,862,426	\$378,461
Deferred tax income	(455,710)	(210,513)
Others	(45,093)	18,367
Income tax expense recognized in profit or loss	<u>\$1,361,623</u>	<u>\$186,315</u>

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

	Three months ended March 31	
	2014	2013
Accounting profit before tax from continuing operations	<u>\$11,500,964</u>	<u>\$3,922,081</u>
Tax at the domestic rates applicable to profits in the country concerned	\$2,332,732	\$779,632
Tax effect of revenues exempt from taxation	(665,704)	(299,625)
Tax effect of expenses not deductible for tax purposes	(205,236)	(199,935)
Tax effect of deferred tax assets/liabilities	(163,076)	(116,434)
Others	62,907	22,677
Total income tax expense recognized in profit or loss	<u>\$1,361,623</u>	<u>\$186,315</u>

Integrated income tax information

	March 31, 2014	December 31, 2013	March 31, 2013
Balance of the imputation credit account	<u>\$1,904,143</u>	<u>\$1,892,716</u>	<u>\$1,207,765</u>

The estimated creditable ratio for 2013 and the actual creditable ratio for 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.

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

As of March 31, 2014, the assessment of the income tax returns of MTK and its subsidiaries are as follows:

	<u>The assessment of income tax returns</u>	<u>Notes</u>
MTK	Assessed and approved up to 2011	(Note)
Subsidiary-Ralink Technology Corp.	Assessed and approved up to 2010	(Note)
Subsidiary-MStar Semiconductor Inc.	Assessed and approved up to 2011	
Subsidiary-Light Up International Corp.	Assessed and approved up to 2012	

Note: For the tax returns of 2011, 2010, 2009 and 2008 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 file 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.

	<u>Three months ended March 31</u>	
	<u>2014</u>	<u>2013</u>
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	<u>\$10,147,366</u>	<u>\$3,740,904</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	<u>1,486,919,895</u>	<u>1,341,593,772</u>
Basic earnings per share (NT\$)	<u>\$6.82</u>	<u>\$2.79</u>

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

	Three months ended March 31	
	2014	2013
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$10,147,366	\$3,740,904
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,486,919,895	1,341,593,772
Effect of dilution:		
Employee bonuses-stock (share)	5,002,340	3,235,842
Employee stock options (share)	1,046,969	139,747
Weighted average number of ordinary shares outstanding after dilution (share)	1,492,969,204	1,344,969,361
Diluted earnings per share (NT\$)	\$6.80	\$2.78

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**The merger with MStar**

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.

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. In addition, the supplementary document of the working plan was also approved by MOFCOM in January 2014. MTK obtained de facto control over MStar on the day (the acquisition day) that MTK's and MStar's board of directors approved to follow the working plan and its supplementary document which had been approved by MOFCOM. The original 48% interest of MStar acquired before the acquisition of de facto control was remeasured at fair value and the difference was recognized as a gain.

Furthermore, MTK issued 221,123,877 new shares and paid NT\$278,494 thousand in cash to acquire the remaining 52% MStar's shares. The registration of MTK's new share issuance was completed. MStar was delisted from Taiwan Stock Exchange and dissolved on February 1, 2014. The issuance of new shares to acquire the remaining 52% shares was recorded as an equity transaction.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

The Company has measured the non-controlling interest in MStar at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The fair values of the identifiable assets and liabilities of MStar as of the date of acquisition were:

	Fair value recognized on the acquisition date (US\$'000)
Cash and cash equivalents	1,098,762
Current assets	279,016
Funds and investments	9,172
Property, plant and equipment	106,875
Intangible assets-trademark, computer software , patent, core techniques and customer relationship	190,347
Other non-current assets	1,261
	<u>1,685,433</u>
Current liabilities	(303,105)
Long-term borrowing	(21,431)
Other liabilities	(794)
	<u>(325,330)</u>
Identifiable net assets	<u><u>1,360,103</u></u>
	<u>Amount (US\$'000)</u>
Goodwill of MStar is as follows:	
The fair value of the equity interest in Mstar held by MTK	1,930,979
Add: non-controlling interest	722,436
Less: identifiable net assets at fair value	<u>(1,360,103)</u>
Goodwill	<u><u>1,293,312</u></u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Cash flows on acquisition:	Amount (US\$'000)
Net cash acquired with the subsidiary	1,098,762
Transaction costs attributable to cash paid	(9,168)
Net cash flow on acquisition	(1,089,594)

As of April 30, 2014, the net assets recognized in this financial statement were based on a provisional assessment of fair value. Adjustments may be required after the final appraisal report is issued.

The goodwill of USD1,293,312 thousand comprises the value of expected synergies arising from the acquisition. The goodwill recognized is expected to be deductible for income tax purposes.

From the acquisition date to March 31, 2014, MStar has contributed NT\$5,549,655 thousand of net sales and NT\$771,569 thousand of net income of the Company.

If the combination had taken place at the beginning of that year, revenue and the net income of the Company would have been NT\$48,948,580 thousand and NT\$10,374,208 thousand.

(25) Changes in parent's ownership interests in subsidiaries

Changes in ownership of subsidiaries

Lepower Technologies (Beijing) Inc. issued new shares in February 2014, and the Company did not purchase new shares in proportionate to its original ownership interest. Also the Company purchased additional 15.33% of voting shares in February 2014 and the ownership of Lepower Limited rose up to 99.77%. Consequently, the ownership interest in these companies was changed but control over these companies remained. The difference between the fair value of purchased equity investments and the increase in the non-controlling interest was NT\$14,008 thousand which was recorded in equity.

Please refer to Note 6. (24) for more information about the acquisition of the remaining 52% stock of MStar in February 2014.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****7. Related Party Transactions****(1) Significant transactions with related parties****A. IC testing, experimental services, and manufacturing technology services**

	Three months ended March 31	
	2014	2013
Other related parties	\$1,836,434	\$1,016,557

B. Consign research and development expense and royalty Expense

	Three months ended March 31	
	2014	2013
Associates	\$200,000	\$-
Other related parties	14,965	-
Total	\$214,965	\$-

C. Rental income

	Three months ended March 31	
	2014	2013
Associates	\$171	\$86
Other related parties	2,318	2,276
Total	\$2,489	\$2,362

D. Other receivables from related parties

	March 31, 2014	December 31, 2013	March 31, 2013
Associates	\$60	\$60	\$30
Other related parties	581	340	997
Total	\$641	\$400	\$1,027

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 payables to related parties

	March 31, 2014	December 31, 2013	March 31, 2013
Other related parties	\$1,836,555	\$2,082,028	\$863,898

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

	Three months ended March 31	
	2014	2013
Short-term employee benefits (Note)	\$305,252	\$40,575
Post-employment benefits	900	570
Total	<u>\$306,152</u>	<u>\$41,145</u>

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

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
	March 31, 2014	December 31, 2012	March 31, 2013	
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	3,104	3,067	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	1,688	1,657	1,541	Credit guarantee
Bond investments for which no active market exists-current	-	-	69	Customs clearance deposits
Bond investments for which no active market exists-noncurrent	255	243	275	Customs clearance deposits
Bond investments for which no active market exists-noncurrent	127	121	138	Lease execution deposits
Total	<u>\$12,091</u>	<u>\$114,042</u>	<u>\$114,007</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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

	March 31, 2014	December 31, 2013	March 31, 2013
Not later than one year	\$421,856	\$374,715	\$305,075
Later than one year and not later than five years	728,913	753,028	639,365
Later than five years	167,212	181,444	264,808
Total	<u>\$1,317,981</u>	<u>\$1,309,187</u>	<u>\$1,209,248</u>

(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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Additionally, Freescale filed a complaint in the United States District Court for the Western District of Texas against MTK and subsidiary MediaTek USA Inc. on July 6, 2012 alleging infringement of United States Patent Nos. 6,920,316, 5,825,640 and 5,943,274 by MTK's DTV chips, and seeking damages and an injunction to prevent the accused products from being sold in the future. The Court has consolidated this case with the above referenced United States District Court for the Western District of Texas case filed on June 8, 2011. On March 19, 2014, the Court granted MTK's Motion to Dismiss for Lack of Personal Jurisdiction and dismissed MTK from the consolidated action.

The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

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. 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. The operation of MTK and subsidiaries Ralink and Ralink Technology Corporation (USA) would not be materially affected by those patent litigations.

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

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

None

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED 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

	March 31, 2014	December 31, 2013	March 31, 2013
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$47,978	\$8,894	\$833
Financial assets designated upon initial recognition at fair value through profit or loss	3,363,065	3,601,903	3,099,945
Subtotal	3,411,043	3,610,797	3,100,778
Available-for-sale financial assets	7,905,427	7,913,475	6,987,563
Financial assets measured at cost	2,884,943	2,061,563	1,999,388
Held-to-maturity financial assets	1,180,960	891,510	817,071
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand and petty cash)	166,991,896	132,996,624	94,090,234
Bond investments for which no active market exists	12,091	114,042	114,007
Trade receivables	13,572,139	7,627,591	6,795,262
Other receivables	4,318,985	3,652,885	3,902,461
Subtotal	184,895,111	144,391,142	104,901,964
Total	\$200,277,484	\$158,868,487	\$117,806,764

Financial liabilities

	March 31, 2014	December 31, 2013	March 31, 2013
Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$22,349	\$26,017	\$9,579
Financial liabilities at amortized cost:			
Short-term borrowings	22,100,970	29,051,500	12,784,775
Trade payables (including related parties)	17,421,411	10,944,174	7,372,715
Other payables	20,936,214	16,835,299	12,448,082
Long-term payables (including current portion)	111,362	116,805	138,919
Subtotal	60,569,957	56,947,778	32,744,491
Total	\$60,592,306	\$56,973,795	\$32,754,070

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED 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, 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		
	March 31, 2014	December 31, 2013	March 31, 2013
Financial assets			
Held-to-maturity financial assets			
Bonds	\$1,180,960	\$891,510	\$817,071

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

	Fair value as of		
	March 31, 2014	December 31, 2013	March 31, 2013
Financial assets			
Held-to-maturity financial assets			
Bonds	\$1,189,076	\$912,021	\$836,148

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 March 31, 2014

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Stocks	\$12,311	\$-	\$-	\$12,311
Bonds	548,133	-	61,035	609,168
Derivative financial instruments	-	35,667	-	35,667
Linked deposits	-	1,658,191	1,095,706	2,753,897
Available-for-sale financial assets				
Depository receipts	27,636	-	-	27,636
Common shares	1,650,745	-	-	1,650,745
Bonds	1,540,227	-	202,104	1,742,331
Funds	4,484,715	-	-	4,484,715
Total	\$8,263,767	\$1,693,858	\$1,358,845	\$11,316,470
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	\$-	\$22,349	\$-	\$22,349

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**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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As of March 31, 2013

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Bonds	\$338,946	\$-	\$-	\$338,946
Derivative financial instruments	-	833	-	833
Linked deposits	-	2,411,945	349,054	2,760,999
Available-for-sale financial assets				
Depository receipts	21,986	-	-	21,986
Common shares	1,295,613	-	-	1,295,613
Bonds	999,581	-	182,820	1,182,401
Funds	4,487,563	-	-	4,487,563
Total	<u>\$7,143,689</u>	<u>\$2,412,778</u>	<u>\$531,874</u>	<u>\$10,088,341</u>

Financial liabilities

Financial liabilities at fair value through profit or loss

Derivative financial instruments	<u>\$-</u>	<u>\$9,579</u>	<u>\$-</u>	<u>\$-</u>
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MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

For the three months ended March 31, 2014 and 2013, there were no transfers between Level 1 and Level 2.

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	
	Linked			
	Bonds	deposits	Bonds	Total
As of January 1, 2014	\$59,583	\$1,084,037	\$198,395	\$1,342,015
Amount recognized in profit or loss	1,452	11,669	-	13,121
Amount recognized in OCI	-	-	3,709	3,709
Acquisitions	-	-	-	-
Settlements	-	-	-	-
As of March 31, 2014	\$61,035	\$1,095,706	\$202,104	\$1,358,845
As of January 1, 2013	\$-	\$317,597	\$176,781	\$494,378
Amount recognized in profit or loss	-	1,457	-	1,457
Amount recognized in OCI	-	-	6,039	6,039
Acquisitions	-	80,000	-	80,000
Settlements	-	(50,000)	-	(50,000)
As of March 31, 2013	\$-	\$349,054	\$182,820	\$531,874

Total gains (losses) recognized for the three months ended March 31, 2014 and 2013 contain gains and losses related to bonds and linked deposits on hand as of March 31, 2014 and 2013 in the amount of NT\$13,121 thousand and NT\$1,586 thousand, respectively.

C. Derivative financial instruments

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

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

The Company entered into forward exchange contracts and cross currency swap contract 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 and cross currency swap contract:

Forward exchange contracts	Currency	Contract amount (‘000)	Maturity
As of March 31, 2014	TWD to USD	Purchase USD200,000	September 2014
As of March 31, 2014	TWD to USD	Sell USD230,000	April 2014
As of December 31, 2013	TWD to USD	Sell USD200,000	January 2014
As of March 31, 2013	TWD to USD	Sell USD86,000	April 2013

Cross currency swap contracts	Contract amount	Maturity	Interest rate paid interval	Interest rate received interval
As of March 31, 2014	None	-	-	-
As of December 31, 2013	None	-	-	-
As of March 31, 2013	USD30,000	April 2013	-%	1.1%

The Company entered into forward foreign exchange contracts and cross currency swap contract to hedge foreign currency risk and interest rate 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 interest rate 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

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 three months ended March 31, 2014 and 2013 increases or decreases by NT\$133 thousand and decreases or increases by NT\$411 thousand, while equity decreases or increases by NT\$22,300 thousand and NT\$17,723 thousand, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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 three months ended March 31, 2014 and 2013 to increase/decrease by NT\$2,003 thousand and NT\$3,257 thousand, respectively.

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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 March 31, 2014, December 31, 2013, and March 31, 2013, receivables from top ten customers represent 63.37%, 65.45%, and 70.39% 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.

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.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****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 March 31, 2014</u>			
Borrowings	\$22,136,642	\$-	\$22,136,642
Trade payables (including related parties)	17,421,411	-	17,421,411
Other payables	20,927,023	-	20,927,023
Long-term payables	32,036	79,326	111,362
Total	<u>\$60,517,112</u>	<u>\$79,326</u>	<u>\$60,596,438</u>

As of December 31, 2013

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>

As of March 31, 2013

Borrowings	\$12,801,154	\$-	\$12,801,154
Trade payables (including related parties)	7,372,715	-	7,372,715
Other payables	8,571,783	-	8,571,783
Long-term payables	29,875	109,044	138,919
Total	<u>\$28,775,527</u>	<u>\$109,044</u>	<u>\$28,884,571</u>

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED 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 March 31, 2014</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$2,427,705	\$-	\$2,427,705
Outflow	(2,440,800)	-	(2,440,800)
Net	(13,095)	-	(13,095)
Net settlement			
Forward exchange contracts	(15,545)	-	(15,545)
Total	<u>\$ (28,640)</u>	<u>\$-</u>	<u>\$ (28,640)</u>
	<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 March 31, 2013</u>			
Gross settlement			
Forward exchange contracts and cross currency swap			
Inflow	\$1,490,000	\$-	\$1,490,000
Outflow	(1,493,620)	-	(1,493,620)
Net	(3,620)	-	(3,620)
Net settlement			
Forward exchange contracts	(6,565)	-	(6,565)
Total	<u>\$ (10,185)</u>	<u>\$-</u>	<u>\$ (10,185)</u>

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

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

(3) Significant assets and liabilities denominated in foreign currencies

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

March 31, 2014			
	Foreign Currency		
	(thousand)	Exchange rate	NTD (thousand)
<u>Financial assets</u>			
Monetary item:			
USD	\$3,408,992	30.510	\$104,008,333
CNY	\$725,473	4.907	\$3,559,694
Non-monetary item:			
USD	\$331,708	30.510	\$10,120,408
CNY	\$59,135	4.907	\$290,160
<u>Financial liabilities</u>			
Monetary item:			
USD	\$1,523,938	30.510	\$46,495,351
CNY	\$720,000	4.907	\$3,532,838
December 31, 2013			
	Foreign Currency		
	(thousand)	Exchange rate	NTD (thousand)
<u>Financial assets</u>			
Monetary item:			
USD	\$3,222,505	29.950	\$96,514,018
CNY	\$3,000	4.947	\$14,841
Non-monetary item:			
USD	\$312,787	29.950	\$9,367,985
CNY	\$58,203	4.947	\$287,924
<u>Financial liabilities</u>			
Monetary item:			
USD	\$1,528,514	29.950	\$45,778,992

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

	March 31, 2013		
	Foreign Currency		
	(thousand)	Exchange rate	NTD (thousand)
<u>Financial assets</u>			
Monetary item:			
USD	\$2,214,476	\$29.875	\$66,157,481
Non-monetary item:			
USD	\$242,337	\$29.875	\$7,239,811
<u>Financial liabilities</u>			
Monetary item:			
USD	\$684,514	\$29.875	\$20,449,842

(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

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