

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 NINE MONTHS THEN ENDED**

**September 30, 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 September 30, 2014 and September 30, 2013, the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2014 and 2013, and consolidated statements of changes in equity and cash flows for the nine months ended September 30, 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  
November 6, 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.

English Translation of Financial Statements Originally Issued in Chinese  
**MEDIATEK INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**As of September 30, 2014, December 31, 2013, and September 30, 2013**  
(September 30, 2014 and 2013 are unaudited)  
(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	September 30, 2014	%	December 31, 2013	%	September 30, 2013	%
<b>Current assets</b>							
Cash and cash equivalents	6(1)	\$ 185,070,345	55	\$ 132,997,726	52	\$ 107,616,875	45
Financial assets at fair value through profit or loss-current	6(2)	2,416,799	1	2,132,090	1	1,916,133	1
Available-for-sale financial assets-current	6(3)	6,474,655	2	3,426,121	1	3,153,172	1
Held-to-maturity financial assets-current	6(5)	433,281	-	549,573	-	391,931	-
Bond investments for which no active market exists-current	6(6), 8	326,149	-	113,678	-	113,636	-
Trade receivables, net	6(7)	15,418,455	5	7,627,591	3	11,059,054	5
Other receivables	6(7), 7	5,359,364	2	3,652,885	1	4,473,886	2
Current tax assets		44,528	-	30,226	-	66,708	-
Inventories, net	6(8)	24,463,919	7	9,346,792	4	12,938,160	6
Prepayments		2,203,998	1	1,404,263	1	953,692	-
Other current assets		1,314,836	-	459,984	-	609,465	-
Total current assets		<u>243,526,329</u>	<u>73</u>	<u>161,740,929</u>	<u>63</u>	<u>143,292,712</u>	<u>60</u>
<b>Non-current assets</b>							
Financial assets at fair value through profit or loss-noncurrent	6(2)	2,168,555	-	1,478,707	-	1,141,050	-
Available-for-sale financial assets-noncurrent	6(3)	4,560,665	1	4,487,354	2	4,202,699	2
Held-to-maturity financial assets-noncurrent	6(5)	123,136	-	341,937	-	491,490	-
Financial assets measured at cost-noncurrent	6(4)	3,422,408	1	2,061,563	1	1,797,297	1
Bond investments for which no active market exists-noncurrent	6(6), 8	924	-	364	-	355	-
Investments accounted for using the equity method	6(9)	1,903,406	1	59,669,761	23	58,907,116	25
Property, plant and equipment	6(10), 6(24)	16,736,187	5	11,312,107	4	11,187,612	5
Intangible assets	4, 6(11), 6(12), 6(24)	59,259,332	18	15,509,193	6	15,332,039	6
Deferred tax assets	6(22)	2,946,263	1	1,778,859	1	1,571,712	1
Refundable deposits		318,909	-	137,593	-	154,038	-
Long-term prepaid rent		116,898	-	118,495	-	116,730	-
Total non-current assets		<u>91,556,683</u>	<u>27</u>	<u>96,895,933</u>	<u>37</u>	<u>94,902,138</u>	<u>40</u>
<b>Total assets</b>		<u>\$ 335,083,012</u>	<u>100</u>	<u>\$ 258,636,862</u>	<u>100</u>	<u>\$ 238,194,850</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 September 30, 2014, December 31, 2013, and September 30, 2013**

(September 30, 2014 and 2013 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	Notes	September 30, 2014	%	December 31, 2013	%	September 30, 2013	%
<b>Current liabilities</b>							
Short-term borrowings	6(13)	\$ 43,453,914	13	\$ 29,051,500	11	\$ 19,760,220	8
Financial liabilities at fair value through profit or loss-current	6(2)	63,600	-	26,017	-	2,853	-
Trade payables		20,604,954	6	8,862,146	3	10,552,376	4
Trade payables to related parties	7	701,908	-	2,082,028	1	1,967,926	1
Other payables	7	29,798,732	9	16,835,299	7	15,263,714	6
Current tax liabilities	6(22)	6,249,519	2	3,151,805	1	2,143,614	1
Other current liabilities		1,475,474	1	1,345,847	1	1,242,342	1
Current portion of long-term liabilities		35,002	-	29,950	-	37,087	-
Total current liabilities		102,383,103	31	61,384,592	24	50,970,132	21
<b>Non-current liabilities</b>							
Long-term payables		60,872	-	86,855	-	93,460	-
Accrued pension liabilities	4, 6(14)	630,302	-	606,033	-	561,923	-
Deposits received	7	117,331	-	47,754	-	47,317	-
Deferred tax liabilities	6(22)	775,177	-	1,050,108	-	1,318,384	1
Non-current liabilities-others		136,937	-	108,121	-	104,161	-
Total non-current liabilities		1,720,619	-	1,898,871	-	2,125,245	1
Total liabilities		104,103,722	31	63,283,463	24	53,095,377	22
<b>Equity attributable to owners of the parent</b>							
Share capital	6(15)						
Common stock		15,710,215	5	13,494,667	5	13,494,088	6
Capital collected in advance		4,240	-	2,473	-	579	-
Capital surplus	6(15), 6(16)	87,900,019	26	68,474,910	26	68,376,380	29
Retained earnings	6(15)						
Legal reserve		27,392,687	8	24,641,182	10	24,641,182	10
Special reserve		895,749	-	5,072,425	2	5,072,425	2
Undistributed earnings		98,446,128	30	84,581,268	33	76,000,428	32
Other equity	6(15)	557,333	-	(895,749)	-	(2,472,422)	(1)
Treasury shares	6(15)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		230,850,401	69	195,315,206	76	185,056,690	78
<b>Non-controlling interests</b>	6(15)	128,889	-	38,193	-	42,783	-
Total equity		230,979,290	69	195,353,399	76	185,099,473	78
<b>Total liabilities and equity</b>		\$ 335,083,012	100	\$ 258,636,862	100	\$ 238,194,850	100

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

## MEDIATEK INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended September 30, 2014 and 2013

For the nine months ended September 30, 2014 and 2013

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

Description	Notes	Three Months Ended September 30				Nine Months Ended September 30			
		2014	%	2013	%	2014	%	2013	%
<b>Net sales</b>	6(17)	\$ 57,472,148	100	\$ 39,007,788	100	\$ 157,610,197	100	\$ 96,258,040	100
<b>Operating costs</b>	6(8), 6(18), 7	(29,238,133)	(51)	(21,867,352)	(56)	(80,326,717)	(51)	(54,642,635)	(57)
<b>Gross profit</b>		28,234,015	49	17,140,436	44	77,283,480	49	41,615,405	43
<b>Operating expenses</b>	6(18), 7								
Selling expenses		(1,521,020)	(3)	(1,204,733)	(3)	(4,727,159)	(3)	(3,155,418)	(3)
Administrative expenses		(1,380,947)	(2)	(994,767)	(3)	(4,332,801)	(3)	(2,536,687)	(2)
Research and development expenses		(11,537,947)	(20)	(7,074,994)	(18)	(30,856,165)	(19)	(19,082,405)	(20)
Total operating expenses		(14,439,914)	(25)	(9,274,494)	(24)	(39,916,125)	(25)	(24,774,510)	(25)
<b>Operating income</b>		13,794,101	24	7,865,942	20	37,367,355	24	16,840,895	18
<b>Non-operating income and expenses</b>									
Other income	6(19), 7	1,191,919	2	584,217	1	2,883,027	2	1,684,199	1
Other gains and losses	6(20), 6(24)	(74,949)	-	(61,957)	-	(117,079)	-	(321,561)	-
Finance costs	6(21)	(147,285)	-	(37,094)	-	(342,811)	-	(88,526)	-
Share of profit of associates accounted for using the equity method	6(9)	149,779	-	683,989	2	777,250	-	1,985,479	2
Total non-operating income and expenses		1,119,464	2	1,169,155	3	3,200,387	2	3,259,591	3
<b>Net income before income tax</b>		14,913,565	26	9,035,097	23	40,567,742	26	20,100,486	21
<b>Income tax expense</b>	6(22)	(1,612,328)	(3)	(618,870)	(1)	(4,578,556)	(3)	(1,232,045)	(1)
<b>Net income</b>		13,301,237	23	8,416,227	22	35,989,186	23	18,868,441	20
<b>Other comprehensive income</b>	6(9), 6(15)								
Exchange differences resulting from translating the financial statements of foreign operations		2,703,892	5	(893,233)	(3)	1,195,816	1	1,139,521	1
Unrealized gains (losses) from available-for-sale financial assets		750,970	1	(47,165)	-	292,200	-	593,270	1
Share of other comprehensive income of associates accounted for using the equity method		8,333	-	(867,522)	(2)	(11,296)	-	984,320	1
Income tax relating to components of other comprehensive income		-	-	-	-	-	-	-	-
<b>Other comprehensive income, net of tax</b>		3,463,195	6	(1,807,920)	(5)	1,476,720	1	2,717,111	3
<b>Total comprehensive income</b>		\$ 16,764,432	29	\$ 6,608,307	17	\$ 37,465,906	24	\$ 21,585,552	23
<b>Net income (loss) for the periods attributable to :</b>									
Owners of the parent	6(23)	\$ 13,299,240		\$ 8,428,301		\$ 36,005,012		\$ 18,892,168	
Non-controlling interests	6(15)	1,997		(12,074)		(15,826)		(23,727)	
		\$ 13,301,237		\$ 8,416,227		\$ 35,989,186		\$ 18,868,441	
<b>Total comprehensive income for the periods attributable to :</b>									
Owners of the parent		\$ 16,755,299		\$ 6,616,378		\$ 37,458,094		\$ 21,603,120	
Non-controlling interests	6(15)	9,133		(8,071)		7,812		(17,568)	
		\$ 16,764,432		\$ 6,608,307		\$ 37,465,906		\$ 21,585,552	
Basic Earnings Per Share (in New Taiwan Dollars)	6(23)	\$ 8.51		\$ 6.28		\$ 23.41		\$ 14.08	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(23)	\$ 8.46		\$ 6.26		\$ 23.28		\$ 14.03	

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 CHANGES IN EQUITY

For the nine months ended September 30, 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			Retained earnings			Other equity		Treasury shares			Equity attributable to owners of the parent
	Common stock	Capital collected in advance	Capital surplus	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
Appropriation and distribution of 2012 earnings:												
Legal reserve	-	-	-	1,568,753	-	(1,568,753)	-	-	-	-	-	-
Special reserve	-	-	-	-	2,862,113	(2,862,113)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(674,690)	-	-	-	(674,690)	-	(674,690)
Cash distributed from capital surplus	-	-	(11,469,734)	-	-	-	-	-	-	(11,469,734)	-	(11,469,734)
Total	-	-	(11,469,734)	1,568,753	2,862,113	(5,105,556)	-	-	-	(12,144,424)	-	(12,144,424)
Profit for the nine months ended September 30, 2013	-	-	-	-	-	18,892,168	-	-	-	18,892,168	(23,727)	18,868,441
Other comprehensive income for the nine months ended September 30, 2013	-	-	-	-	-	-	2,117,682	593,270	-	2,710,952	6,159	2,717,111
Total comprehensive income	-	-	-	-	-	18,892,168	2,117,682	593,270	-	21,603,120	(17,568)	21,585,552
Share-based payment transactions	386	477	57,454	-	-	-	-	-	-	58,317	-	58,317
Adjustments due to dividends that subsidiaries received from parent company	-	-	70,145	-	-	-	-	-	-	70,145	-	70,145
Change in other capital surplus	-	-	46,017	-	-	-	-	-	-	46,017	-	46,017
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	26,142	26,142
Balance as of September 30, 2013	\$ 13,494,088	\$ 579	\$68,376,380	\$24,641,182	\$ 5,072,425	\$76,000,428	\$ (3,644,803)	\$ 1,172,381	\$ (55,970)	\$ 185,056,690	\$ 42,783	\$ 185,099,473
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
Appropriation and distribution of 2013 earnings:												
Legal reserve	-	-	-	2,751,505	-	(2,751,505)	-	-	-	-	-	-
Special reserve	-	-	-	-	(4,176,676)	4,176,676	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(23,565,323)	-	-	-	(23,565,323)	-	(23,565,323)
Total	-	-	-	2,751,505	(4,176,676)	(22,140,152)	-	-	-	(23,565,323)	-	(23,565,323)
Profit for the nine months ended September 30, 2014	-	-	-	-	-	36,005,012	-	-	-	36,005,012	(15,826)	35,989,186
Other comprehensive income for the nine months ended September 30, 2014	-	-	-	-	-	-	1,160,882	292,200	-	1,453,082	23,638	1,476,720
Total comprehensive income	-	-	-	-	-	36,005,012	1,160,882	292,200	-	37,458,094	7,812	37,465,906
Share-based payment transactions	4,309	1,767	49,985	-	-	-	-	-	-	56,061	-	56,061
Shares issued to acquire a new entity	2,211,239	-	18,957,141	-	-	-	-	-	-	21,168,380	-	21,168,380
Adjustments due to dividends that subsidiaries received from parent company	-	-	116,911	-	-	-	-	-	-	116,911	-	116,911
Changes in ownership interests in subsidiaries	-	-	77,942	-	-	-	-	-	-	77,942	82,884	160,826
Change in other capital surplus	-	-	223,130	-	-	-	-	-	-	223,130	-	223,130
Balance as of September 30, 2014	\$ 15,710,215	\$ 4,240	\$87,900,019	\$27,392,687	\$ 895,749	\$98,446,128	\$ (1,243,759)	\$ 1,801,092	\$ (55,970)	\$ 230,850,401	\$ 128,889	\$ 230,979,290

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 nine months ended September 30, 2014 and 2013**  
(Amounts in thousands of New Taiwan Dollars)

Description	2014	2013
<b>Cash flows from operating activities :</b>		
Profit before tax from continuing operations	\$ 40,567,742	\$ 20,100,486
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	958,315	910,388
Amortization	1,079,725	418,269
Bad debt provision (reversal)	14,445	(48,467)
Loss (gain) on financial assets and liabilities at fair value through profit or loss	18,461	(10,003)
Interest expenses	342,811	88,526
Interest income	(2,322,611)	(1,249,972)
Dividend income	(201,049)	(138,764)
Share-based payment expenses	49,985	57,454
Share of profit of associates accounted for using the equity method	(777,250)	(1,985,479)
Loss on disposal of property, plant and equipment	1,561	1,509
(Gain) loss on disposal of investments	(894,939)	34,408
Impairment of financial assets	263,020	449,683
Changes in operating assets and liabilities :		
Financial assets at fair value through profit or loss	(891,016)	(890,211)
Trade receivables	(3,637,084)	(4,428,241)
Other receivables	(979,430)	571,067
Inventories	(11,333,860)	920,134
Prepayments	(668,324)	187,331
Other current assets	(847,946)	(183,403)
Trade payables	8,614,475	2,492,108
Trade payables to related parties	(1,381,152)	948,842
Other payables	8,621,600	1,814,607
Other current liabilities	68,398	632,203
Long-term payables	(20,931)	(12,219)
Accrued pension liabilities	23,666	6,169
Non-current liabilities-others	28,816	29,486
Cash generated from operating activities		
Interest received	2,023,564	1,281,444
Dividend received	303,233	1,709,997
Interest paid	(307,746)	(76,239)
Income tax paid	(4,790,762)	(681,900)
Net cash provided by operating activities	33,925,717	22,949,213
<b>Cash flows from investing activities :</b>		
Acquisition of available-for-sale financial assets	(3,271,101)	(919,693)
Proceeds from disposal of available-for-sale financial assets	411,849	1,229,268
Acquisition of bond investments for which no active market exists	(622,543)	(34)
Proceeds from disposal of bond investments for which no active market exists	411,668	-
Acquisition of held-to-maturity financial assets	-	(72,063)
Proceeds from disposal of held-to-maturity financial assets	634,620	-
Acquisition of financial assets measured at cost	(1,579,285)	(166,545)
Proceeds from disposal of financial assets measured at cost	930,174	299
Proceeds from capital return of financial assets measured at cost	27,482	141,847
Acquisition of investments accounted for using the equity method	(202,396)	(69,046)
Net cash inflows from acquisition of subsidiaries	33,097,485	-
Acquisition of property, plant and equipment	(3,073,986)	(1,248,503)
Proceeds from disposal of property, plant and equipment	90,747	26,614
(Increase) decrease in refundable deposits	(159,877)	52,355
Acquisition of intangible assets	(182,497)	(22,661)
Decrease (increase) in long-term prepaid rent	1,597	(2,383)
Net cash provided by (used in) investing activities	26,513,937	(1,050,545)
<b>Cash flows from financing activities :</b>		
Increase in short-term borrowings	14,436,372	10,756,970
Decrease in long-term borrowings	(651,000)	-
Increase in deposits received	46,094	17,084
Proceeds from exercise of employee stock options	208,987	12,388
Cash dividends	(23,448,412)	(12,074,279)
Increase in non-controlling interests	164,835	26,142
Net cash used in financing activities	(9,243,124)	(1,261,695)
Effect of changes in exchange rate on cash and cash equivalents	876,089	1,112,692
Net increase in cash and cash equivalents	52,072,619	21,749,665
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	\$ 185,070,345	\$ 107,616,875

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-(Continued)**

**(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 November 6, 2014.

**3. Newly Issued or Revised Standards and Interpretations**

- (1) Standards or interpretations issued, revised or amended, which 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:

<u>Standards or Interpretations Numbers</u>	<u>The Projects of Standards or Interpretations</u>	<u>Effective Dates</u>
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

(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)

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	“Income Taxes” (Amendment) - 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” (Amendment) - Presentation of Items of Other Comprehensive Income	July 1, 2012
IAS 19	“Employee Benefits” (Revision)	January 1, 2013
IFRS 1	“First-time Adoption of International Financial Reporting Standards” - Government Loans	January 1, 2013
IFRS 7	“Financial Instruments: Disclosures” (Amendment) - Disclosures - Offsetting Financial Assets and Financial Liabilities	January 1, 2013
IAS 32	“Financial Instruments: Presentation” (Amendment) - Offsetting Financial Assets and Financial Liabilities	January 1, 2014
IFRIC 20	“Stripping Costs in the Production Phase of a Surface Mine”	January 1, 2013
Improvements to International Financial Reporting Standards (2009-2011 cycle):		
IFRS 1	“First-time Adoption of International Financial Reporting Standards”	January 1, 2013
IAS 1	“Presentation of Financial Statements”	January 1, 2013

(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)

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IAS 16	“Property, Plant and Equipment”	January 1, 2013
IAS 32	“Financial Instruments: Presentation”	January 1, 2013
IAS 34	“Interim Financial Reporting”	January 1, 2013
IFRS 10	“Consolidated Financial Statements” (Amendment)	January 1, 2014

**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” (Amendment) - 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” (Revision)**

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”**

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. The Company has evaluated their impact to the Company’s financial position and performance and determined that there is no material impact. The Company will make necessary disclosures in accordance with the abovementioned standards and interpretations.

**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
IAS 19	"Employee Benefits" (Amendment) - 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
IFRS 11	"Joint Arrangements"- Joint operation (Amendment)	January 1, 2016
IAS 16 and IAS 38	"Property, Plant and Equipment" and "Intangible Assets" (Amendment) - Clarification of Acceptable Methods of Depreciation and Amortization.	January 1, 2016
IFRS 15	"Revenue from Contracts with Customers"	January 1, 2017
IAS 16 and IAS 41	"Agriculture: Bearer Plants" (Amendment)	January 1, 2016
IFRS 9	"Financial Instruments"	January 1, 2018

(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)

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IAS 27	“Separate Financial Statements” - Equity Method in Separate Financial Statements (Amendment)	January 1, 2016
IFRS 10 and IAS 28	“Consolidated Financial Statements” and “Investments in Associates and Joint Ventures” (Amendment) - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures.	January 1, 2016
Improvements to International Financial Reporting Standards (2012-2014 cycle):		
IFRS 5	“Non-current Assets Held for Sale and Discontinued Operations”	January 1, 2016
IFRS 7	“Financial Instruments: Disclosures”	January 1, 2016
IAS 19	“Employee Benefits”	January 1, 2016
IAS 34	“Interim Financial Reporting”	January 1, 2016

**A. 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.

**B. 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.

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

C. 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.

D. IFRS 15 “Revenue from Contracts with Customers”

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

E. IFRS 9 “Financial Instruments”

The IASB has issued the final version of IFRS 9, which combines classification and measurement, impairment and hedge accounting. The standard will replace IAS 39 “Financial Instruments: Recognition and Measurement” and all previous versions of IFRS 9 “Financial Instruments” (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity’s business model for managing the financial assets and the financial asset’s contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that ‘own credit risk’ adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

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~E, it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations have no material impact on the Company.

**4. Summary of Significant Accounting Policies**

*Statement of Compliance*

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and 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
			September 30, 2014	December 31, 2013	September 30, 2013	
MTK	MediaTek Investment Corp.	General investing	-	100%	100%	1
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%	2
MTK	MediaTek Investment Singapore Pte. Ltd.	General investing	100%	-	-	1&3
MTK	T-Rich Technology (Cayman) Corp.	General investing	100%	-	-	2
Hsu-Ta Investment Corp.	Core Tech Resources Inc.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Capital Corp.	General investing	100%	-	-	4
Hsu-Ta Investment Corp.	MediaTek Bangalore Private Limited	Research	0%	-	-	5
MediaTek Investment Corp.	MediaTek Capital Corp.	General investing	-	100%	100%	4
MediaTek Investment Corp.	Gaintech Co. Limited	General investing	-	100%	100%	1
Ralink Technology Corp.	T-Rich Technology (Cayman) Corp.	General investing	-	100%	100%	2
Ralink Technology Corp.	MediaTek USA Inc.	Research	-	11%	11%	2
T-Rich Technology (Cayman) Corp.	T-Rich Technology Corp.	Research, manufacturing and sales	-	-	100%	6
MediaTek Singapore Pte. Ltd.	MTK Wireless LLC (Dubai)	Technology services	-	100%	100%	7
MediaTek Capital Corp.	RollTech Technology Co., Ltd.	Software development	67%	67%	67%	-

(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
			September 30, 2014	December 31, 2013	September 30, 2013	
MediaTek Capital Corp.	E-Vehicle Semiconductor Technology Co., Ltd.	Research, manufacturing and sales	72%	72%	72%	-
Core Tech Resources Inc.	MediaTek India Technology Pvt. Ltd.	Research	0%	0%	0%	-
Gaintech Co. Limited	MediaTek China Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	MTK Wireless Limited (UK)	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek Denmark Aps	Research	-	100%	100%	8
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%	9
Gaintech Co. Limited	MediaTek USA Inc.	Research	-	89%	89%	8
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	MediaTek Sweden AB	Research	-	100%	100%	8
Gaintech Co. Limited	EcoNet (Cayman) Inc.	General investing	100%	100%	100%	-
Gaintech Co. Limited	MediaTek Wireless FZ-LLC	Technology services	100%	100%	-	10
MediaTek China Limited	MediaTek (Hefei) 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
			September 30, 2014	December 31, 2013	September 30, 2013	
MediaTek China Limited	MediaTek (Beijing) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Shenzhen) Inc.	Research and Technology services	100%	100%	100%	-
MediaTek China Limited	MediaTek (Chengdu) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Wuhan) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Shanghai) Inc.	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Sweden AB	Research	100%	-	-	8
MTK Wireless Limited (UK)	MediaTek USA Inc.	Research	100%	-	-	2&8
MTK Wireless Limited (UK)	MediaTek Denmark Aps	Research	100%	-	-	8
MediaTek USA Inc.	Ralink Technology Corporation (USA)	Research	-	100%	100%	11
Vogins Technology Co. Ltd.	Vogins Technology (Shanghai) Co., Ltd.	Software development	-	-	100%	9
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 Holdings Corp.	General investing	100%	100%	100%	-
E-Vehicle Holdings Corp.	E-Vehicle Investment 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
			September 30, 2014	December 31, 2013	September 30, 2013	
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%	100%	-
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	Research, manufacturing and sales	100%	100%	100%	-
EcoNet (HK) Limited	EcoNet (Suzhou) Limited	Research, manufacturing and sales	100%	-	-	12
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	89%	100%	-	13
MediaTek Investment Singapore Pte. Ltd.	MStar Semiconductor B.V.	General investing	100%	-	-	3
MediaTek Investment Singapore Pte. Ltd.	Lightup International Corp.	General investing	100%	-	-	3
MediaTek Investment Singapore Pte. Ltd.	MediaTek Bangalore Private Limited	Research	100%	-	-	5
MediaTek Investment Singapore Pte. Ltd.	Gaintech Co. Limited	General investing	100%	-	-	1
MStar Semiconductor B.V.	MStar Semiconductor, Inc.	Research, manufacturing and sales	100%	-	-	3
MStar Semiconductor B.V.	White Dwarf Limited	General investing	100%	-	-	3
White Dwarf Limited	MStar India Private Limited	Research	100%	-	-	3
MStar Semiconductor, Inc.	MStar France SAS	Software development	100%	-	-	3
MStar Semiconductor, Inc.	Shunfonger Investment Holding Limited	General investing	100%	-	-	3

(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
			September 30, 2014	December 31, 2013	September 30, 2013	
MStar Semiconductor, Inc.	IStar Technology Ltd.	General investing and sales	100%	-	-	3
MStar Semiconductor, Inc.	MStar Co., Ltd.	General investing	100%	-	-	3
MStar Semiconductor, Inc.	Digimoc Holdings Limited	General investing	100%	-	-	3
MStar Semiconductor, Inc.	MStar Semiconductor UK Ltd.	Software and customer development	100%	-	-	3
IStar Technology Ltd.	IStar (HK) Technology Ltd.	General investing and sales	100%	-	-	3
MStar Co. Ltd.	MStar Software R&D (Shenzhen), Ltd.	Software and customer development	100%	-	-	3
Digimoc Holdings Limited	Bubbly Bay Holdings Limited	General investing	100%	-	-	3
MStar Software R&D (Shenzhen), Ltd.	MStar Chen Si Electronics Technology (Shanghai) Co., Ltd.	Research and technology services	100%	-	-	3

1. For the purpose of reorganization, MediaTek Investment Corp. was dissolved due to the merger with MStar Semiconductor Pte. Ltd. in April 2014. MStar Semiconductor Pte. Ltd. was renamed MediaTek Investment Singapore Pte. Ltd. The 100% ownership of Gaintech Co. Limited, which was previously owned by MediaTek Investment Corp., was therefore assumed by MediaTek Investment Singapore Pte. Ltd.
2. For the purpose of reorganization, Ralink Technology Corp. was dissolved due to the merger with MTK in April 2014. MTK assumed 100% shares of T-Rich Technology (Cayman) Corp. and 11% shares of MediaTek USA Inc. which were previously owned by Ralink Technology Corp. Afterward, MTK transferred all shares of MediaTek USA Inc. to MTK Wireless Limited (UK) in April 2014.
3. 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. Moreover, one of its subsidiaries Cheng Du All Fresh Food Co., Ltd. has been dissolved in March 2014.
4. For the purpose of reorganization MediaTek Investment Corp. carved out MediaTek Capital Corp. and transferred all its shares to Hsu-Ta Investment Corp. in January, 2014.
5. MediaTek Investment Singapore Pte. Ltd. and Hsu-Ta Investment Corp. established MediaTek Bangalore Private Limited in May 2014.

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

6. For the purpose of reorganization, T-Rich Technology Corp. has been liquidated and returned its capital in December 2013.
7. For the purpose of reorganization, MediaTek Wireless LLC (Dubai) has been liquidated and returned its capital in September 2014.
8. For the purpose of reorganization, 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. Moreover, MTK Wireless Limited (UK) acquired 11% shares of MediaTek USA Inc. from MTK in April 2014.
9. 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.
10. Gaintech Co. Limited established MediaTek Wireless FZ-LLC in November 2013.
11. For the purpose of reorganization, Ralink Technology Corporation (USA) was dissolved due to the merger with MediaTek USA Inc. in July 2014.
12. EcoNet (HK) Limited established EcoNet (Suzhou) Limited in April 2014.
13. 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.

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.

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

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 business combinations. 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	2~7 years	2~5 years	7 years	2~7 years

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

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**

	September 30, 2014	December 31, 2013	September 30, 2013
Cash on hand and petty cash	\$ 1,765	\$ 1,102	\$ 1,173
Checking and savings accounts	24,079,039	13,315,702	12,571,160
Time deposits	160,989,541	119,680,922	95,044,542
Total	<u>\$ 185,070,345</u>	<u>\$ 132,997,726</u>	<u>\$ 107,616,875</u>

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

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.

**(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:

	September 30, 2014	December 31, 2013	September 30, 2013
<b><u>Current</u></b>			
Exchange rate-linked deposits	\$ 1,221,841	\$ 721,039	\$ 742,355
Interest rate-linked deposits	879,507	562,835	234,820
Credit-linked deposits	295,351	319,603	643,871
Convertible bonds	-	221,777	-
Index-linked deposits	-	297,942	289,457
Subtotal	2,396,699	2,123,196	1,910,503
<b><u>Noncurrent</u></b>			
Credit-linked deposits	1,366,775	823,058	549,433
Exchange rate-linked deposits	466,831	-	-
Index-linked deposits	275,294	-	-
Convertible bonds	59,655	94,583	35,735
Bonds- Reverse Repo	-	289,332	286,315
Interest rate-linked deposits	-	271,734	269,567
Subtotal	2,168,555	1,478,707	1,141,050
Total	\$ 4,565,254	\$ 3,601,903	\$ 3,051,553

Financial assets and financial liabilities held for trading:

	September 30, 2014	December 31, 2013	September 30, 2013
<b><u>Current assets</u></b>			
Forward exchange contracts	\$ 10,519	\$ 8,894	\$ 5,630
Stocks	9,238	-	-
Cross currency swap contracts	343	-	-
Total	\$ 20,100	\$ 8,894	\$ 5,630

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

	September 30, 2014	December 31, 2013	September 30, 2013
<u>Current liabilities</u>			
Forward exchange contracts	\$ 63,600	\$ 26,017	\$ 2,853

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

**(3) Available-for-sale financial assets**

	September 30, 2014	December 31, 2013	September 30, 2013
<u>Current</u>			
Stocks	\$ 4,562,071	\$ 1,746,775	\$ 1,278,031
Funds	1,793,577	1,570,378	1,766,881
Bonds	88,280	86,391	85,215
Depository receipts	30,727	22,577	23,045
Subtotal	6,474,655	3,426,121	3,153,172
<u>Noncurrent</u>			
Funds	2,889,754	2,838,444	2,589,110
Bonds	1,670,911	1,648,910	1,613,589
Subtotal	4,560,665	4,487,354	4,202,699
Total	\$ 11,035,320	\$ 7,913,475	\$ 7,355,871

Available-for-sale financial assets were not pledged.

**(4) Financial assets measured at cost**

	September 30, 2014	December 31, 2013	September 30, 2013
<u>Available-for-sale financial assets-noncurrent</u>			
Capital	\$ 2,247,833	\$ 1,156,489	\$ 1,088,377
Non-publicly traded stocks	1,174,575	905,074	708,920
Total	\$ 3,422,408	\$ 2,061,563	\$ 1,797,297

Financial assets measured at cost were not pledged.

**(5) Held-to-maturity financial assets**

	September 30, 2014	December 31, 2013	September 30, 2013
<u>Current</u>			
Bonds	\$ 433,281	\$ 549,573	\$ 391,931
<u>Noncurrent</u>			
Bonds	123,136	341,937	491,490
Total	\$ 556,417	\$ 891,510	\$ 883,421

Held-to-maturity financial assets 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)****(6) Bond investments for which no active market exists**

	September 30, 2014	December 31, 2013	September 30, 2013
<u>Current</u>			
Bonds	\$ 223,083	\$ -	\$ -
Time deposits	103,066	113,678	113,636
Subtotal	326,149	113,678	113,636
<u>Noncurrent</u>			
Time deposits	924	364	355
Total	\$ 327,073	\$ 114,042	\$ 113,991

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

**(7) Trade receivables**

	September 30, 2014	December 31, 2013	September 30, 2013
Trade receivables	\$ 23,000,413	\$ 14,706,067	\$ 15,415,242
Less: allowance for doubtful debts	(149,362)	(84,875)	(115,572)
Less: allowance for sales returns and discounts	(7,432,596)	(6,993,601)	(4,240,616)
Total	\$ 15,418,455	\$ 7,627,591	\$ 11,059,054

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	-	14,445	14,445
Effect of acquisition of subsidiaries	-	50,000	50,000
Exchange differences	-	42	42
As of September 30, 2014	\$ -	\$ 149,362	\$ 149,362

**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	-	(48,467)	(48,467)
Exchange differences	-	1,180	1,180
As of September 30, 2013	\$ -	\$ 115,572	\$ 115,572

Aging analysis of trade receivables that were 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	
September 30, 2014	\$ 14,873,469	\$ 544,986	\$ -	\$ 15,418,455
December 31, 2013	\$ 7,383,181	\$ 243,386	\$ 1,024	\$ 7,627,591
September 30, 2013	\$ 10,396,548	\$ 661,996	\$ 510	\$ 11,059,054

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 September 30, 2014, December 31, 2013, and September 30, 2013. Receivables from banks due to factoring agreement were NT\$3,159,483 thousand, NT\$2,697,718 thousand, and NT\$3,282,816 thousand, respectively.

As of September 30, 2014, December 31, 2013, and September 30, 2013, trade receivables derecognized were as follows:

## A. As of September 30, 2014:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 74,361	\$ -	\$ 74,361	\$ 108,554
BNP Paribas	-	22,926	-	22,926	100,000
HSBC	-	776	-	776	800
TC Bank	-	5,744	-	5,744	16,500
Total		\$ 103,807	\$ -	\$ 103,807	\$ 225,854

**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 September 30, 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	-	\$ 74,150	\$ -	\$ 74,150	\$ 152,863
BNP Paribas	-	30,967	-	30,967	100,000
HSBC	-	443	-	443	468
TC Bank	-	5,084	-	5,084	13,500
Total		\$ 110,644	\$ -	\$ 110,644	\$ 266,831

## (8) Inventories

	September 30, 2014	December 31, 2013	September 30, 2013
Raw materials	\$ 1,319,650	\$ 4,787	\$ 5,210
Work in progress	19,280,642	7,320,888	10,995,613
Finished goods	11,883,920	5,268,422	5,988,519
Total	32,484,212	12,594,097	16,989,342
Less: allowance for inventory valuation losses	(8,020,293)	(3,247,305)	(4,051,182)
Net amount	\$ 24,463,919	\$ 9,346,792	\$ 12,938,160

For the three months ended September 30, 2014 and 2013, the cost of inventories recognized in expenses amounted to NT\$29,238,133 thousand and NT\$21,867,352 thousand, including the reversal gain of the write-down of inventories of NT\$120,679 thousand for the three months ended September 30, 2014 because of circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed and the write-down of inventories of NT\$402,356 thousand for the three months ended September 30, 2013.

**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 nine months ended September 30, 2014 and 2013, the cost of inventories recognized in expenses amounted to NT\$80,326,717 thousand and NT\$54,642,635 thousand, including the write-down of inventories of NT\$3,682,739 thousand and NT\$2,070,865 thousand for the nine months ended September 30, 2014 and 2013.

No inventories were pledged.

**(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	September 30, 2014		December 31, 2013		September 30, 2013	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
MStar Semiconductor, Inc. (Cayman)	\$ -	-	\$ 58,192,878	48	\$ 57,531,725	48
Airoha Technology Corp.	471,165	30	284,779	32	270,164	32
Shenzhen Huiding Technology Co., Ltd.	913,338	24	704,232	24	634,248	24
Alpha Imaging Technology Corp.	130,021	15	135,913	15	137,640	15
Others	388,882	-	351,959	-	333,339	-
Total	<u>\$ 1,903,406</u>		<u>\$ 59,669,761</u>		<u>\$ 58,907,116</u>	

The carrying amount of investments in the associates for which there are published price quotations amounted to NT\$130,021 thousand, NT\$58,328,791 thousand, and NT\$57,669,365 thousand, as of September 30, 2014, December 31, 2013, and September 30, 2013, respectively. The fair values of these investments were NT\$131,478 thousand, NT\$88,354,325 thousand, and NT\$69,554,354 thousand, as of September 30, 2014, December 31, 2013, and September 30, 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 share of profit of these associates accounted for using the equity method amounted to NT\$149,779 thousand and NT\$683,989 thousand for the three months ended September 30, 2014 and 2013, respectively. The share of profit of these associates accounted for using the equity method amounted to NT\$777,250 thousand and NT\$1,985,479 thousand for the nine months ended September 30, 2014 and 2013, respectively. The share of other comprehensive income of these associates accounted for using the equity method amounted to NT\$8,333 thousand and NT\$(867,522) thousand for the three months then ended September 30, 2014 and 2013, respectively. The share of other comprehensive income of these associates accounted for using the equity method amounted to NT\$(11,296) thousand and NT\$984,320 thousand for the nine months ended September 30, 2014 and 2013, respectively.

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

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 associates was pledged.

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

	September 30, 2014	December 31, 2013	September 30, 2013
Total assets	\$ 7,953,854	\$ 49,504,796	\$ 47,072,342
Total liabilities	\$ 1,551,220	\$ 11,080,916	\$ 10,002,067

  

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Net Sales	\$ 2,032,381	\$ 10,636,491	\$ 5,210,051	\$ 29,348,025
Net Income	\$ 670,450	\$ 2,003,965	\$ 1,485,924	\$ 4,882,037

**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	179,859	95,620	7,410	445,644	957,426	154,140	1,382,815	3,222,914
Additions-acquired through business combinations	1,857,153	1,096,303	95,698	-	67,590	114,219	15,457	3,246,420
Disposals	-	(13,270)	(156,184)	(113,610)	(145,674)	(285,358)	-	(714,096)
Transfers	-	364,495	-	26,784	72,460	(1,220)	(464,581)	(2,062)
Exchange differences	3,669	13,364	626	5,775	503	1,153	1,143	26,233
As of September 30, 2014	<u>\$ 3,314,550</u>	<u>\$10,635,499</u>	<u>\$ 70,225</u>	<u>\$ 2,651,697</u>	<u>\$ 4,203,493</u>	<u>\$ 1,175,334</u>	<u>\$ 1,946,086</u>	<u>\$ 23,996,884</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	-	310,032	1,921	173,246	211,606	17,414	592,069	1,306,288
Disposals	-	(12,589)	(20,216)	(53,702)	(75,342)	(10,135)	-	(171,984)
Transfers	-	1,929,870	(270)	(1,276)	14,418	4,117	(1,949,393)	(2,534)
Exchange differences	-	5,390	14,027	22,401	15,155	164	69,650	126,787
As of September 30, 2013	<u>\$ 1,273,869</u>	<u>\$ 9,022,010</u>	<u>\$ 121,223</u>	<u>\$ 2,212,341</u>	<u>\$ 3,178,889</u>	<u>\$ 1,177,790</u>	<u>\$ 853,819</u>	<u>\$ 17,839,941</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	-	216,564	16,786	264,222	318,638	142,105	-	958,315
Disposals	-	(11,882)	(116,826)	(108,859)	(120,236)	(263,985)	-	(621,788)
Transfers	-	-	-	-	-	206	-	206
Exchange differences	-	4,798	305	4,124	1,607	7,762	-	18,596
As of September 30, 2014	<u>\$ -</u>	<u>\$ 2,018,761</u>	<u>\$ 8,974</u>	<u>\$ 1,861,103</u>	<u>\$ 2,596,830</u>	<u>\$ 775,029</u>	<u>\$ -</u>	<u>\$ 7,260,697</u>
As of January 1, 2013	\$ -	\$ 1,591,536	\$ 108,287	\$ 1,390,119	\$ 2,065,704	\$ 693,244	\$ -	\$ 5,848,890
Depreciation	-	162,330	5,274	287,932	306,634	148,218	-	910,388
Disposals	-	(6,749)	(20,227)	(48,806)	(59,110)	(8,969)	-	(143,861)
Transfers	-	(117)	(5)	-	291	(143)	-	26
Exchange differences	-	904	13,648	4,348	3,407	14,579	-	36,886
As of September 30, 2013	<u>\$ -</u>	<u>\$ 1,747,904</u>	<u>\$ 106,977</u>	<u>\$ 1,633,593</u>	<u>\$ 2,316,926</u>	<u>\$ 846,929</u>	<u>\$ -</u>	<u>\$ 6,652,329</u>
Net carrying amount as of:								
September 30, 2014	<u>\$ 3,314,550</u>	<u>\$ 8,616,738</u>	<u>\$ 61,251</u>	<u>\$ 790,594</u>	<u>\$ 1,606,663</u>	<u>\$ 400,305</u>	<u>\$ 1,946,086</u>	<u>\$ 16,736,187</u>
December 31, 2013	<u>\$ 1,273,869</u>	<u>\$ 7,269,706</u>	<u>\$ 13,966</u>	<u>\$ 585,488</u>	<u>\$ 854,367</u>	<u>\$ 303,459</u>	<u>\$ 1,011,252</u>	<u>\$ 11,312,107</u>
September 30, 2013	<u>\$ 1,273,869</u>	<u>\$ 7,274,106</u>	<u>\$ 14,246</u>	<u>\$ 578,748</u>	<u>\$ 861,963</u>	<u>\$ 330,861</u>	<u>\$ 853,819</u>	<u>\$ 11,187,612</u>

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	-	209,088	-	(26,591)	-	182,497
Additions-acquired through business combinations	373,989	101,587	2,511,002	2,500,694	39,085,832	44,573,104
Disposals	-	(41,062)	-	(729,587)	-	(770,649)
Transfers	-	541	-	1,051	-	1,592
Exchange differences	739	457	4,958	8,227	68,603	82,984
As of September 30, 2014	<u>\$ 407,130</u>	<u>\$ 940,294</u>	<u>\$ 2,515,960</u>	<u>\$ 6,024,918</u>	<u>\$ 53,119,731</u>	<u>\$ 63,008,033</u>
As of January 1, 2013	\$ 32,985	\$ 1,005,067	\$ -	\$ 8,083,810	\$ 13,949,611	\$ 23,071,473
Additions-acquired separately	-	19,977	-	2,684	-	22,661
Transfers	-	2,560	-	-	-	2,560
Exchange differences	-	(277)	-	8,260	10,263	18,246
Others	(583)	(24,266)	-	(16,936)	-	(41,785)
As of September 30, 2013	<u>\$ 32,402</u>	<u>\$ 1,003,061</u>	<u>\$ -</u>	<u>\$ 8,077,818</u>	<u>\$ 13,959,874</u>	<u>\$ 23,073,155</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	41,301	229,101	237,669	571,654	-	1,079,725
Disposals	-	(41,062)	-	(729,587)	-	(770,649)
Transfers	-	(1,108)	-	432	-	(676)
Exchange differences	-	3,035	-	7,954	-	10,989
As of September 30, 2014	<u>\$ 73,703</u>	<u>\$ 744,875</u>	<u>\$ 237,669</u>	<u>\$ 2,692,454</u>	<u>\$ -</u>	<u>\$ 3,748,701</u>
As of January 1, 2013	\$ 18,046	\$ 828,805	\$ -	\$ 6,497,174	\$ -	\$ 7,344,025
Amortization	10,767	96,945	-	310,557	-	418,269
Exchange differences	-	(343)	-	3,495	-	3,152
Others	-	(24,284)	-	(46)	-	(24,330)
As of September 30, 2013	<u>\$ 28,813</u>	<u>\$ \$901,123</u>	<u>\$ -</u>	<u>\$ \$6,811,180</u>	<u>\$ -</u>	<u>\$ 7,741,116</u>
Net carrying amount as of:						
September 30, 2014	<u>\$ 333,427</u>	<u>\$ 195,419</u>	<u>\$ 2,278,291</u>	<u>\$ 3,332,464</u>	<u>\$ 53,119,731</u>	<u>\$ 59,259,332</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>
September 30, 2013	<u>\$ 3,589</u>	<u>\$ 101,938</u>	<u>\$ -</u>	<u>\$ 1,266,638</u>	<u>\$ 13,959,874</u>	<u>\$ 15,332,039</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 budget. 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 nine months ended September 30, 2014 and 2013.

**(13) Short-term borrowings**

	September 30, 2014	December 31, 2013	September 30, 2013
Unsecured bank loans	\$ 43,421,216	\$ 29,051,500	\$ 19,760,220
Secured bank loans	32,698	-	-
Total	<u>\$ 43,453,914</u>	<u>\$ 29,051,500</u>	<u>\$ 19,760,220</u>
Interest rates	<u>0.73~3.85%</u>	<u>0.75~2.55%</u>	<u>0.75~1.10%</u>
Unused lines of credits	<u>\$ 15,384,808</u>	<u>\$ 5,988,350</u>	<u>\$ 13,608,390</u>

Please refer to Note 8 for more details of collateral for secured bank loans.

**(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 September 30, 2014 and 2013 were NT\$252,922 thousand and NT\$183,003 thousand, respectively. Pension expenses under the defined contribution plan for the nine months ended September 30, 2014 and 2013 were NT\$706,547 thousand and NT\$523,396 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)**

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.

Pension expenses under the defined benefits for the three months ended September 30, 2014 and 2013 were NT\$4,132 thousand and NT\$2,679 thousand. Pension expenses under the defined benefits plan amount to NT\$12,326 thousand and NT\$8,036 thousand for the nine months ended September 30, 2014 and 2013.

(15) Equity

A. Share capital

MTK's authorized capital as of September 30, 2014, December 31, 2013, and September 30, 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\$15,710,215 thousand, NT\$13,494,667 thousand, and NT\$13,494,088 thousand, divided into 1,571,021,521 shares, 1,349,466,701 shares, and 1,349,408,756 shares as of September 30, 2014, December 31, 2013 and September 30, 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.

MTK totally issued 607,673 new shares and 86,287 new shares for the nine months ended September 30, 2014 and 2013, respectively, at par value of NT\$10 for the employee stock options exercised. Furthermore, 424,023 shares (NT\$4,240 thousand in the amount), 247,293 shares (NT\$2,473 thousand in the amount), and 57,945 shares (NT\$579 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance as of September 30, 2014, December 31, 2013, and September 30, 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)****B. Capital surplus**

	September 30, 2014	December 31, 2013	September 30, 2013
Additional paid-in capital	\$ 85,682,481	\$ 66,585,671	\$ 66,573,500
Treasury share transactions	1,198,502	1,081,591	1,081,591
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	149,965	149,965	151,548
Changes in ownership interests in subsidiaries	90,071	12,129	-
Donated assets	1,261	1,260	1,260
From share of changes in net assets of associates	71,109	51,144	50,832
Employee stock options	451,827	401,842	383,497
Others	254,803	191,308	134,152
Total	<u>\$ 87,900,019</u>	<u>\$ 68,474,910</u>	<u>\$ 68,376,380</u>

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

**C. Treasury shares**

As of September 30, 2014, December 31, 2013, and September 30, 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 September 30, 2014, December 31, 2013, and September 30, 2013, MTK did not hold any other treasury shares.

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

**D. Retained earnings and dividend policy**

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

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

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

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

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.

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

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 amounted to nil.

During the nine months ended September 30, 2014 and 2013, the amounts of the employees' bonuses were estimated to be NT\$2,242,333 thousand and NT\$1,092,627 thousand, respectively. During the nine months ended September 30, 2014 and 2013, the amounts of remunerations to directors and supervisors were estimated to be NT\$56,648 thousand and NT\$26,662 thousand, respectively. The employees' bonuses were estimated based on a specific rate of net income for the nine months ended September 30, 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 and 2012 were resolved by the board of directors' meeting on April 30, 2014 and May 10, 2013, while the appropriations of earnings for 2013 and 2012 were resolved by general shareholders' meeting on June 12, 2014 and June 21, 2013. The amounts resolved in the shareholders' general meeting were consistent with those determined by the board of directors.

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

	Appropriation of earnings		Dividend per share (NT\$)	
	2013	2012	2013	2012
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.

The difference between the resolution of the shareholders' general meeting and the estimated expense of the directors' and supervisors' remuneration and the employees' bonuses for 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 adjusted 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.

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

	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains from available-for-sale financial assets	Total
As of January 1, 2014	\$ (2,404,641)	\$ 1,508,892	\$ (895,749)
Exchange differences resulting from translating the financial statements of foreign operations	1,172,178	-	1,172,178
Unrealized gains from available-for-sale financial assets	-	234,496	234,496
Unrealized gains reclassified to profit or loss from available-for-sale financial assets	-	57,704	57,704
Share of other comprehensive income of associates accounted for using equity method	(11,296)	-	(11,296)
As of September 30, 2014	\$ (1,243,759)	\$ 1,801,092	\$ 557,333

  

	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	1,133,362	-	1,133,362
Unrealized gains from available-for-sale financial assets	-	459,190	459,190
Unrealized gains reclassified to profit or loss from available-for-sale financial assets	-	134,080	134,080
Share of other comprehensive income of associates accounted for using equity method	984,320	-	984,320
As of September 30, 2013	\$ (3,644,803)	\$ 1,172,381	\$ (2,472,422)



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

## F. Non-controlling interests

	Nine months ended September 30	
	2014	2013
Beginning balance	\$ 38,193	\$ 34,209
Loss attributable to non-controlling interests	(15,826)	(23,727)
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	23,638	6,159
Changes in ownership interests in subsidiaries	82,884	26,142
Ending balance	<u>\$ 128,889</u>	<u>\$ 42,783</u>

## (16) Share-based payment plans

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

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

Detail information relevant to the share-based payment plan is disclosed as follows:

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NT\$) (Note)
2008.03.31	1,134,119	304,454	304,454	\$ 358.0
2008.08.28	1,640,285	496,926	496,926	344.5
2009.08.18	1,382,630	590,861	590,861	429.5
2010.08.27	1,605,757	731,575	731,575	404.8
2010.11.04	65,839	14,634	8,778	377.0
2011.08.24	2,109,871	1,301,877	679,399	277.4
2012.08.14	1,346,795	1,070,888	294,444	286.8
2013.08.22	1,436,343	1,314,433	-	368.0

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

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.

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

Employee Stock Option	Nine months ended September 30			
	2014		2013	
	Options	Weighted-average Exercise Price per Share (NT\$)	Options	Weighted-average Exercise Price per Share (NT\$)
Outstanding at beginning of period	6,641,191	\$ 341.3	6,045,493	\$ 332.7
Granted	-	-	1,436,343	368.0
Exercised	(607,673)	343.9	(39,183)	296.4
Forfeited (Expired)	(207,870)	332.5	(389,716)	298.9
Outstanding at end of period	5,825,648	341.1	7,052,937	267.0
Exercisable at end of period	3,106,437		2,897,870	
Weighted-average fair value of options granted during the period (in NT\$)	\$ -		\$ 96.5	

The weighted average share price at the date of exercise of those options were NT\$478.1 and NT\$367.8 for nine months then ended September 30, 2014 and 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 information on the outstanding share-based payment plan as of September 30, 2014 and 2013 is as follows:

		Nine months ended September 30			
		2014		2013	
		Outstanding stock options		Outstanding stock options	
		Weighted-average	Weighted-average	Weighted-average	Weighted-average
		Expected	Exercise Price	Expected	Exercise Price
		Remaining	per Share	Remaining	per Share
Date of grant	Range of Exercise Price (NT\$)	Years	(NT\$)	Years	(NT\$)
2007.12.19	\$ 344.5~358.0	0.25	\$ 349.6	1.25	\$ 349.7
2009.07.27	429.5	1.38	429.5	2.38	431.0
2010.05.10	377.0~404.8	2.42	404.3	3.42	404.3
2011.08.09	277.4	3.42	277.4	4.42	277.4
2012.08.09	286.8	4.38	286.8	5.38	286.8
2013.08.09	368.0	5.42	368.0	6.42	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.

The employee stock options issued by MTK to replace Ralink's share-based payment all expired in 2013. For the summary of the weighted-average exercise price of the options granted to replace Ralink's options for the nine months ended September 30, 2013, please refer to the consolidated financial statements for the nine months ended September 30, 2013.

The expense recognized for employee services received for the nine months ended September 30, 2014 and 2013, is shown in the following table:

		Nine months ended September 30	
		2014	2013
Total equity-settled transactions	\$	49,985	\$ 57,454

There have been no cancellations or modifications to any of the plans during the nine months ended September 30, 2014 and 2013.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(17)Sales**

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Sale of goods	\$ 68,726,873	\$ 44,424,671	\$ 183,302,814	\$ 109,546,091
Other operating revenues	60,354	228,633	1,303,459	572,154
Less: Sales returns and discounts	(11,315,079)	(5,645,516)	(26,996,076)	(13,860,205)
Net sales	<u>\$ 57,472,148</u>	<u>\$ 39,007,788</u>	<u>\$ 157,610,197</u>	<u>\$ 96,258,040</u>

**(18)Summary statement of employee benefits, depreciation and amortization expenses by function for the three months and nine months ended September 30, 2014 and 2013:**

	Three months ended September 30					
	2014			2013		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$ 340,473	\$ 8,328,202	\$ 8,668,675	\$ 49,688	\$ 4,684,464	\$ 4,734,152
Labor and health insurance	\$ 57,650	\$ 360,529	\$ 418,179	\$ 6,114	\$ 215,646	\$ 221,760
Pension	\$ 3,459	\$ 253,595	\$ 257,054	\$ 3,016	\$ 182,666	\$ 185,682
Others	\$ 5,648	\$ 291,056	\$ 296,704	\$ 1,716	\$ 188,025	\$ 189,741
Depreciation	\$ 3,655	\$ 347,435	\$ 351,090	\$ 697	\$ 300,470	\$ 301,167
Amortization	\$ 43	\$ 385,522	\$ 385,565	\$ -	\$ 127,251	\$ 127,251

	Nine months ended September 30					
	2014			2013		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$ 461,103	\$ 21,181,653	\$ 21,642,756	\$ 145,505	\$ 12,142,792	\$ 12,288,297
Labor and health insurance	\$ 66,137	\$ 898,274	\$ 964,411	\$ 13,679	\$ 551,264	\$ 564,943
Pension	\$ 9,592	\$ 709,281	\$ 718,873	\$ 8,580	\$ 522,852	\$ 531,432
Others	\$ 8,656	\$ 717,479	\$ 726,135	\$ 4,053	\$ 490,162	\$ 494,215
Depreciation	\$ 5,145	\$ 953,170	\$ 958,315	\$ 2,093	\$ 908,295	\$ 910,388
Amortization	\$ 43	\$ 1,079,682	\$ 1,079,725	\$ -	\$ 418,269	\$ 418,269

**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 September 30		Nine months ended September 30	
	2014	2013	2014	2013
Rental income	\$ 6,570	\$ 2,478	\$ 16,457	\$ 7,367
Interest income	894,846	415,623	2,322,611	1,249,972
Dividend income	84,222	69,574	201,049	138,764
Others	206,281	96,542	342,910	288,096
Total	<u>\$ 1,191,919</u>	<u>\$ 584,217</u>	<u>\$ 2,883,027</u>	<u>\$ 1,684,199</u>

**(20) Other gains and losses**

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Losses on disposal of property, plant and equipment	\$ (242)	\$ (561)	\$ (1,561)	\$ (1,509)
Gains (losses) on disposal of investments				
Available-for-sale financial assets	643	(2,515)	(16,064)	(36,180)
Held-to-maturity financial assets	-	-	6,470	-
Financial assets measured at cost	(15,427)	1,771	687,908	1,772
Bond investments for which no active market exists	2,308	-	2,308	-
Investments accounted for using the equity method	205,449	-	214,317	-
Foreign exchange gains (losses)	297,774	(91,793)	(49,027)	201,688
Impairment losses				
Available-for-sale financial assets	-	-	(41,640)	(97,900)
Financial assets measured at cost	-	-	(221,380)	(351,783)
Gains (losses) on financial assets at fair value through profit or loss	21,469	41,962	(10,072)	6,548
Gains (losses) on financial liabilities at fair value through profit or loss	7,538	5,768	(63,600)	(2,853)
Others	(594,491)	(16,589)	(624,738)	(41,344)
Total	<u>\$ (74,979)</u>	<u>\$ (61,957)</u>	<u>\$ (117,079)</u>	<u>\$ (321,561)</u>

**(21) Finance costs**

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Interest expenses on short-term borrowings	<u>\$ 147,285</u>	<u>\$ 37,094</u>	<u>\$ 342,811</u>	<u>\$ 88,526</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 September 30		Nine months ended September 30	
	2014	2013	2014	2013
Current income tax	\$ 2,035,022	\$ 542,515	\$ 5,976,456	\$ 1,708,522
Deferred tax (income) expense	(399,373)	152,975	(1,442,335)	(532,670)
Others	(23,321)	(76,620)	44,435	56,193
Income tax expense recognized in profit or loss	<u>\$ 1,612,328</u>	<u>\$ 618,870</u>	<u>\$ 4,578,556</u>	<u>\$ 1,232,045</u>

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

	Nine months ended September 30	
	2014	2013
Accounting profit before tax from continuing operations	<u>\$ 40,567,742</u>	<u>\$ 20,100,486</u>
Tax at the domestic rates applicable to profits in the country concerned	\$ 8,536,729	\$ 4,290,330
Tax effect of revenues exempt from taxation	(2,366,807)	(1,847,501)
Tax effect of expenses not deductible for tax purposes	(1,592,883)	(1,066,180)
Investment tax credits	(537,490)	(1,058,197)
Tax effect of deferred tax assets/liabilities	(14,652)	120,753
10% surtax on undistributed retained earnings	537,490	1,058,197
Others	16,169	(265,357)
Total income tax expense recognized in profit or loss	<u>\$ 4,578,556</u>	<u>\$ 1,232,045</u>

**Integrated income tax information**

	September 30, 2014	December 31, 2013	September 30, 2013
Balance of the imputation credit account	<u>\$ 2,693,456</u>	<u>\$ 1,933,626</u>	<u>\$ 1,698,227</u>

The actual creditable ratio for 2013 and 2012 were 4.41% and 2.83%, respectively.

MTK's earnings generated prior to December 31, 1997 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 September 30, 2014, the assessment of the income tax returns of MTK and its subsidiaries are as follows:

	The assessment of income tax returns	Notes
MTK	Assessed and approved up to 2012	(Note 2)
Subsidiary-Ralink Technology Corp.	Assessed and approved up to 2011	(Note 1&2)
Subsidiary-MStar Semiconductor Inc.	Assessed and approved up to 2011	
Subsidiary-Light Up International Corp.	Assessed and approved up to 2012	

Note1: Ralink Technology Corp. was dissolved due to the merger with MTK in April 2014.

Note2: For the tax returns of 2012, 2011, 2010, 2009 and 2008 of MTK, and the tax return of 2011 and 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 is 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 is 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.

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
A. Basic earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 13,299,240	\$ 8,428,301	\$ 36,005,012	\$ 18,892,168
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,400,622	1,341,621,663	1,538,127,789	1,341,609,544
Basic earnings per share (NT\$)	\$ 8.51	\$ 6.28	\$ 23.41	\$ 14.08

**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 September 30		Nine months ended September 30	
	2014	2013	2014	2013
B. Diluted earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 13,299,240	\$ 8,428,301	\$ 36,005,012	\$ 18,892,168
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,400,622	1,341,621,663	1,538,127,789	1,341,609,544
Effect of dilution:				
Employee bonuses-stock (share)	6,903,254	4,672,018	6,903,254	4,672,018
Employee stock options (share)	1,815,031	365,458	1,765,641	290,697
Weighted average number of ordinary shares outstanding after dilution (share)	1,572,118,907	1,346,659,139	1,546,796,684	1,346,572,259
Diluted earnings per share (NT\$)	\$ 8.46	\$ 6.26	\$ 23.28	\$ 14.03

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.



**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

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.

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	180,645
Other non-current assets	1,261
	<hr/> 1,675,731 <hr/>
Current liabilities	(303,105)
Long-term borrowings	(21,431)
Other liabilities	(794)
	<hr/> (325,330) <hr/>
Identifiable net assets	<hr/> \$ 1,350,401 <hr/>

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

	Amount(US\$'000)
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	706,156
Less: identifiable net assets at fair value	(1,350,401)
Goodwill	\$ 1,286,734
Cash flows on acquisition:	Amount(US\$'000)
Net cash acquired by the subsidiary	\$ 1,098,762
Transaction costs attributable to cash paid	(9,168)
Net cash flows on acquisition	\$ (1,089,594)

The identifiable net assets recognized in the consolidated financial statements as of March 31, 2014 and June 30, 2014 were based on a provisional assessment of fair value. The Company has completed the assessment in October 2014 and determined the fair value of identifiable net assets on the acquisition day to be US\$1,350,401 thousand, which represents a decrease in value of US\$9,702 thousand compared to that of the provisional assessment. The final assessment also decreased the values of intangible assets, non-controlling interests and goodwill by US\$9,702 thousand, US\$16,280 thousand and US\$6,578 thousand, respectively. The total amount of goodwill based on the final assessment is US\$1,286,734 thousand. In addition, the decrease in intangible assets also decreased the amortization during the three months and six months ended March 31, 2014 and June 30, 2014. However, the decrease in amortization is not material.

The goodwill of US\$1,286,734 thousand comprises the value of expected synergies arising from acquisition. The goodwill recognized is expected to be fully deductible for income tax purposes.

From the acquisition date to September 30, 2014, MStar has contributed NT\$25,695,242 thousand of net sales and NT\$3,677,209 thousand of net income to the Company.

If the combination had taken place at the beginning of the year, revenues and net income of the Company would have been NT\$160,553,775 thousand and NT\$36,224,053 thousand.

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

Lepower Technologies (Beijing), Inc. and AutoChips Inc. issued new shares in February and August 2014, respectively, and the Company did not purchase new shares in proportionate to its original ownership interest. In addition, the Company purchased additional 15.33% of voting shares of Lepower Limited in February 2014 and its ownership rose up to 99.77%. Consequently, the ownership interest in these companies 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\$77,942 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.

**7. Related Party Transactions****(1) Significant transactions with related parties****A. IC testing, experimental services, and manufacturing technology services**

	Three months ended		Nine months ended	
	September 30		September 30	
	2014	2013	2014	2013
Other related parties	\$ 681,873	\$ 2,090,671	\$ 4,222,999	\$ 4,765,264

**B. Consign research and development expense and royalty expense**

	Three months ended		Nine months ended	
	September 30		September 30	
	2014	2013	2014	2013
Associates	\$ -	\$ -	\$ 200,000	\$ -
Other related parties	7,474	26,807	37,607	26,807
Total	\$ 7,474	\$ 26,807	\$ 237,607	\$ 26,807

**C. Purchases**

	Three months ended		Nine months ended	
	September 30		September 30	
	2014	2013	2014	2013
Associates	\$ 4,593	\$ -	\$ 7,545	\$ -

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

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Associates	\$ 171	\$ 129	\$ 514	\$ 343
Other related parties	851	2,318	5,487	6,869
Total	<u>\$ 1,022</u>	<u>\$ 2,447</u>	<u>\$ 6,001</u>	<u>\$ 7,212</u>

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

**E. Other receivables from related parties**

	September 30, 2014	December 31, 2013	September 30, 2013
Associates	\$ 60	\$ 60	\$ 45
Other related parties	15	340	154
Total	<u>\$ 75</u>	<u>\$ 400</u>	<u>\$ 199</u>

**F. Trade payables to related parties**

	September 30, 2014	December 31, 2013	September 30, 2013
Associates	\$ 1,943	\$ -	\$ -
Other related parties	699,965	2,082,028	1,967,926
Total	<u>\$ 701,908</u>	<u>\$ 2,082,028</u>	<u>\$ 1,967,926</u>

**G. Other payables to related parties**

	September 30, 2014	December 31, 2013	September 30, 2013
Other related parties	\$ -	\$ -	\$ 13,901

**H. Key management personnel compensation**

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Short-term employee benefits (Note)	\$ 436,818	\$ 398,703	\$ 687,028	\$ 540,633
Post-employment benefits	860	(33)	2,643	1,717
Total	<u>\$ 437,678</u>	<u>\$ 398,670</u>	<u>\$ 689,671</u>	<u>\$ 542,350</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.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****8. Assets Pledged as Collateral**

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

Assets pledged for security	Carrying amount			Purpose of pledge
	September 30, 2014	December 31, 2013	September 30, 2013	
Bond investments for which no active market exists-current	\$ 7,067	\$ 6,917	\$ 6,917	Land lease guarantee
Bond investments for which no active market exists-current	3,142	3,104	3,104	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	1,549	1,657	1,615	Credit guarantee
Bond investments for which no active market exists-current	91,308	-	-	Short-term loans guarantee
Bond investments for which no active market exists-noncurrent	801	243	237	Customs clearance deposits
Bond investments for which no active market exists-noncurrent	123	121	118	Lease execution deposits
Total	<u>\$ 103,990</u>	<u>\$ 114,042</u>	<u>\$ 113,991</u>	

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

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

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

	September 30, 2014	December 31, 2013	September 30, 2013
Not later than one year	\$ 393,199	\$ 374,715	\$ 279,838
Later than one year but not later than five years	593,127	753,028	546,568
Later than five years	108,273	181,444	220,313
Total	<u>\$ 1,094,599</u>	<u>\$ 1,309,187</u>	<u>\$ 1,046,719</u>

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

(2) Legal claim contingency

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

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

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

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

**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.

Freescale filed a complaint in the U.S. International Trade Commission against MTK, subsidiary MediaTek USA Inc. and other respondents on May 12, 2014, alleging infringement of United States Patent Nos. 5,962,926, 7,158,432, 7,230,505, 7,518,947, 7,626,276 and 7,746,716. Freescale alleged that MTK's mobile phone, tablet, and DTV chips infringe its patents and sought to prevent the accused products from being imported into the United States.

Freescale also filed a complaint in the United States District Court for the Northern District of California against MTK, subsidiary MediaTek USA Inc. and other defendants on May 12, 2014, alleging infringement of United States Patent Nos. 5,962,926, 7,158,432, 7,230,505, 7,518,947, 7,626,276 and 7,746,716. Freescale alleged that MTK's mobile phone, tablet, and DTV chips infringe its patents and sought damages and an injunction to prevent the accused products from being sold in the future.

On September 22, 2014, MTK entered into an agreement with Freescale pursuant to which the parties agreed to dismiss with prejudice all claims against each other, MTK's subsidiaries and all other respondents or defendants in all pending proceedings. The court dismissed the above referenced case filed by MTK in Northern District of California with prejudice on September 22. On October 1, the courts dismissed the above referenced cases filed by Freescale in the Western District of Texas and Northern District of California with prejudice. On October 15, the U.S. International Trade Commission issued an order to terminate the above reference investigation filed by Freescale.

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

- B. Azure Networks, LLC (“Azure”) and Tri-County Excelsior Foundation (“TCEF”) filed a complaint in the United States District Court for the Eastern District of Texas against Ralink and Ralink Technology Corporation (USA), along with other defendants in March 2011, alleging infringement of United States Patent No. 7,756,129. On April 6, 2012, Azure and TCEF filed a complaint in the United States District Court for the Eastern District of Texas against MTK alleging infringement of the same patent referenced above. 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 November 6, 2014, the United States Court of Appeals for the Federal Circuit vacated the lower court’s judgment and remanded the case to the district court. On June 10, 2013, the Court entered a judgment dismissing the latter case pursuant to the parties’ joint stipulation. The operation of MTK 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 subsidiary MediaTek USA Inc. 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 subsidiary MediaTek USA Inc. would not be materially affected by this case.

Palmchip filed a complaint in the United States District Court for the Central District of California against MTK and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA) on August 30, 2013, alleging infringement of United States Patents Nos. 6,601,126, 6,769,046, and 7,124,376. The operations of MTK and subsidiary MediaTek USA Inc. 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. On May 9, 2014 the parties entered into a License Agreement and agreed to settle the matter and dismiss all pending proceedings.



**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

F. Optical Devices, LLC (“Optical Devices”) filed a complaint with the U.S. International Trade Commission (the “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. The Commission issued an Initial Determination on July 17, 2014 finding that Optical Devices failed to meet the domestic industry requirement and terminating the investigation. On September 3, 2014, the Commission vacated the Initial Determination and remanded the case for further proceedings. On October 21, 2014, the Commission issued an Initial Determination to terminate the investigation on the ground that Optical Devices’ lack of standing.

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 States Patent Nos. 5,463,750 and 6,374,329. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

H. Bandspeed Inc. filed a complaint in the United States District Court for the Western District of Texas against MTK, subsidiary MediaTek USA Inc. and other defendants on May 9, 2014, alleging infringement of United States Patent Nos. 7,027,418, 7,570,614, 7,477,624, 7,903,608 and 8,542,643. On October 17, 2014, the court granted the parties joint stipulation to dismiss the claims against MTK, all other claims against other parties including those against MediaTek USA Inc. remain pending. The operations of MTK 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

	September 30, 2014	December 31, 2013	September 30, 2013
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$ 20,100	\$ 8,894	\$ 5,630
Financial assets designated upon initial recognition at fair value through profit or loss	4,565,254	3,601,903	3,051,553
Subtotal	4,585,354	3,610,797	3,057,183
Available-for-sale financial assets	11,035,320	7,913,475	7,355,871
Financial assets measured at cost	3,422,408	2,061,563	1,797,297
Held-to-maturity financial assets	556,417	891,510	883,421
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand and petty cash)	185,068,580	132,996,624	107,615,702
Bond investments for which no active market exists	327,073	114,042	113,991
Trade receivables	15,418,455	7,627,591	11,059,054
Other receivables	5,359,364	3,652,885	4,473,886
Subtotal	206,173,472	144,391,142	123,262,633
Total	\$ 225,772,971	\$ 158,868,487	\$ 136,356,405

Financial liabilities

	September 30, 2014	December 31, 2013	September 30, 2013
Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$ 63,600	\$ 26,017	\$ 2,853
Financial liabilities at amortized cost:			
Short-term borrowings	43,453,914	29,051,500	19,760,220
Trade payables (including related parties)	21,306,862	10,944,174	12,520,302
Other payables	29,798,732	16,835,299	15,263,714
Long-term payables (including current portion)	95,874	116,805	130,547
Subtotal	94,655,382	56,947,778	47,674,783
Total	\$ 94,718,982	\$ 56,973,795	\$ 47,677,636

**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), and 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		
	September 30, 2014	December 31, 2013	September 30, 2013
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ 556,417	\$ 891,510	\$ 883,421

**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		
	September 30, 2014	December 31, 2013	September 30, 2013
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ 554,640	\$ 912,021	\$ 901,315

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 September 30, 2014

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Stocks	\$ 9,238	\$ -	\$ -	\$ 9,238
Bonds	-	-	59,655	59,655
Derivative financial instruments	-	10,862	-	10,862
Linked deposits	-	2,843,473	1,662,126	4,505,599
Available-for-sale financial assets				
Depository receipts	30,727	-	-	30,727
Stocks	4,562,071	-	-	4,562,071
Bonds	1,546,110	-	213,081	1,759,191
Funds	4,485,035	-	198,296	4,683,331
Total	\$ 10,633,181	\$ 2,854,335	\$ 2,133,158	\$ 15,620,674

Financial liabilities

Financial liabilities at fair value

through profit or loss

Derivative financial instruments	\$ -	\$ 63,600	\$ -	\$ 63,600
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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)**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
Stocks	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	\$ -	\$ 26,017	\$ -	\$ 26,017
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As of September 30, 2013

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ 322,050	\$ -	\$ -	\$ 322,050
Derivative financial instruments	-	5,630	-	5,630
Linked deposits	-	1,593,153	1,136,350	2,729,503
Available-for-sale financial assets				
Depository receipts	23,045	-	-	23,045
Stocks	1,278,031	-	-	1,278,031
Bonds	1,513,450	-	185,354	1,698,804
Funds	4,355,991	-	-	4,355,991
Total	<u>\$ 7,492,567</u>	<u>\$ 1,598,783</u>	<u>\$ 1,321,704</u>	<u>\$ 10,413,054</u>

Financial liabilities

Financial liabilities at fair value

through profit or loss

Derivative financial instruments	\$ -	\$ 2,853	\$ -	\$ 2,853
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For the nine months ended September 30, 2014 and 2013, there were no transfers between Level 1 and Level 2.

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

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

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		
	Linked				
	Bonds	deposits	Bonds	Funds	Total
As of January 1, 2014	\$ 59,583	\$ 1,084,037	\$ 198,395	\$ -	\$ 1,342,015
Amount recognized in profit or loss	72	(5,875)	-	-	(5,803)
Amount recognized in OCI	-	-	14,686	-	14,686
Acquisitions	-	1,177,176	-	198,296	1,375,472
Settlements	-	(593,212)	-	-	(593,212)
As of September 30, 2014	\$ 59,655	\$ 1,662,126	\$ 213,081	\$ 198,296	\$ 2,133,158

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		
	Linked deposits		Bonds		Total
As of January 1, 2013	\$	\$317,597	\$ 176,781		\$ 494,378
Amount recognized in profit or loss		(4,783)	-		(4,783)
Amount recognized in OCI		-	8,573		8,573
Acquisitions		1,205,760	-		1,205,760
Settlements		(382,224)	-		(382,224)
As of September 30, 2013	\$	1,136,350	\$ 185,354		\$ 1,321,704

Total profits or losses recognized for the nine months ended September 30, 2014 and 2013 contained losses related to bonds, funds and linked deposits on hand as of September 30, 2014 and 2013 in the amount of NT\$9,862 thousand and NT\$590 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)****C. Derivative financial instruments**

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

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

Forward exchange contracts	Currency	Contract amount ('000)	Maturity
As of September 30, 2014	TWD to USD	Purchase USD80,000,000	December 2014
As of September 30, 2014	TWD to USD	Sell USD130,000,000	October 2014
As of September 30, 2014	CNY to USD	Sell USD3,500,000	December 2014
As of December 31, 2013	TWD to USD	Sell USD200,000	January 2014
As of September 30, 2013	TWD to USD	Sell USD109,000	October 2013

Cross currency swap contracts	Contracts amount	Maturity	Interest rate paid interval	Interest rate received interval
As of September 30, 2014	CNY34,000,000	October 2014	3.47%	-%
As of December 31, 2013	None	-	-	-
As of September 30, 2013	None	-	-	-

The Company entered into forward foreign exchange contracts and cross currency swap contracts 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.

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

**A. Market risk**

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

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

**a. Foreign currency risk**

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

The Company reviews its assets and liabilities denominated in foreign currency and enters into forward exchange contracts and cross currency swap 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 and cross currency swap contracts are 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 nine months ended September 30, 2014 and 2013 increases or decreases by NT\$130 thousand and decreases or increases by NT\$561 thousand, while equity decreases or increases by NT\$46,104 thousand and NT\$18,138 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 investments 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 cross currency swap contracts 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 nine months ended September 30, 2014 and 2013 to increase/decrease by NT\$1,320 thousand and decrease/increase NT\$1,954 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.

A change of 1% in the price of the listed equity securities classified under available-for-sale could cause the other comprehensive income for the nine months ended September 30, 2014 and 2013 to increase/decrease by NT\$92,761 thousand and NT\$56,571 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. 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 September 30, 2014, December 31, 2013, and September 30, 2013, receivables from top ten customers represented 59.02%, 65.45%, and 62.51% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was 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 and cross currency swap 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**

	Less than 1 year	1 to 5 years	Total
<u>As of September 30, 2014</u>			
Borrowings	\$ 43,558,283	\$ -	\$ 43,558,283
Trade payables (including related parties)	21,306,862	-	21,306,862
Other payables	29,741,388	-	29,741,388
Long-term payables	35,002	60,872	95,874
Total	<u>\$ 94,641,535</u>	<u>\$ 60,872</u>	<u>\$ 94,702,407</u>

	Less than 1 year	1 to 5 years	Total
<u>As of December 31, 2013</u>			
Borrowings	\$ 29,094,447	\$ -	\$ 29,094,447
Trade payables (including related parties)	10,944,174	-	10,944,174
Other payables	16,812,303	-	16,812,303
Long-term payables	29,950	86,855	116,805
Total	<u>\$ 56,880,874</u>	<u>\$ 86,855</u>	<u>\$ 56,967,729</u>

	Less than 1 year	1 to 5 years	Total
<u>As of September 30, 2013</u>			
Borrowings	\$ 19,789,504	\$ -	\$ 19,789,504
Trade payables (including related parties)	12,520,302	-	12,520,302
Other payables	15,250,533	-	15,250,533
Long-term payables	37,087	93,460	130,547
Total	<u>\$ 47,597,426</u>	<u>\$ 93,460</u>	<u>\$ 47,690,886</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 September 30, 2014</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 2,501,285	\$ -	\$ 2,501,285
Outflow	(2,541,406)	-	(2,541,406)
Net	(40,121)	-	(40,121)
Net settlement			
Forward exchange contracts	(22,530)	-	(22,530)
Total	\$ (62,651)	\$ -	\$ (62,651)
<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	\$ (34,530)	\$ -	\$ (34,530)
<u>As of September 30, 2013</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 414,624	\$ -	\$ 414,624
Outflow	(415,380)	-	(415,380)
Net	(756)	-	(756)
Net settlement			
Forward exchange contracts	(3,180)	-	(3,180)
Total	\$ (3,936)	\$ -	\$ (3,936)

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:

September 30, 2014			
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
<b>Financial assets</b>			
<b>Monetary item:</b>			
USD	\$ 6,682,721	30.436	\$ 203,395,282
CNY	\$ 410,548	4.957	\$ 2,035,253
<b>Non-monetary item:</b>			
USD	\$ 419,846	30.436	\$ 12,778,440
CNY	\$ 215,105	4.957	\$ 1,066,363
<b>Financial liabilities</b>			
<b>Monetary item:</b>			
USD	\$ 2,505,096	30.436	\$ 76,245,101
CNY	\$ 762,000	4.957	\$ 3,777,546
<b>December 31, 2013</b>			
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
<b>Financial assets</b>			
<b>Monetary item:</b>			
USD	\$ 3,222,505	29.950	\$ 96,514,018
CNY	\$ 3,000	4.947	\$ 14,841
<b>Non-monetary item:</b>			
USD	\$ 312,787	29.950	\$ 9,367,985
CNY	\$ 58,203	4.947	\$ 287,924
<b>Financial liabilities</b>			
<b>Monetary item:</b>			
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)**

	September 30, 2013		
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
<u>Financial assets</u>			
Monetary item:			
USD	\$ 2,827,690	29.67	\$ 83,889,296
Non-monetary item:			
USD	\$ 267,983	29.67	\$ 7,951,056
<u>Financial liabilities</u>			
Monetary item:			
USD	\$ 1,225,801	29.67	\$ 36,369,516

**(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.