

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

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE YEARS THEN ENDED
December 31, 2014 AND 2013

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2014 and for the year then ended prepared under the International Accounting Standards No.27 “Consolidated and Separate Financial Statement” (referred to as “Consolidated Financial Statements”) are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

MediaTek Inc.

Chairman: Ming-Kai Tsai

March 19, 2015

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

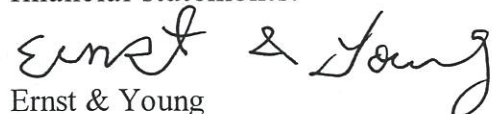
To the Board of Directors and Shareholders
of MediaTek Inc.

We have audited the accompanying consolidated balance sheets of MediaTek Inc., and its subsidiaries as of December 31, 2014 and 2013 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended December 31, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MediaTek Inc. and its subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended December 31, 2014 and 2013, in conformity with requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations committee and Standing Interpretations Committee as endorsed by Financial Supervisory Commission.

The Company has prepared Separate Financial Statements as of December 31, 2014 and 2013 for the years then ended. We have expressed an unqualified opinion on those separate financial statements.



Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
March 19, 2015
Taipei, Taiwan
Republic of China

Notice to Readers

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

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2014 and 2013

(Amounts in thousands of New Taiwan Dollars)

| ASSETS | Notes | December 31, 2014 | % | December 31, 2013 | % |
|--|------------------------|-----------------------|------------|-----------------------|------------|
| Current assets | | | | | |
| Cash and cash equivalents | 4, 6(1) | \$ 192,797,506 | 55 | \$ 132,997,726 | 52 |
| Financial assets at fair value through profit or loss-current | 4, 5, 6(2) | 3,547,217 | 1 | 2,132,090 | 1 |
| Available-for-sale financial assets-current | 4, 5, 6(3) | 7,575,242 | 2 | 3,426,121 | 1 |
| Held-to-maturity financial assets-current | 4, 6(5) | 288,378 | - | 549,573 | - |
| Bond investments for which no active market exists-current | 4, 6(6), 8 | 1,086,146 | - | 113,678 | - |
| Trade receivables, net | 4, 5, 6(7) | 12,552,399 | 4 | 7,627,591 | 3 |
| Other receivables | 6(7), 7 | 5,296,078 | 2 | 3,652,885 | 1 |
| Current tax assets | 4, 5 | 47,323 | - | 30,226 | - |
| Inventories, net | 4, 5, 6(8) | 22,341,336 | 6 | 9,346,792 | 4 |
| Prepayments | | 2,247,248 | 1 | 1,404,263 | 1 |
| Other current assets | | 776,062 | - | 459,984 | - |
| Total current assets | | 248,554,935 | 71 | 161,740,929 | 63 |
| Non-current assets | | | | | |
| Financial assets at fair value through profit or loss-noncurrent | 4, 5, 6(2) | 4,040,793 | 1 | 1,478,707 | - |
| Available-for-sale financial assets-noncurrent | 4, 5, 6(3) | 4,894,091 | 1 | 4,487,354 | 2 |
| Held-to-maturity financial assets-noncurrent | 4, 6(5) | 127,787 | - | 341,937 | - |
| Financial assets measured at cost-noncurrent | 4, 6(4) | 3,782,384 | 1 | 2,061,563 | 1 |
| Bond investments for which no active market exists-noncurrent | 4, 6(6), 8 | 946 | - | 364 | - |
| Investments accounted for using the equity method | 4, 6(9) | 2,154,613 | 1 | 59,669,761 | 23 |
| Property, plant and equipment | 4, 6(10), 6(24) | 23,294,555 | 7 | 11,312,107 | 4 |
| Intangible assets | 4, 6(11), 6(12), 6(24) | 60,757,826 | 17 | 15,509,193 | 6 |
| Deferred tax assets | 4, 5, 6(22) | 3,196,429 | 1 | 1,778,859 | 1 |
| Refundable deposits | | 194,392 | - | 137,593 | - |
| Long-term prepaid rent | | 119,920 | - | 118,495 | - |
| Total non-current assets | | 102,563,736 | 29 | 96,895,933 | 37 |
| Total assets | | <u>\$ 351,118,671</u> | <u>100</u> | <u>\$ 258,636,862</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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2014 and 2013

(Amounts in thousands of New Taiwan Dollars)

| LIABILITIES AND SHAREHOLDERS' EQUITY | Notes | December 31, 2014 | % | December 31, 2013 | % |
|--|-----------------|-------------------|-----|-------------------|-----|
| Current liabilities | | | | | |
| Short-term borrowings | 6(13) | \$ 46,160,593 | 13 | \$ 29,051,500 | 11 |
| Financial liabilities at fair value through profit or loss-current | 4, 5, 6(2) | 50,393 | - | 26,017 | - |
| Trade payables | | 13,927,964 | 4 | 8,862,146 | 3 |
| Trade payables to related parties | 7 | 677,196 | - | 2,082,028 | 1 |
| Other payables | | 32,766,959 | 10 | 16,835,299 | 7 |
| Current tax liabilities | 4, 5, 6(22) | 7,322,589 | 2 | 3,151,805 | 1 |
| Other current liabilities | | 676,082 | - | 1,345,847 | 1 |
| Current portion of long-term liabilities | | 38,062 | - | 29,950 | - |
| Total current liabilities | | 101,619,838 | 29 | 61,384,592 | 24 |
| Non-current liabilities | | | | | |
| Long-term payables | | 53,920 | - | 86,855 | - |
| Accrued pension liabilities | 4, 6(14) | 940,996 | 1 | 606,033 | - |
| Deposits received | 7 | 121,643 | - | 47,754 | - |
| Deferred tax liabilities | 4, 5, 6(22) | 629,651 | - | 1,050,108 | - |
| Non-current liabilities-others | | 146,876 | - | 108,121 | - |
| Total non-current liabilities | | 1,893,086 | 1 | 1,898,871 | - |
| Total liabilities | | 103,512,924 | 30 | 63,283,463 | 24 |
| Equity attributable to owners of the parent | | | | | |
| Share capital | 6(15) | | | | |
| Common stock | | 15,714,455 | 4 | 13,494,667 | 5 |
| Capital collected in advance | | 467 | - | 2,473 | - |
| Capital surplus | 4, 6(15), 6(16) | 88,047,914 | 25 | 68,474,910 | 26 |
| Retained earnings | 6(15) | | | | |
| Legal reserve | | 27,392,687 | 8 | 24,641,182 | 10 |
| Special reserve | | 895,749 | - | 5,072,425 | 2 |
| Undistributed earnings | | 108,566,733 | 31 | 84,581,268 | 33 |
| Other equity | 6(15) | 6,606,113 | 2 | (895,749) | - |
| Treasury shares | 4, 6(15) | (55,970) | - | (55,970) | - |
| Equity attributable to owners of the parent | | 247,168,148 | 70 | 195,315,206 | 76 |
| Non-controlling interests | 4, 6(15) | 437,599 | - | 38,193 | - |
| Total equity | | 247,605,747 | 70 | 195,353,399 | 76 |
| Total liabilities and equity | | \$ 351,118,671 | 100 | \$ 258,636,862 | 100 |

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2014 and 2013

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

| Description | Notes | 2014 | % | 2013 | % |
|--|------------------------------|----------------------|-----------|----------------------|-----------|
| Net sales | 4, 5, 6(17), 7 | \$ 213,062,916 | 100 | \$ 136,055,954 | 100 |
| Operating costs | 4, 5, 6(8), 6(18), 7 | (109,194,295) | (51) | (76,250,370) | (56) |
| Gross profit | | 103,868,621 | 49 | 59,805,584 | 44 |
| Operating expenses | 6(18), 7 | | | | |
| Selling expenses | | (7,372,827) | (4) | (4,561,934) | (3) |
| Administrative expenses | | (5,917,136) | (3) | (3,545,988) | (3) |
| Research and development expenses | | (43,337,348) | (20) | (26,453,942) | (19) |
| Total operating expenses | | (56,627,311) | (27) | (34,561,864) | (25) |
| Operating income | | 47,241,310 | 22 | 25,243,720 | 19 |
| Non-operating income and expenses | | | | | |
| Other income | 4, 6(19), 7 | 3,483,335 | 2 | 2,402,627 | 2 |
| Other gains and losses | 4, 6(20), 6(24) | 1,120,151 | 1 | (103,672) | - |
| Finance costs | 6(21) | (478,782) | - | (146,816) | - |
| Share of profit of associates accounted for using the equity method | 4, 6(9) | 983,941 | - | 2,150,963 | 1 |
| Total non-operating income and expenses | | 5,108,645 | 3 | 4,303,102 | 3 |
| Net income before income tax | | 52,349,955 | 25 | 29,546,822 | 22 |
| Income tax expense | 4, 5, 6(22) | (5,950,882) | (3) | (2,062,172) | (2) |
| Net income | | 46,399,073 | 22 | 27,484,650 | 20 |
| Other comprehensive income | 4, 6(9), 6(14), 6(15), 6(22) | | | | |
| Exchange differences resulting from translating the financial statements of foreign operations | | 6,684,653 | 3 | 1,811,177 | 1 |
| Unrealized gains from available-for-sale financial assets | | 878,929 | - | 929,781 | 1 |
| Actuarial losses on defined benefit plans | | (328,043) | - | (42,044) | - |
| Share of other comprehensive income of associates accounted for using the equity method | | (22,549) | - | 1,554,911 | 1 |
| Income tax relating to components of other comprehensive income | | 55,768 | - | - | - |
| Other comprehensive income, net of tax | | 7,268,758 | 3 | 4,253,825 | 3 |
| Total comprehensive income | | <u>\$ 53,667,831</u> | <u>25</u> | <u>\$ 31,738,475</u> | <u>23</u> |
| Net income (loss) for the periods attributable to : | | | | | |
| Owners of the parent | 6(23) | \$ 46,397,892 | | \$ 27,515,052 | |
| Non-controlling interests | 6(15) | 1,181 | | (30,402) | |
| | | <u>\$ 46,399,073</u> | | <u>\$ 27,484,650</u> | |
| Total comprehensive income for the periods attributable to : | | | | | |
| Owners of the parent | | \$ 53,627,479 | | \$ 31,760,633 | |
| Non-controlling interests | 6(15) | 40,352 | | (22,158) | |
| | | <u>\$ 53,667,831</u> | | <u>\$ 31,738,475</u> | |
| Basic Earnings Per Share (in New Taiwan Dollars) | 6(23) | <u>\$ 30.04</u> | | <u>\$ 20.51</u> | |
| Diluted Earnings Per Share (in New Taiwan Dollars) | 6(23) | <u>\$ 29.96</u> | | <u>\$ 20.42</u> | |

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

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2014 and 2013

(Amounts in thousands of New Taiwan Dollars)

| Description | Equity attributable to owners of the parent | | | | | | | | | | Non-controlling interests | Total equity |
|---|---|------------------------------|-----------------|-------------------|-----------------|------------------------|--|---|-----------------|---|---------------------------|----------------|
| | Share capital | | Capital surplus | Retained earnings | | | Other equity | | Treasury shares | Equity attributable to owners of the parent | | |
| | Common stock | Capital collected in advance | | Legal reserve | Special reserve | Undistributed earnings | Exchange differences resulting from translating the financial statements of foreign operations | Unrealized gains 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 year ended December 31, 2013 | - | - | - | - | - | 27,515,052 | - | - | - | 27,515,052 | (30,402) | 27,484,650 |
| Other comprehensive income for the year ended December 31, 2013 | - | - | - | - | - | (42,044) | 3,357,844 | 929,781 | - | 4,245,581 | 8,244 | 4,253,825 |
| Total comprehensive income | - | - | - | - | - | 27,473,008 | 3,357,844 | 929,781 | - | 31,760,633 | (22,158) | 31,738,475 |
| | | | | | | | | | | | | |
| Share-based payment transactions | 965 | 2,371 | 75,799 | - | - | - | - | - | - | 79,135 | - | 79,135 |
| Adjustments due to dividends that subsidiaries received from parent company | - | - | 70,145 | - | - | - | - | - | - | 70,145 | - | 70,145 |
| Changes in ownership interests in subsidiaries | - | - | 10,546 | - | - | - | - | - | - | 10,546 | 26,142 | 36,688 |
| Change in other capital surplus | - | - | 115,656 | - | - | - | - | - | - | 115,656 | - | 115,656 |
| Balance as of December 31, 2013 | 13,494,667 | 2,473 | 68,474,910 | 24,641,182 | 5,072,425 | 84,581,268 | (2,404,641) | 1,508,892 | (55,970) | 195,315,206 | 38,193 | 195,353,399 |
| 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 year ended December 31, 2014 | - | - | - | - | - | 46,397,892 | - | - | - | 46,397,892 | 1,181 | 46,399,073 |
| Other comprehensive income for the year ended December 31, 2014 | - | - | - | - | - | (272,275) | 6,622,933 | 878,929 | - | 7,229,587 | 39,171 | 7,268,758 |
| Total comprehensive income | - | - | - | - | - | 46,125,617 | 6,622,933 | 878,929 | - | 53,627,479 | 40,352 | 53,667,831 |
| | | | | | | | | | | | | |
| Share-based payment transactions | 8,549 | (2,006) | 63,935 | - | - | - | - | - | - | 70,478 | - | 70,478 |
| 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 | - | - | 203,151 | - | - | - | - | - | - | 203,151 | 359,054 | 562,205 |
| Change in other capital surplus | - | - | 231,866 | - | - | - | - | - | - | 231,866 | - | 231,866 |
| Balance as of December 31, 2014 | \$ 15,714,455 | \$ 467 | \$ 88,047,914 | \$ 27,392,687 | \$ 895,749 | \$ 108,566,733 | \$ 4,218,292 | \$ 2,387,821 | \$ (55,970) | \$ 247,168,148 | \$ 437,599 | \$ 247,605,747 |

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2014 and 2013

(Amounts in thousands of New Taiwan Dollars)

| Description | 2014 | 2013 |
|---|----------------|----------------|
| Cash flows from operating activities : | | |
| Profit before tax from continuing operations | \$ 52,349,955 | \$ 29,546,822 |
| Adjustments for: | | |
| The profit or loss items which did not affect cash flows: | | |
| Depreciation | 1,312,641 | 1,182,191 |
| Amortization | 1,453,158 | 544,639 |
| Bad debt provision (reversal) | 26,806 | (79,110) |
| Losses on financial assets and liabilities at fair value through profit or loss | 40,242 | 9,155 |
| Interest expenses | 478,782 | 146,816 |
| Interest income | (3,125,381) | (1,755,482) |
| Dividend income | (238,877) | (167,855) |
| Share-based payment expenses | 63,935 | 75,799 |
| Share of profit of associates accounted for using the equity method | (983,941) | (2,150,963) |
| Loss on disposal of property, plant and equipment | 2,775 | 3,137 |
| (Gain) loss on disposal of investments | (928,953) | 48,008 |
| Impairment of financial assets | 263,372 | 478,110 |
| Changes in operating assets and liabilities : | | |
| Financial assets at fair value through profit or loss | (3,783,596) | (1,418,009) |
| Trade receivables | (483,221) | (983,242) |
| Other receivables | (839,604) | 1,186,065 |
| Inventories | (8,836,098) | 4,532,449 |
| Prepayments | (711,574) | (263,240) |
| Other current assets | (309,172) | (33,922) |
| Trade payables | 1,883,426 | 819,786 |
| Trade payables to related parties | (1,456,969) | 1,054,687 |
| Other payables | 11,673,202 | 3,376,421 |
| Other current liabilities | (730,994) | 736,536 |
| Long-term payables | (24,823) | (25,961) |
| Accrued pension liabilities | 62,085 | 8,235 |
| Non-current liabilities-others | 38,755 | 33,446 |
| Cash generated from operating activities | | |
| Interest received | 2,752,253 | 1,991,816 |
| Dividend received | 355,312 | 1,744,746 |
| Interest paid | (485,217) | (125,582) |
| Income tax paid | (5,488,505) | (942,777) |
| Net cash provided by operating activities | 44,329,774 | 39,572,721 |
| Cash flows from investing activities : | | |
| Acquisition of available-for-sale financial assets | (4,344,406) | (1,377,363) |
| Proceeds from disposal of available-for-sale financial assets | 827,975 | 1,469,999 |
| Acquisition of bond investments for which no active market exists | (1,923,564) | (43) |
| Proceeds from disposal of bond investments for which no active market exists | 959,768 | - |
| Acquisition of held-to-maturity financial assets | - | (72,743) |
| Proceeds from disposal of held-to-maturity financial assets | 824,381 | - |
| Acquisition of financial assets measured at cost | (1,857,157) | (626,407) |
| Proceeds from disposal of financial assets measured at cost | 935,500 | 299 |
| Proceeds from capital return of financial assets measured at cost | 41,835 | 322,344 |
| Acquisition of investments accounted for using the equity method | (204,887) | (91,571) |
| Net cash inflows from acquisition of subsidiaries | 33,097,485 | - |
| Net cash inflows from disposal of subsidiaries | - | 6,119 |
| Acquisition of property, plant and equipment | (9,828,126) | (1,628,684) |
| Proceeds from disposal of property, plant and equipment | 105,504 | 43,510 |
| (Increase) decrease in refundable deposits | (35,360) | 68,800 |
| Acquisition of intangible assets | (795,756) | (324,414) |
| Increase in long-term prepaid rent | (1,425) | (4,148) |
| Net cash provided by (used in) investing activities | 17,801,767 | (2,214,302) |
| Cash flows from financing activities : | | |
| Increase in short-term borrowings | 17,109,093 | 19,983,850 |
| Decrease in long-term borrowings | (651,000) | - |
| Increase in deposits received | 50,406 | 17,521 |
| Proceeds from exercise of employee stock options | 223,003 | 94,732 |
| Cash dividends | (23,448,412) | (12,074,279) |
| Increase in non-controlling interests | 560,126 | 26,142 |
| Net cash (used in) provided by financing activities | (6,156,784) | 8,047,966 |
| Effect of changes in exchange rate on cash and cash equivalents | 3,825,023 | 1,724,131 |
| Net increase in cash and cash equivalents | 59,799,780 | 47,130,516 |
| Cash and cash equivalents at the beginning of the year | 132,997,726 | 85,867,210 |
| Cash and cash equivalents at the end of the year | \$ 192,797,506 | \$ 132,997,726 |

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(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 March 19, 2015.

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:

| Standards or Interpretations Numbers | The Projects of Standards or Interpretations | Effective Dates |
|--|--|-----------------|
| Improvements to International Financial Reporting Standards (issued in 2010) | | |
| IFRS 1 | "First-time Adoption of International Financial Reporting Standards" | January 1, 2011 |
| IFRS 3 | "Business Combinations" | July 1, 2010 |
| IFRS 7 | "Financial Instruments: Disclosures" | January 1, 2011 |
| IAS 1 | "Presentation of Financial Statements" | January 1, 2011 |
| IAS 34 | "Interim Financial Reporting" | January 1, 2011 |
| IFRIC 13 | "Customer Loyalty Programmes" | January 1, 2011 |
| IFRS 7 | Limited Exemption from Comparative Disclosures for First-time Adopters (Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards") | July 1, 2010 |

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

| 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 |
| IFRS 11 | “Joint Arrangements” | 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 |
| IAS 16 | “Property, Plant and Equipment” | January 1, 2013 |
| IAS 32 | “Financial Instruments: Presentation” | January 1, 2013 |

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

| Standards or Interpretations Numbers | | The Projects of Standards or Interpretations | Effective Dates |
|---|--|--|-----------------|
| 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 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 1 “Presentation of Financial Statements”

The amendment clarifies (1) the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. (2) An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. (3) The opening statement of financial position (known as ‘the third balance sheet’) must be presented when an entity changes its accounting policies (making retrospective restatements or reclassifications) and those changes have a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. However, unlike the voluntary comparative information, the related notes are not required to include comparatives as of the date of the third balance sheet.

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

- (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 |

(To be continued)

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Continued)

| Standards or Interpretations Numbers | The Projects of Standards or Interpretations | Effective Dates |
|--|---|--------------------|
| 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 |
| 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 |
| IAS 1 | “Presentation of Financial Statements”- Disclosure Initiative | January 1, 2016 |
| IFRS 10, IFRS 12 and IAS 28 | “Investment Entities”- Applying the Consolidation Exception | January 1, 2016 |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A. 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.

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).

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

F. IAS 1 "Presentation of Financial Statements"

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss.

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

4. Summary of Significant Accounting Policies

Statement of Compliance

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

Basis of Preparation

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

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

The consolidated entities are listed as follows:

| Investor | Subsidiary | Business nature | Percentage of Ownership | | Note |
|------------------------------|---|-----------------------------------|-------------------------|-------------------|------|
| | | | December 31, 2014 | December 31, 2013 | |
| MTK | MediaTek Investment Corp. | General investing | - | 100% | 1 |
| MTK | Hsu-Ta Investment Corp. | General investing | 100% | 100% | - |
| MTK | MediaTek Singapore Pte. Ltd. | Research, manufacturing and sales | 100% | 100% | - |
| MTK | Ralink Technology Corp. | Research, manufacturing and sales | - | 100% | 2 |
| MTK | MediaTek Investment Singapore Pte. Ltd. | General investing | 100% | - | 1&3 |
| MTK | T-Rich Technology (Cayman) Corp. | General investing | 100% | - | 2 |
| MTK | MStar Semiconductor, Inc. | Research, manufacturing and sales | 100% | - | 3&11 |
| Hsu-Ta Investment Corp. | Core Tech Resources Inc. | General investing | 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% | 4 |
| MediaTek Investment Corp. | Gaintech Co. Limited | General investing | - | 100% | 1 |
| Ralink Technology Corp. | T-Rich Technology (Cayman) Corp. | General investing | - | 100% | 2 |
| Ralink Technology Corp. | MediaTek USA Inc. | Research | - | 11% | 2 |
| MediaTek Singapore Pte. Ltd. | MTK Wireless LLC (Dubai) | Technology services | - | 100% | 6 |

(To be continued)

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

(Continued)

| Investor | Subsidiary | Business nature | Percentage of Ownership | | Note |
|--------------------------|--|-----------------------------------|-------------------------|-------------------|------|
| | | | December 31, 2014 | December 31, 2013 | |
| MediaTek Capital Corp. | RollTech Technology Co., Ltd. | Software development | 67% | 67% | - |
| MediaTek Capital Corp. | E-Vehicle Semiconductor Technology Co., Ltd. | Research, manufacturing and sales | 72% | 72% | - |
| Core Tech Resources Inc. | MediaTek India Technology Pvt. Ltd. | Research | 0% | 0% | - |
| Gaintech Co. Limited | MediaTek China Limited | General investing | 100% | 100% | - |
| Gaintech Co. Limited | MTK Wireless Limited (UK) | Research | 100% | 100% | - |
| Gaintech Co. Limited | MediaTek Denmark Aps | Research | - | 100% | 7 |
| Gaintech Co. Limited | MediaTek Japan Inc. | Research | 100% | 100% | - |
| Gaintech Co. Limited | MediaTek India Technology Pvt. Ltd. | Research | 100% | 100% | - |
| Gaintech Co. Limited | MediaTek Korea Inc. | Research | 100% | 100% | - |
| Gaintech Co. Limited | MediaTek USA Inc. | Research | - | 89% | 7 |
| Gaintech Co. Limited | Hesine Technologies International Worldwide Inc. | General investing | 65% | 65% | - |
| Gaintech Co. Limited | Gold Rich International (Samoa) Limited | General investing | 100% | 100% | - |
| Gaintech Co. Limited | Smarthead Limited | General investing | 100% | 100% | - |
| Gaintech Co. Limited | Lepower Limited | General investing | 100% | 84% | - |
| Gaintech Co. Limited | Ralink Technology (Samoa) Corp. | General investing | 100% | 100% | - |
| Gaintech Co. Limited | MediaTek Sweden AB | Research | - | 100% | 7 |
| Gaintech Co. Limited | EcoNet (Cayman) Inc. | General investing | 88% | 100% | - |
| Gaintech Co. Limited | MediaTek Wireless FZ-LLC | Technology services | 100% | 100% | - |
| MediaTek China Limited | MediaTek (Hefei) Inc. | Research | 100% | 100% | - |

(To be continued)

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

(Continued)

| Investor | Subsidiary | Business nature | Percentage of Ownership | | Note |
|--|---|-----------------------------------|-------------------------|-------------------|------|
| | | | December 31, 2014 | December 31, 2013 | |
| MediaTek China Limited | MediaTek (Beijing) Inc. | Research | 100% | 100% | - |
| MediaTek China Limited | MediaTek (Shenzhen) Inc. | Research and technology services | 100% | 100% | - |
| MediaTek China Limited | MediaTek (Chengdu) Inc. | Research | 100% | 100% | - |
| MediaTek China Limited | MediaTek (Wuhan) Inc. | Research | 100% | 100% | - |
| MediaTek China Limited | MediaTek (Shanghai) Inc. | Research | 100% | 100% | - |
| MediaTek China Limited | MStar Chen Si Electronics Technology (Shanghai) Co., Ltd. | Research and technology services | 100% | - | 12 |
| MTK Wireless Limited (UK) | MediaTek Sweden AB | Research | 100% | - | 7 |
| MTK Wireless Limited (UK) | MediaTek USA Inc. | Research | 100% | - | 2&7 |
| MTK Wireless Limited (UK) | MediaTek Denmark Aps | Research | 100% | - | 7 |
| MTK Wireless Limited (UK) | MediaTek Wireless Finland Oy | Research | 100% | - | 10 |
| MediaTek USA Inc. | Ralink Technology Corporation (USA) | Research | - | 100% | 8 |
| Hesine Technologies International Worldwide Inc. | Hesine Technologies, Inc. | Technology services | 100% | 100% | - |
| Gold Rich International (Samoa) Limited | Gold Rich International (HK) Limited | General investing | 100% | 100% | - |
| Lepower Limited | Lepower (HK) Limited | General investing | 100% | 100% | - |
| Lepower (HK) Limited | Lepower Technologies (Beijing), Inc. | Research, manufacturing and sales | 91% | 100% | - |

(To be continued)

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

(Continued)

| Investor | Subsidiary | Business nature | Percentage of Ownership | | Note |
|--|--|-----------------------------------|-------------------------|-------------------|------|
| | | | December 31, 2014 | December 31, 2013 | |
| E-Vehicle Semiconductor Technology Co., Ltd. | E-Vehicle Holdings Corp. | General investing | 100% | 100% | - |
| E-Vehicle Holdings Corp. | E-Vehicle Investment Limited | General investing | 100% | 100% | - |
| E-Vehicle Investment Limited | E-Vehicle Semiconductor (Shanghai) Co., Ltd. | Research, manufacturing and sales | 100% | 100% | - |
| EcoNet (Cayman) Inc. | Shadow Investment Limited | General investing | 100% | 100% | - |
| EcoNet (Cayman) Inc. | EcoNet (HK) Limited | Research, manufacturing and sales | 100% | 100% | - |
| EcoNet (HK) Limited | EcoNet (Suzhou) Limited | Research, manufacturing and sales | 100% | - | 9 |
| Shadow Investment Limited | MediaTek (Suzhou) Inc. | Research | 100% | 100% | - |
| Shadow Investment Limited | MediaTek (Nanjing) Inc. | Research | 100% | 100% | - |
| Ralink Technology (Samoa) Corp. | AutoChips Inc. | Research, manufacturing and sales | 89% | 100% | - |
| 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. | White Dwarf Limited | General investing | 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 CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

| Investor | Subsidiary | Business nature | Percentage of Ownership | | Note |
|---------------------------|-------------------------------------|-----------------------------------|-------------------------|-------------------|------|
| | | | December 31, 2014 | December 31, 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 |

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, two of its subsidiaries Cheng Du All Fresh Food Co., Ltd. and MStar India Private Limited have been dissolved in March and August 2014, respectively.
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. jointly established MediaTek Bangalore Private Limited in May 2014.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

6. For the purpose of reorganization, MediaTek Wireless LLC (Dubai) has been liquidated and returned its capital in September 2014.
7. 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.
8. For the purpose of reorganization, Ralink Technology Corporation (USA) was dissolved due to the merger with MediaTek USA Inc. in July 2014.
9. EcoNet (HK) Limited established EcoNet (Suzhou) Limited in April 2014.
10. MTK Wireless Limited (UK) established MediaTek Wireless Finland Oy in October 2014.
11. The 100% ownership of MStar Semiconductor, Inc., which was previously owend by MStar Semiconductor B.V., was transferred to MTK in November 2014.
12. The 100% ownership of MStar Chen Si Electronics Technology (Shanghai) Co., Ltd., which was previously owned by MStar Software R&D (Shenzhen), Ltd., was transferred to MediaTek China Limited in November 2014.

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

Foreign currency transactions

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

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

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

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- B. Foreign currency items within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

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

Translation of financial statements in foreign currency

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

Cash and cash equivalents

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

Financial instruments

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

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

A. Financial assets

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

a. Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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

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

b. Available-for-sale financial assets

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

c. Held-to-maturity financial assets

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

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

d. Loans and receivables

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

e. Impairment of financial assets

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

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

Other loss events include:

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

f. Derecognition of financial assets

A financial asset is derecognized when:

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

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

B. Financial liabilities and equity

a. Classification between liabilities or equity

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

b. Equity instruments

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

c. Financial liabilities

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

(b) Financial liabilities at amortized cost

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

(c) Derecognition of financial liabilities

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

C. Offsetting of financial instruments

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

D. Fair value of financial instruments

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

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

Derivative financial instrument

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Inventories

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

Investments accounted for using the equity method

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

Property, plant and equipment

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

Leases

A. The Company as a lessee

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

B. The Company as a lessor

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

Intangible assets

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

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

The Company's intangible assets mainly include trademarks, patents, software, 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Impairment of non-financial assets

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Treasury shares

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

Revenue recognition

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

A. Sale of goods

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

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

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

B. Interest income

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

C. Dividends

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Post-employment benefits

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

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

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

Share-based payment transactions

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

Income taxes

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

A. Current income tax

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

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

B. Deferred tax

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

Business combinations and goodwill

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

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

Estimates and assumptions

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

A. Fair value of financial instruments

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

B. Valuation of inventory

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

C. Income tax

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

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

D. Revenue recognition - sales returns and discounts

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

6. Contents of Significant Accounts

(1) Cash and cash equivalents

| | December 31, 2014 | December 31, 2013 |
|-------------------------------|-----------------------|-----------------------|
| Cash on hand and petty cash | \$ 2,525 | \$ 1,102 |
| Checking and savings accounts | 29,446,795 | 13,315,702 |
| Time deposits | 163,348,186 | 119,680,922 |
| Total | <u>\$ 192,797,506</u> | <u>\$ 132,997,726</u> |

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

Cash and cash equivalents were not pledged.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(2) Financial assets and financial liabilities at fair value through profit or loss**

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

| | December 31, 2014 | December 31, 2013 |
|-------------------------------|----------------------|----------------------|
| <u>Current</u> | | |
| Exchange rate-linked deposits | \$ 2,385,563 | \$ 721,039 |
| Interest rate-linked deposits | 599,766 | 562,835 |
| Credit-linked deposits | 295,272 | 319,603 |
| Index-linked deposits | 255,626 | 297,942 |
| Convertible bonds | - | 221,777 |
| Subtotal | 3,536,227 | 2,123,196 |
| <u>Noncurrent</u> | | |
| Credit-linked deposits | 1,396,856 | 823,058 |
| Exchange rate-linked deposits | 1,677,514 | - |
| Index-linked deposits | 903,224 | - |
| Convertible bonds | 63,199 | 94,583 |
| Bonds- Reverse Repo | - | 289,332 |
| Interest rate-linked deposits | - | 271,734 |
| Subtotal | 4,040,793 | 1,478,707 |
| Total | \$ 7,577,020 | \$ 3,601,903 |

Financial assets and financial liabilities held for trading:

| | December 31, 2014 | December 31, 2013 |
|----------------------------|----------------------|----------------------|
| <u>Current assets</u> | | |
| Forward exchange contracts | \$ 1,933 | \$ 8,894 |
| Stocks | 9,057 | - |
| Total | \$ 10,990 | \$ 8,894 |
| <u>Current liabilities</u> | | |
| Forward exchange contracts | \$ 50,393 | \$ 26,017 |

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

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(3) Available-for-sale financial assets**

| | December 31, 2014 | December 31, 2013 |
|---------------------|----------------------|----------------------|
| <u>Current</u> | | |
| Stocks | \$ 5,308,419 | \$ 1,746,775 |
| Funds | 1,967,791 | 1,570,378 |
| Bonds | 271,022 | 86,391 |
| Depository receipts | 28,010 | 22,577 |
| Subtotal | 7,575,242 | 3,426,121 |
| <u>Noncurrent</u> | | |
| Funds | 3,347,137 | 2,838,444 |
| Bonds | 1,546,954 | 1,648,910 |
| Subtotal | 4,894,091 | 4,487,354 |
| Total | \$ 12,469,333 | \$ 7,913,475 |

Available-for-sale financial assets were not pledged.

(4) Financial assets measured at cost

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| <u>Available-for-sale financial assets-noncurrent</u> | | |
| Capital | \$ 2,509,126 | \$ 1,156,489 |
| Non-publicly traded stocks | 1,273,258 | 905,074 |
| Total | \$ 3,782,384 | \$ 2,061,563 |

Financial assets measured at cost were not pledged.

(5) Held-to-maturity financial assets

| | December 31, 2014 | December 31, 2013 |
|-------------------|----------------------|----------------------|
| <u>Current</u> | | |
| Bonds | \$ 288,378 | \$ 549,573 |
| <u>Noncurrent</u> | | |
| Bonds | 127,787 | 341,937 |
| Total | \$ 416,165 | \$ 891,510 |

Held-to-maturity financial assets were not pledged.

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(6) Bond investments for which no active market exists**

| | December 31, 2014 | December 31, 2013 |
|-------------------|----------------------|----------------------|
| <u>Current</u> | | |
| Bonds | \$ 1,074,391 | \$ - |
| Time deposits | 11,755 | 113,678 |
| Subtotal | 1,086,146 | 113,678 |
| <u>Noncurrent</u> | | |
| Time deposits | 946 | 364 |
| Total | \$ 1,087,092 | \$ 114,042 |

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

(7) Trade receivables

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| Trade receivables | \$ 18,369,294 | \$ 14,706,067 |
| Less: allowance for doubtful debts | (162,112) | (84,875) |
| Less: allowance for sales returns and discounts | (5,654,783) | (6,993,601) |
| Total | \$ 12,552,399 | \$ 7,627,591 |

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 | - | 26,806 | 26,806 |
| Effect of acquisition of subsidiaries | - | 50,000 | 50,000 |
| Exchange differences | - | 431 | 431 |
| As of December 31, 2014 | \$ - | \$ 162,112 | \$ 162,112 |

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

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

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 | |
| December 31, 2014 | \$ 11,820,401 | \$ 731,998 | \$ - | \$ 12,552,399 |
| December 31, 2013 | \$ 7,383,181 | \$ 243,386 | \$ 1,024 | \$ 7,627,591 |

The Company entered into several factoring agreements without recourse with financial institutions. According to those agreements, the Company does not take the risk of uncollectible trade receivables, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related trade receivables after deducting the estimated value of commercial disputes. The Company has not withdrawn cash entitled by the factoring agreements from banks as of December 31, 2014 and 2013. Receivables from banks due to factoring agreement were NT\$2,062,053 thousand, and NT\$2,697,718 thousand, respectively.

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

A. As of December 31, 2014:

| The Factor (Transferee) | Interest rate | Trade receivables | Cash | Unutilized (US\$'000) | Credit line (US\$'000) |
|----------------------------|------------------|----------------------------|-------------------------|--------------------------|---------------------------|
| | | derecognized (US\$'000) | withdrawn (US\$'000) | | |
| Taishin International Bank | - | \$ 46,440 | \$ - | \$ 46,440 | \$ 117,490 |
| BNP Paribas | - | 18,049 | - | 18,049 | 105,000 |
| HSBC | - | 340 | - | 340 | 800 |
| TC Bank | - | 183 | - | 183 | 16,500 |
| Total | | \$ 65,012 | \$ - | \$ 65,012 | \$ 239,790 |

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

B. As of December 31, 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 |

(8) Inventories

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|----------------------|
| Raw materials | \$ 1,354,891 | \$ 4,787 |
| Work in progress | 15,838,703 | 7,320,888 |
| Finished goods | 13,297,586 | 5,268,422 |
| Total | 30,491,180 | 12,594,097 |
| Less: allowance for inventory valuation losses | (8,149,844) | (3,247,305) |
| Net amount | \$ 22,341,336 | \$ 9,346,792 |

For the years ended December 31, 2014 and 2013, the cost of inventories recognized in expenses amounted to NT\$109,194,295 thousand and NT\$76,250,370 thousand, including the write-down of inventories of NT\$3,772,317 thousand and NT\$1,271,330 thousand for the years ended December 31, 2014 and 2013.

No inventories were pledged.

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

(9) Investments accounted for using the equity method

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

| Investees | December 31, 2014 | | December 31, 2013 | |
|---------------------------------------|---------------------|-----------------------------|----------------------|-----------------------------|
| | Carrying amount | Percentage of ownership (%) | Carrying amount | Percentage of ownership (%) |
| MStar Semiconductor, Inc. | | | | |
| (Cayman) | \$ - | - | \$ 58,192,878 | 48 |
| Airoha Technology Corp. | 513,685 | 28 | 284,779 | 32 |
| Shenzhen Huiding Technology Co., Ltd. | 1,055,423 | 24 | 704,232 | 24 |
| Alpha Imaging Technology Corp. | 175,767 | 15 | 135,913 | 15 |
| Others | 409,738 | - | 351,959 | - |
| Total | <u>\$ 2,154,613</u> | | <u>\$ 59,669,761</u> | |

The carrying amount of investments in the associates for which there were published price quotations amounted to NT\$175,767 thousand, and NT\$58,328,791 thousand, as of December 31, 2014 and 2013, respectively. The fair values of these investments were NT\$129,269 thousand, and NT\$88,354,325 thousand, as of December 31, 2014 and 2013, respectively.

The share of profit of these associates accounted for using the equity method amounted to NT\$983,941 thousand and NT\$2,150,963 thousand for the years ended December 31, 2014 and 2013, respectively. The share of other comprehensive income of these associates accounted for using the equity method amounted to NT\$(22,549) thousand and NT\$1,554,911 thousand for the years ended December 31, 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

No investment in the associates was pledged.

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

| | December 31, 2014 | December 31, 2013 |
|-------------------|-------------------|-------------------|
| Total assets | \$ 9,056,416 | \$ 49,504,796 |
| Total liabilities | \$ 1,613,190 | \$ 11,080,916 |

| | For the years ended December 31 | |
|------------|---------------------------------|---------------|
| | 2014 | 2013 |
| Net Sales | \$ 8,922,357 | \$ 40,025,789 |
| Net Income | \$ 2,353,463 | \$ 5,543,109 |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(10) Property, plant and equipment

| | Land | Buildings and facilities | Machinery equipment | Computer and telecommunication equipment | Testing equipment | Miscellaneous equipment | Construction in progress and equipment awaiting examination | Total |
|--|---------------------|--------------------------|---------------------|--|---------------------|-------------------------|---|----------------------|
| Cost: | | | | | | | | |
| As of January 1, 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 | 180,440 | 104,751 | 12,436 | 737,772 | 1,331,236 | 232,290 | 7,294,968 | 9,893,893 |
| Additions-acquired through business combinations | 1,857,153 | 1,096,303 | 95,698 | - | 67,590 | 114,219 | 15,457 | 3,246,420 |
| Disposals | - | (13,472) | (163,745) | (209,477) | (166,608) | (319,485) | - | (872,787) |
| Transfers | - | 530,508 | - | 31,969 | (10,704) | (5,720) | (546,543) | (490) |
| Exchange differences | 82,048 | 144,441 | 10,395 | 72,426 | 40,300 | 65,346 | 18,251 | 433,207 |
| As of December 31, 2014 | <u>\$ 3,393,510</u> | <u>\$ 10,941,518</u> | <u>\$ 77,459</u> | <u>\$ 2,919,794</u> | <u>\$ 4,513,002</u> | <u>\$ 1,279,050</u> | <u>\$ 7,793,385</u> | <u>\$ 30,917,718</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 | - | 319,349 | 3,668 | 271,900 | 312,339 | 30,348 | 751,478 | 1,689,082 |
| Disposals | - | (12,588) | (7,077) | (109,531) | (116,064) | (8,755) | - | (254,015) |
| Transfers | - | 1,969,228 | (277) | 1,276 | 14,765 | 4,199 | (1,991,731) | (2,540) |
| Exchange differences | - | 13,691 | 600 | 51,787 | 27,096 | 378 | 110,012 | 203,564 |
| As of December 31, 2013 | <u>\$ 1,273,869</u> | <u>\$ 9,078,987</u> | <u>\$ 122,675</u> | <u>\$ 2,287,104</u> | <u>\$ 3,251,188</u> | <u>\$ 1,192,400</u> | <u>\$ 1,011,252</u> | <u>\$ 18,217,475</u> |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| | Land | Buildings and facilities | Machinery equipment | Computer and telecommunication equipment | Testing equipment | Miscellaneous equipment | Construction in progress and equipment awaiting examination | Total |
|------------------------------|---------------------|-----------------------------|------------------------|--|----------------------|----------------------------|--|----------------------|
| Depreciation and impairment: | | | | | | | | |
| As of January 1, 2014 | \$ - | \$ 1,809,281 | \$ 108,709 | \$ 1,701,616 | \$ 2,396,821 | \$ 888,941 | \$ - | \$ 6,905,368 |
| Depreciation | - | 294,534 | 21,538 | 364,765 | 432,860 | 198,944 | - | 1,312,641 |
| Disposals | - | (11,967) | (122,729) | (195,113) | (139,376) | (295,323) | - | (764,508) |
| Transfers | - | - | - | - | - | 205 | - | 205 |
| Exchange differences | - | 18,183 | 6,515 | 59,591 | 32,050 | 53,118 | - | 169,457 |
| As of December 31, 2014 | <u>\$ -</u> | <u>\$ 2,110,031</u> | <u>\$ 14,033</u> | <u>\$ 1,930,859</u> | <u>\$ 2,722,355</u> | <u>\$ 845,885</u> | <u>\$ -</u> | <u>\$ 7,623,163</u> |
| As of January 1, 2013 | \$ - | \$ 1,591,536 | \$ 108,287 | \$ 1,390,119 | \$ 2,065,704 | \$ 693,244 | \$ - | \$ 5,848,890 |
| Depreciation | - | 222,096 | 7,023 | 376,020 | 393,617 | 183,435 | - | 1,182,191 |
| Disposals | - | (6,749) | (7,077) | (91,551) | (94,447) | (7,544) | - | (207,368) |
| Transfers | - | (117) | (5) | - | 291 | (146) | - | 23 |
| Exchange differences | - | 2,515 | 481 | 27,028 | 31,656 | 19,952 | - | 81,632 |
| As of December 31, 2013 | <u>\$ -</u> | <u>\$ 1,809,281</u> | <u>\$ 108,709</u> | <u>\$ 1,701,616</u> | <u>\$ 2,396,821</u> | <u>\$ 888,941</u> | <u>\$ -</u> | <u>\$ 6,905,368</u> |
| Net carrying amount as of: | | | | | | | | |
| December 31, 2014 | <u>\$ 3,393,510</u> | <u>\$ 8,831,487</u> | <u>\$ 63,426</u> | <u>\$ 988,935</u> | <u>\$ 1,790,647</u> | <u>\$ 433,165</u> | <u>\$ 7,793,385</u> | <u>\$ 23,294,555</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> |

Property, plant and equipment were not pledged.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(11) Intangible assets

| | Trademarks | Software | 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 | - | 496,990 | - | 298,766 | - | 795,756 |
| Additions-acquired through business combinations | 373,989 | 101,587 | 2,511,002 | 2,500,694 | 39,085,832 | 44,573,104 |
| Disposals | - | (41,062) | - | (760,318) | - | (801,380) |
| Transfers | - | (1,113) | - | 1,808 | - | 695 |
| Exchange differences | 16,523 | 47,172 | 110,935 | 291,402 | 1,085,287 | 1,551,319 |
| As of f December 31, 2014 | <u>\$ 422,914</u> | <u>\$ 1,273,257</u> | <u>\$ 2,621,937</u> | <u>\$ 6,603,476</u> | <u>\$ 54,136,415</u> | <u>\$ 65,057,999</u> |
| As of January 1, 2013 | \$ 32,985 | \$ 1,005,067 | \$ - | \$ 8,083,810 | \$ 13,949,611 | \$ 23,071,473 |
| Additions-acquired separately | - | 61,395 | - | 263,019 | - | 324,414 |
| Disposals | - | (398,935) | - | (4,077,108) | - | (4,476,043) |
| Transfers | - | 2,563 | - | - | - | 2,563 |
| Exchange differences | - | (127) | - | 13,228 | 15,685 | 28,786 |
| Others | (583) | (280) | - | (11,825) | - | (12,688) |
| As of December 31, 2013 | <u>\$ 32,402</u> | <u>\$ 669,683</u> | <u>\$ -</u> | <u>\$ 4,271,124</u> | <u>\$ 13,965,296</u> | <u>\$ 18,938,505</u> |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO 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 | 57,630 | 291,677 | 329,940 | 773,911 | - | 1,453,158 |
| Disposals | - | (41,062) | - | (760,318) | - | (801,380) |
| Transfers | - | (1,155) | - | 1,155 | - | - |
| Exchange differences | - | 52,308 | - | 166,775 | - | 219,083 |
| As of December 31, 2014 | <u>\$ 90,032</u> | <u>\$ 856,677</u> | <u>\$ 329,940</u> | <u>\$ 3,023,524</u> | <u>\$ -</u> | <u>\$ 4,300,173</u> |
| As of January 1, 2013 | \$ 18,046 | \$ 828,805 | \$ - | \$ 6,497,174 | \$ - | \$ 7,344,025 |
| Amortization | 14,356 | 123,845 | - | 406,438 | - | 544,639 |
| Disposals | - | (398,935) | - | (4,077,108) | - | (4,476,043) |
| Exchange differences | - | (633) | - | 4,074 | - | 3,441 |
| Others | - | 1,827 | - | 11,423 | - | 13,250 |
| As of December 31, 2013 | <u>\$ 32,402</u> | <u>\$ 554,909</u> | <u>\$ -</u> | <u>\$ 2,842,001</u> | <u>\$ -</u> | <u>\$ 3,429,312</u> |
| Net carrying amount as of: | | | | | | |
| December 31, 2014 | <u>\$ 332,882</u> | <u>\$ 416,580</u> | <u>\$ 2,291,997</u> | <u>\$ 3,579,952</u> | <u>\$ 54,136,415</u> | <u>\$ 60,757,826</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> |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(12) Impairment testing of goodwill

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

The recoverable amount of the cash-generating unit is determined based on the value-in-use calculated using cash flow projections discounted by the pre-tax discount rate from financial budgets approved by management covering a five-year period. The projected cash flows reflect the change in demand for products and services. As a result of the analysis, the Company did not identify any impairment for the goodwill of NT\$54,136,415 thousand.

Key assumptions used in value-in-use calculations

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

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

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

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

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

Sensitivity to changes in assumptions

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

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(13) Short-term borrowings**

| | December 31, 2014 | December 31, 2013 |
|-------------------------|-------------------|-------------------|
| Unsecured bank loans | \$ 46,160,593 | \$ 29,051,500 |
| Interest rates | 0.60~1.83% | 0.75~2.55% |
| Unused lines of credits | \$ 42,748,541 | \$ 5,988,350 |

(14) Post-employment benefitsDefined 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 years ended December 31, 2014 and 2013 were NT\$1,004,244 thousand and NT\$702,388 thousand, respectively.

Defined benefits plan

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

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

| | For the years ended December 31 | |
|--------------------------------|---------------------------------|-----------|
| | 2014 | 2013 |
| Current service cost | \$ 2,871 | \$ 4,764 |
| Interest cost | 14,325 | 9,413 |
| Expected return on plan assets | (2,191) | (1,270) |
| Past service cost | - | - |
| Total | \$ 15,005 | \$ 12,907 |

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

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

| | For the years ended December 31 | |
|---------------------------------|---------------------------------|-------------------|
| | 2014 | 2013 |
| As of January 1 | \$ 145,128 | \$ 103,084 |
| Actuarial losses for the period | 328,043 | 42,044 |
| As of December 31 | <u>\$ 473,171</u> | <u>\$ 145,128</u> |

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

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| Defined benefit obligation at present value | \$ 1,062,300 | \$ 675,485 |
| Plan assets at fair value | (121,304) | (69,452) |
| Accrued pension liabilities recognized on the consolidated balance sheets | <u>\$ 940,996</u> | <u>\$ 606,033</u> |

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

| | For the years ended December 31 | |
|--|---------------------------------|-------------------|
| | 2014 | 2013 |
| Defined benefit obligation as of January 1 | \$ 675,485 | \$ 627,560 |
| Current service cost | 2,871 | 4,764 |
| Interest cost | 14,325 | 9,413 |
| Effect of acquisition of subsidiaries | 40,913 | - |
| Actuarial losses | 328,706 | 41,680 |
| Benefits paid | - | (7,932) |
| Defined benefit obligation as of December 31 | <u>\$ 1,062,300</u> | <u>\$ 675,485</u> |

Changes in fair value of plan assets are as follows:

| | For the years ended December 31 | |
|---|---------------------------------|------------------|
| | 2014 | 2013 |
| Fair value of plan assets as of January 1 | \$ 69,452 | \$ 71,806 |
| Expected return on plan assets | 2,191 | 1,270 |
| Contributions by employer | 4,000 | 2,022 |
| Effect of acquisition of subsidiaries | 44,998 | - |
| Benefits paid | - | (7,932) |
| Actuarial losses | 663 | (364) |
| Others | - | 2,650 |
| Fair value of plan assets as of December 31 | <u>\$ 121,304</u> | <u>\$ 69,452</u> |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The Company expects to contribute NT\$24,308 thousand to its defined benefit plan for the year ended December 31, 2015.

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

| | Pension plan (%) as of | |
|--------------------|------------------------|----------------------|
| | December 31, 2014 | December 31, 2013 |
| Cash | 21.10% | 26.96% |
| Equity instruments | 49.69% | 44.77% |
| Debt instruments | 26.38% | 27.48% |
| Others | 2.83% | 0.79% |

The Company's actual return on plan assets was NT\$2,854 thousand and NT\$906 thousand for the years ended December 31, 2014 and 2013.

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

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

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|----------------------|
| Discount rate | 2.00~2.25% | 2.00% |
| Expected rate of return on plan assets | 1.75~2.25% | 2.00% |
| Expected rate of salary increases | 3.00~4.50% | 3.00~3.40% |

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

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

| | For the years ended December 31 | | | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | 2014 | | 2013 | |
| | 0.5% increase in discount rate | 0.5% decrease in discount rate | 0.5% increase in discount rate | 0.5% decrease in discount rate |
| Effect on the aggregate service cost in next period | \$ (258) | \$ 291 | \$ (189) | \$ 214 |
| Effect on the defined benefit obligation | \$ (111,030) | \$ 125,568 | \$ (73,400) | \$ 83,325 |

The Company has elected to disclose amounts required by paragraph 120A(p) of IAS 19 prospectively from the date of transition to TIFRS. The related account balances of defined benefit plan for the years ended 2014, 2013 and 2012 are as followings:

| | For the years ended December 31 | | |
|--|---------------------------------|-------------|-------------|
| | 2014 | 2013 | 2012 |
| Defined benefit obligation at present value as of December 31 | \$ 1,062,300 | \$ 675,485 | \$ 627,560 |
| Plan assets at fair value as of December 31 | (121,304) | (69,452) | (71,806) |
| Deficit in plan as of December 31 | \$ 940,996 | \$ 606,033 | \$ 555,754 |
| Experience adjustments on plan liabilities | \$ (46,681) | \$ (23,200) | \$ (21,232) |
| Experience adjustments on plan assets | \$ 663 | \$ (364) | \$ (606) |

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

MTK's authorized capital as of December 31, 2014 and 2013 was NT\$20,000,000 thousand, divided into 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\$15,714,455 thousand and NT\$13,494,667 thousand, divided into 1,571,445,544 shares and 1,349,466,701 shares, as of December 31, 2014 and 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.

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

MTK totally issued 654,373 new shares and 333,580 new shares for the years ended December 31, 2014 and 2013, respectively, at par value of NT\$10 for the employee stock options exercised. Furthermore, 46,700 shares (NT\$467 thousand in the amount), and 247,293 shares (NT\$2,473 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance as of December 31, 2014 and 2013, respectively.

B. Capital surplus

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|----------------------|
| Additional paid-in capital | \$ 85,824,767 | \$ 66,585,671 |
| Treasury share transactions | 1,198,502 | 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 |
| Changes in ownership interests in subsidiaries | 215,280 | 12,129 |
| Donated assets | 1,261 | 1,260 |
| From share of changes in net assets of associates | 68,650 | 51,144 |
| Employee stock options | 465,777 | 401,842 |
| Others | 123,712 | 191,308 |
| Total | <u>\$ 88,047,914</u> | <u>\$ 68,474,910</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 December 31, 2014 and 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 December 31, 2014 and 2013, MTK did not hold any other treasury shares.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO 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 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 years ended December 31, 2014 and 2013, the amounts of the employees' bonuses were estimated to be NT\$579,974 thousand and NT\$1,593,476 thousand, respectively. During the years ended December 31, 2014 and 2013, the amounts of remunerations to directors and supervisors were estimated to be NT\$84,192 thousand and NT\$56,784 thousand, respectively. The employees' bonuses were estimated based on a specific rate of net income for the years ended December 31, 2014 and 2013 (excluding the impact of employees' bonuses) while the remunerations to directors and supervisors were estimated based on MTK's Articles of Incorporation. Estimated amount of employees' bonuses and remunerations paid to directors and supervisors were charged to current income. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, MTK shall recognize the change as an adjustment to income of next year. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of shares on the day preceding the shareholders' meeting.

The appropriations of earnings for 2013 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 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 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 | 6,645,482 | - | 6,645,482 |
| Unrealized gains from available-for-sale financial assets | - | 841,778 | 841,778 |
| Unrealized gains reclassified to profit or loss from available-for-sale financial assets | - | 37,151 | 37,151 |
| Share of other comprehensive income of associates accounted for using equity method | (22,549) | - | (22,549) |
| As of December 31, 2014 | \$ 4,218,292 | \$ 2,387,821 | \$ 6,606,113 |

| | Exchange differences resulting from translating the financial statements of foreign operations | Unrealized gains from available-for-sale financial assets | Total |
|--|---|--|----------------|
| As of January 1, 2013 | \$ (5,762,485) | \$ 579,111 | \$ (5,183,374) |
| Exchange differences resulting from translating the financial statements of foreign operations | 1,802,933 | - | 1,802,933 |
| Unrealized gains from available-for-sale financial assets | - | 782,101 | 782,101 |
| Unrealized gains reclassified to profit or loss from available-for-sale financial assets | - | 147,680 | 147,680 |
| Share of other comprehensive income of associates accounted for using equity method | 1,554,911 | - | 1,554,911 |
| As of December 31, 2013 | \$ (2,404,641) | \$ 1,508,892 | \$ (895,749) |

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

F. Non-controlling interests

| | For the years ended December 31 | |
|--|---------------------------------|------------------|
| | 2014 | 2013 |
| Beginning balance | \$ 38,193 | \$ 34,209 |
| Gain (loss) attributable to non-controlling interests | 1,181 | (30,402) |
| Other comprehensive income, attributable to non-controlling interests, net of tax: | | |
| Exchange differences resulting from translating the financial statements of foreign operations | 39,171 | 8,244 |
| Changes in ownership interests in subsidiaries | 359,054 | 26,142 |
| Ending balance | <u>\$ 437,599</u> | <u>\$ 38,193</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 | 299,326 | 299,326 | \$ 358.0 |
| 2008.08.28 | 1,640,285 | 490,164 | 490,164 | 344.5 |
| 2009.08.18 | 1,382,630 | 584,549 | 584,549 | 429.5 |
| 2010.08.27 | 1,605,757 | 728,645 | 728,645 | 404.8 |
| 2010.11.04 | 65,839 | 14,634 | 14,634 | 377.0 |
| 2011.08.24 | 2,109,871 | 1,272,697 | 652,384 | 277.4 |
| 2012.08.14 | 1,346,795 | 1,059,040 | 284,845 | 286.8 |
| 2013.08.22 | 1,436,343 | 1,305,943 | - | 368.0 |

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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:

| | For the years ended December 31 | | | |
|--|---------------------------------|--------------------|------------------|--------------------|
| | 2014 | | 2013 | |
| | Weighted-average | | Weighted-average | |
| | Options | Exercise Price per | Options | Exercise Price per |
| Employee Stock Option | (Unit) | Share (NT\$) | (Unit) | Share (NT\$) |
| Outstanding at beginning of year | 6,641,191 | \$ 341.3 | 6,045,493 | \$ 332.7 |
| Granted | - | - | 1,436,343 | 368.0 |
| Exercised | (654,373) | 340.8 | (285,885) | 314.6 |
| Forfeited (Expired) | (231,820) | 335.6 | (554,760) | 289.1 |
| Outstanding at end of year | <u>5,754,998</u> | 341.4 | <u>6,641,191</u> | 341.3 |
| Exercisable at end of year | <u>3,054,547</u> | | <u>2,599,022</u> | |
| Weighted-average fair value of options granted during the year (in NT\$) | <u>\$ -</u> | | <u>\$ 96.5</u> | |

The weighted average share price at the date of exercise of those options were NT\$472.3 and NT\$397.3 for the years ended December 31, 2014 and 2013.

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

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

| | | December 31, 2014 | | December 31, 2013 | |
|---------------|-----------------------------------|----------------------------------|--|----------------------------------|--|
| | | Outstanding stock options | | Outstanding stock options | |
| | | Weighted- average Expected | Weighted- average Exercise Price | Weighted- average Expected | Weighted- average 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 | 0.10 | \$ 349.6 | 1.00 | \$ 349.8 |
| 2009.07.27 | 429.5 | 1.13 | 429.5 | 2.13 | 431.0 |
| 2010.05.10 | 377.0~404.8 | 2.17 | 404.3 | 3.17 | 404.3 |
| 2011.08.09 | 277.4 | 3.17 | 277.4 | 4.17 | 277.4 |
| 2012.08.09 | 286.8 | 4.13 | 286.8 | 5.13 | 286.8 |
| 2013.08.09 | 368.0 | 5.17 | 368.0 | 6.17 | 368.0 |

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

The employee stock options issued by MTK to replace Ralink's share-based payment all expired in 2013.

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

Details of Ralink's share-based payment plan to be replaced are shown below:

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

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

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

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

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

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

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

| Employee Stock Option | For the year ended December 31, 2013 | |
|---|--------------------------------------|--|
| | Options (Unit) | Weighted-average Exercise Price per Share (NT\$) |
| Outstanding at beginning of year | 52,483 | \$16.4 |
| Granted | - | - |
| Exercised | (47,695) | 16.4 |
| Forfeited (Expired) | (4,788) | 16.2 |
| Outstanding at end of year | - | - |
| Exercisable at end of year | - | - |
| Weighted-average fair value of options granted during the year (in NT\$) | \$ - | |

The weighted average share price at the date of exercise of those options was NT\$347.6 for the year ended December 31, 2013.

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

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

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

| | For the years ended December 31 | |
|-----------------------------------|---------------------------------|-----------|
| | 2014 | 2013 |
| Total equity-settled transactions | \$ 63,935 | \$ 75,799 |

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

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

| | For the years ended December 31 | |
|-----------------------------------|---------------------------------|-----------------------|
| | 2014 | 2013 |
| Sale of goods | \$ 245,883,275 | \$ 156,364,494 |
| Other operating revenues | 1,627,218 | 1,061,939 |
| Less: Sales returns and discounts | (34,447,577) | (21,370,479) |
| Net sales | <u>\$ 213,062,916</u> | <u>\$ 136,055,954</u> |

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

| | For the years ended December 31 | | | | | |
|----------------------------|---------------------------------|--------------------|---------------|-----------------|--------------------|---------------|
| | 2014 | | | 2013 | | |
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefits expense | | | | | | |
| Salaries | \$ 575,321 | \$ 29,414,231 | \$ 29,989,552 | \$ 194,538 | \$ 16,839,520 | \$ 17,034,058 |
| Labor and health insurance | \$ 78,800 | \$ 1,210,960 | \$ 1,289,760 | \$ 17,371 | \$ 731,776 | \$ 749,147 |
| Pension | \$ 13,179 | \$ 1,006,070 | \$ 1,019,249 | \$ 11,484 | \$ 703,811 | \$ 715,295 |
| Others | \$ 10,254 | \$ 934,378 | \$ 944,632 | \$ 5,984 | \$ 701,033 | \$ 707,017 |
| Depreciation | \$ 6,641 | \$ 1,306,000 | \$ 1,312,641 | \$ 2,791 | \$ 1,179,400 | \$ 1,182,191 |
| Amortization | \$ 60 | \$ 1,453,098 | \$ 1,453,158 | \$ - | \$ 544,639 | \$ 544,639 |

(19) Other income

| | For the years ended December 31 | |
|-------------------------------|---------------------------------|---------------------|
| | 2014 | 2013 |
| Rental income | \$ 25,648 | \$ 9,812 |
| Interest income | 3,125,381 | 1,755,482 |
| Dividend income | 238,877 | 167,855 |
| Gain on reversal of bad debts | - | 79,110 |
| Others | 93,429 | 390,368 |
| Total | <u>\$ 3,483,335</u> | <u>\$ 2,402,627</u> |

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(20) Other gains and losses**

| | For the years ended December 31 | |
|--|---------------------------------|--------------|
| | 2014 | 2013 |
| Losses on disposal of property, plant and equipment | \$ (2,775) | \$ (3,137) |
| Gains (losses) on disposal of investments | | |
| Available-for-sale financial assets | 4,489 | (49,780) |
| Held-to-maturity financial assets | 6,470 | - |
| Financial assets measured at cost | 700,759 | 1,772 |
| Bond investments for which no active market exists | 505 | - |
| Investments accounted for using the equity method | 216,730 | - |
| Foreign exchange gains | 601,683 | 545,463 |
| Impairment losses | | |
| Available-for-sale financial assets | (41,640) | (97,900) |
| Financial assets measured at cost | (221,732) | (380,210) |
| Gain (loss) on financial assets at fair value through profit or loss | 3,939 | (39,529) |
| Losses on financial liabilities at fair value through profit or loss | (50,393) | (26,017) |
| Others | (97,884) | (54,334) |
| Total | \$ 1,120,151 | \$ (103,672) |

(21) Finance costs

| | For the years ended December 31 | |
|--|---------------------------------|------------|
| | 2014 | 2013 |
| Interest expenses on short-term borrowings | \$ 478,782 | \$ 146,816 |

(22) Income tax

The major components of income tax expense are as follows:

| | For the years ended December 31 | |
|---|---------------------------------|--------------|
| | 2014 | 2013 |
| Current income tax | \$ 7,554,706 | \$ 2,998,863 |
| Deferred tax income | (1,782,259) | (1,008,094) |
| Others | 178,435 | 71,403 |
| Income tax expense recognized in profit or loss | \$ 5,950,882 | \$ 2,062,172 |

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

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

| | For the years ended December 31 | |
|--|---------------------------------|---------------|
| | 2014 | 2013 |
| Accounting profit before tax from continuing operations | \$ 52,349,955 | \$ 29,546,822 |
| Tax at the domestic rates applicable to profits in the country concerned | \$ 11,025,467 | \$ 6,091,788 |
| Tax effect of revenues exempt from taxation | (3,467,060) | (2,564,637) |
| Tax effect of expenses not deductible for tax purposes | (1,652,956) | (1,368,278) |
| Investment tax credits | (537,490) | (1,058,197) |
| Tax effect of deferred tax assets/liabilities | 41,390 | 178,457 |
| 10% surtax on undistributed retained earnings | 537,490 | 1,058,197 |
| Others | 4,041 | (275,158) |
| Total income tax expense recognized in profit or loss | \$ 5,950,882 | \$ 2,062,172 |

For the year ended December 31, 2014

| | Beginning balance | Recognized in profit or loss | Recognized in other comprehensive income | Charged directly to equity | Exchange differences | Ending balance |
|---|-------------------|------------------------------|--|----------------------------|----------------------|----------------|
| Temporary differences | | | | | | |
| Unrealized allowance for inventory obsolescence | \$ 362,166 | \$ 384,411 | \$ - | \$ - | \$ - | \$ 746,577 |
| Allowance for sales returns and discounts | 783,242 | 464,883 | - | - | - | 1,248,125 |
| Amortization of difference for tax purpose | 182,348 | (24,949) | - | - | - | 157,399 |
| Amortization of goodwill difference for tax purpose | (1,041,748) | 422,508 | - | - | - | (619,240) |
| Unused foreign tax losses | 172,826 | (60,483) | - | - | - | 112,343 |
| Unused tax credits | 143,363 | 53,094 | - | - | - | 196,457 |
| Others | 126,554 | 542,795 | 55,768 | - | - | 725,117 |
| Deferred tax income | | \$ 1,782,259 | \$ 55,768 | \$ - | \$ - | |
| Net deferred tax assets | \$ 728,751 | | | | | \$ 2,566,778 |
| Reflected in balance sheet as follows: | | | | | | |
| Deferred tax assets | \$ 1,778,859 | | | | | \$ 3,196,429 |
| Deferred tax liabilities | \$ (1,050,108) | | | | | \$ (629,651) |

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

For the year ended December 31, 2013

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

Integrated income tax information

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|----------------------|
| Balance of the imputation credit account | <u>\$ 7,667,187</u> | <u>\$ 1,892,716</u> |

The estimated and actual creditable ratios for 2014 and 2013 were 11.71% and 4.34%, respectively.

MTK's earnings generated prior to December 31, 1997 have been fully appropriated.

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

As of December 31, 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 2012 | (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 2012, 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 filed 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.

| | For the years ended December 31 | |
|--|---------------------------------|---------------|
| | 2014 | 2013 |
| A. Basic earnings per share | | |
| Profit attributable to ordinary equity owners of the parent (in thousand NT\$) | \$ 46,397,892 | \$ 27,515,052 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (share) | 1,544,565,142 | 1,341,660,900 |
| Basic earnings per share (NT\$) | \$ 30.04 | \$ 20.51 |

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

| | For the years ended December 31 | |
|--|---------------------------------|---------------|
| | 2014 | 2013 |
| B. Diluted earnings per share | | |
| Profit attributable to ordinary equity owners of the parent (in thousand NT\$) | \$ 46,397,892 | \$ 27,515,052 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (share) | 1,544,565,142 | 1,341,660,900 |
| Effect of dilution: | | |
| Employee bonuses-stock (share) | 2,695,764 | 4,851,460 |
| Employee stock options (share) | 1,637,031 | 652,161 |
| Weighted average number of ordinary shares outstanding after dilution (share) | 1,548,897,937 | 1,347,164,521 |
| Diluted earnings per share (NT\$) | \$ 29.96 | \$ 20.42 |

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 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 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 December 31, 2014, MStar has contributed NT\$35,524,045 thousand of net sales and NT\$5,473,066 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\$216,006,494 thousand and NT\$46,633,940 thousand.

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

Lepower Technologies (Beijing), Inc., AutoChips Inc. and EcoNet (Caymen) Inc. issued new shares in February, August and November 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 remains. The difference between the fair value of purchased equity investments and the increase in the non-controlling interest was NT\$203,151 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.

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

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

| | For the years ended December 31 | |
|------------|---------------------------------|------|
| | 2014 | 2013 |
| Associates | \$ 3,577 | \$ - |

For the years ended December 31, 2014 and 2013, respectively, the trade credit term for related parties and third-party customers were both 45 to 60 days. Third-party customers may pay their accounts in advance.

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

| | For the years ended December 31 | |
|-----------------------|---------------------------------|--------------|
| | 2014 | 2013 |
| Other related parties | \$ 4,879,016 | \$ 6,908,329 |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

C. Consign research and development expense and license expense

| | For the years ended December 31 | |
|-----------------------|---------------------------------|------------------|
| | 2014 | 2013 |
| Associates | \$ 200,000 | \$ - |
| Other related parties | 40,155 | 26,807 |
| Total | <u>\$ 240,155</u> | <u>\$ 26,807</u> |

D. Purchases

| | For the years ended December 31 | |
|------------|---------------------------------|------|
| | 2014 | 2013 |
| Associates | \$ 9,834 | \$ - |

E. Rental income

| | For the years ended December 31 | |
|-----------------------|---------------------------------|-----------------|
| | 2014 | 2013 |
| Associates | \$ 714 | \$ 500 |
| Other related parties | 8,606 | 9,187 |
| Total | <u>\$ 9,320</u> | <u>\$ 9,687</u> |

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

F. Other receivables from related parties

| | December 31, 2014 | December 31, 2013 |
|-----------------------|----------------------|----------------------|
| Associates | \$ 150 | \$ 60 |
| Other related parties | - | 340 |
| Total | <u>\$ 150</u> | <u>\$ 400</u> |

G. Trade payables to related parties

| | December 31, 2014 | December 31, 2013 |
|-----------------------|----------------------|----------------------|
| Other related parties | <u>\$ 677,196</u> | <u>\$ 2,082,028</u> |

H. Key management personnel compensation

| | For the years ended December 31 | |
|-------------------------------------|---------------------------------|-------------------|
| | 2014 | 2013 |
| Short-term employee benefits (Note) | \$ 709,494 | \$ 556,240 |
| Post-employment benefits | 3,076 | 2,610 |
| Total | <u>\$ 712,570</u> | <u>\$ 558,850</u> |

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

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

8. Assets Pledged as Collateral

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

| Assets pledged for security | Carrying amount | | Purpose of pledge |
|---|----------------------|----------------------|------------------------------|
| | December 31, 2014 | December 31, 2013 | |
| Bond investments for which no active market exists-current | \$ 7,067 | \$ 6,917 | Land lease guarantee |
| Bond investments for which no active market exists-current | 3,142 | 3,104 | Customs clearance deposits |
| Bond investments for which no active market exists-current | - | 102,000 | Project performance deposits |
| Bond investments for which no active market exists-current | 1,546 | 1,657 | Credit guarantee |
| Bond investments for which no active market exists-noncurrent | 820 | 243 | Customs clearance deposits |
| Bond investments for which no active market exists-noncurrent | 126 | 121 | Lease execution deposits |
| Total | <u>\$ 12,701</u> | <u>\$ 114,042</u> | |

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

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

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

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| Not later than one year | \$ 377,191 | \$ 374,715 |
| Later than one year but not later than five years | 572,653 | 753,028 |
| Later than five years | 124,576 | 181,444 |
| Total | <u>\$ 1,074,420</u> | <u>\$ 1,309,187</u> |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(2) Legal claim contingency

- A. 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. The court dismissed the claims against Ralink pursuant to Azure and Ralink’s joint motion on February 10, 2015. On June 10, 2013, the Court entered a judgment dismissing the latter case pursuant to the parties’ joint stipulation.

Additionally, on January 13, 2015, Azure filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc. alleging infringement of United States Patent Nos. 7,756,129, 8,582,570, 8,582,571, 8,588,196, 8,588,231, 8,589,599, 8,675,590, 8,683,092 and 8,732,347 by MTK’s wireless communications, tablet and mobile phone chips, and seeking damages. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

- B. 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.
- C. Palmchip 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

D. 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. On December 4, 2014, the Commission partially vacated the Initial Determination and remanded a part of the case including the investigation against MTK for further proceedings. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

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.

E. 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- F. 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 subsidiary MediaTek USA Inc. remain pending. On February 13, 2015, the court granted Bandspeed's motion for leave to file a First Amended Complaint to add United States Patent No. 8,873,500 to the case. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- G. Adaptive Data LLC ("Adaptive Data") filed a complaint in the United States District Court for the District of Delaware against subsidiary MediaTek USA Inc. on December 31, 2014, alleging infringement of United States Patent Nos. 6,108,347 and 6,243,391 by the Bluetooth chips of subsidiary MediaTek USA Inc. and seeking damages. This case has been settled and Adaptive Data voluntarily dismissed the case on February 19, 2015.
- H. Luciano F. Paone filed a complaint in the United States District Court for the Eastern District of New York against subsidiary MediaTek USA Inc. on February 9, 2015, alleging infringement of United States Patent No. 6,259,789. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- I. Innovatio IP Ventures, LLC ("Innovatio") filed a complaint in the United States District Court for the Northern District of Illinois against subsidiary MediaTek USA Inc. on March 16, 2015, alleging infringement of United States Patent Nos. 6,697,415, 5,844,893, 5,740,366, 7,916,747, 6,665,536, 7,013,138, 7,107,052, 5,546,397, 7,710,907, 7,710,935, 6,714,559, 7,457,646 and 6,374,311. 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 CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****12. Others****(1) Financial instruments****A. Categories of financial instruments**Financial assets

| | December 31, 2014 | December 31, 2013 |
|---|-----------------------|-----------------------|
| Financial assets at fair value through profit or loss: | | |
| Held for trading financial assets | \$ 10,990 | \$ 8,894 |
| Financial assets designated upon initial recognition at fair value through profit or loss | 7,577,020 | 3,601,903 |
| Subtotal | 7,588,010 | 3,610,797 |
| Available-for-sale financial assets | 12,469,333 | 7,913,475 |
| Financial assets measured at cost | 3,782,384 | 2,061,563 |
| Held-to-maturity financial assets | 416,165 | 891,510 |
| Loans and receivables: | | |
| Cash and cash equivalents (excluding cash on hand and petty cash) | 192,794,981 | 132,996,624 |
| Bond investments for which no active market exists | 1,087,092 | 114,042 |
| Trade receivables | 13,552,399 | 7,627,591 |
| Other receivables | 5,296,078 | 3,652,885 |
| Subtotal | 211,730,550 | 144,391,142 |
| Total | <u>\$ 235,986,442</u> | <u>\$ 158,868,487</u> |

Financial liabilities

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| Financial liabilities at fair value through profit or loss: | | |
| Held for trading financial liabilities | \$ 50,393 | \$ 26,017 |
| Financial liabilities at amortized cost: | | |
| Short-term borrowings | 46,160,593 | 29,051,500 |
| Trade payables (including related parties) | 14,605,160 | 10,944,174 |
| Other payables | 32,766,959 | 16,835,299 |
| Long-term payables (including current portion) | 91,982 | 116,805 |
| Subtotal | 93,624,694 | 56,947,778 |
| Total | <u>\$ 93,675,087</u> | <u>\$ 56,973,795</u> |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

B. Fair values of financial instruments

- a. The methods and assumptions applied in determining the fair value of financial instruments:

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

- (a) The carrying amount of cash and cash equivalents, trade receivables, 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 | |
|-----------------------------------|-----------------------|-------------------|
| | December 31, 2014 | December 31, 2013 |
| Financial assets | | |
| Held-to-maturity financial assets | | |
| Bonds | \$ 416,165 | \$ 891,510 |

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

| | Fair value as of | |
|-----------------------------------|-------------------|-------------------|
| | December 31, 2014 | December 31, 2013 |
| Financial assets | | |
| Held-to-maturity financial assets | | |
| Bonds | \$ 410,093 | \$ 912,021 |

c. Assets measured at fair value

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

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

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

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

As of December 31, 2014

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|---------------|--------------|--------------|---------------|
| <u>Financial assets:</u> | | | | |
| Financial assets at fair value | | | | |
| through profit or loss | | | | |
| Stocks | \$ 9,057 | \$ - | \$ - | \$ 9,057 |
| Bonds | - | - | 63,199 | 63,199 |
| Derivative financial instruments | - | 1,933 | - | 1,933 |
| Linked deposits | - | 5,821,693 | 1,692,128 | 7,513,821 |
| Available-for-sale financial assets | | | | |
| Depository receipts | 28,010 | - | - | 28,010 |
| Stocks | 5,308,419 | - | - | 5,308,419 |
| Bonds | 1,601,108 | - | 216,868 | 1,817,976 |
| Funds | 4,844,578 | - | 470,350 | 5,314,928 |
| Total | \$ 11,791,172 | \$ 5,823,626 | \$ 2,442,545 | \$ 20,057,343 |

Financial liabilities

Financial liabilities at fair value

through profit or loss

| | | | | |
|----------------------------------|------|-----------|------|-----------|
| Derivative financial instruments | \$ - | \$ 50,393 | \$ - | \$ 50,393 |
|----------------------------------|------|-----------|------|-----------|

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

For the years ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2.

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

| | Financial assets | | Available-for-sale | | |
|--------------------------|------------------------|--------------|--------------------|------------|--------------|
| | at fair value | | | | |
| | through profit or loss | | 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 | 3,616 | 39,074 | - | - | 42,690 |
| Amount recognized in OCI | - | - | 18,473 | - | 18,473 |
| Acquisitions | - | 1,177,176 | - | 864,013 | 2,041,189 |
| Settlements | - | (608,159) | - | (393,663) | (1,001,822) |
| As of December 31, 2014 | \$ 63,199 | \$ 1,692,128 | \$ 216,868 | \$ 470,350 | \$ 2,442,545 |

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

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

Total profits or losses recognized for the years ended December 31, 2014 and 2013 contained profits related to bonds, funds and linked deposits on hand as of December 31, 2014 and 2013 in the amount of NT\$38,684 thousand and NT\$387 thousand, respectively.

C. Derivative financial instruments

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

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

| Forward exchange | Currency | Contract amount | Maturity |
|-------------------------|------------|-----------------|---------------|
| | | ('000) | |
| As of December 31, 2014 | TWD to USD | Sell USD105,000 | February 2015 |
| As of December 31, 2014 | CNY to USD | Sell USD1,500 | March 2015 |
| As of December 31, 2014 | TWD to USD | Sell USD75,000 | January 2015 |
| As of December 31, 2013 | TWD to USD | Sell USD200,000 | January 2014 |

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(2) Financial risk management objectives

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

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

A. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise foreign 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 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 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

When NTD appreciates or depreciates against USD by 1 cent, the profit for the years ended December 31, 2014 and 2013 decreases/increases by NT\$1,790 thousand and NT\$1,399 thousand, while equity decreases/increases by NT\$23,766 thousand and NT\$18,669 thousand, respectively.

b. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans and receivables at variable interest rates, bank borrowings with fixed interest rates. 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 with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause the profit for the years ended December 31, 2014 and 2013 to increase/decrease by NT\$1,198 thousand and NT\$2,570 thousand, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

c. Other price risk

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

A change of 1% in the price of the listed equity securities classified under available-for-sale could only impact the Company's equity and cause the other comprehensive income for the years ended December 31, 2014 and 2013 to increase/decrease by NT\$101,810 thousand and NT\$61,781 thousand, respectively.

B. Credit risk management

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

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

As of December 31, 2014 and 2013, receivables from top ten customers represented 59.92% and 65.45% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The Company's exposure to credit risk arises from potential default of the counter-party or other third-party. The level of exposure depends on several factors including concentrations of credit risk, components of credit risk, the price of contract and other receivables of financial instruments. Since the counter-party or third-party to the foregoing forward exchange contracts are all reputable financial institutions, management believes that the Company's exposure to default by those parties is minimal.

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

C. Liquidity risk management

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

Non-derivative financial instruments

| | Less than 1 year | 1 to 5 years | Total |
|--|----------------------|------------------|----------------------|
| <u>As of December 31, 2014</u> | | | |
| Borrowings | \$ 46,198,425 | \$ - | \$ 46,198,425 |
| Trade payables (including related parties) | 14,605,160 | - | 14,605,160 |
| Other payables | 32,751,115 | - | 32,751,115 |
| Long-term payables | 38,062 | 53,920 | 91,982 |
| Total | <u>\$ 93,592,762</u> | <u>\$ 53,920</u> | <u>\$ 93,646,682</u> |

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

| | 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> |

Derivative financial instruments

| | Less than 1 year | 1 to 5 years | Total |
|--------------------------------|--------------------|--------------|--------------------|
| <u>As of December 31, 2014</u> | | | |
| Gross settlement | | | |
| Forward exchange contracts | | | |
| Inflow | \$ 1,947,181 | \$ - | \$ 1,947,181 |
| Outflow | (1,950,657) | - | (1,950,657) |
| Net | (3,476) | - | (3,476) |
| Net settlement | | | |
| Forward exchange contracts | (48,000) | - | (48,000) |
| Total | <u>\$ (51,476)</u> | <u>\$ -</u> | <u>\$ (51,476)</u> |

| | Less than 1 year | 1 to 5 years | Total |
|--------------------------------|--------------------|--------------|--------------------|
| <u>As of December 31, 2013</u> | | | |
| Gross settlement | | | |
| Forward exchange contracts | | | |
| Inflow | \$ 590,400 | \$ - | \$ 590,400 |
| Outflow | (599,000) | - | (599,000) |
| Net | (8,600) | - | (8,600) |
| Net settlement | | | |
| Forward exchange contracts | (25,930) | - | (25,930) |
| Total | <u>\$ (34,530)</u> | <u>\$ -</u> | <u>\$ (34,530)</u> |

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

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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:

| | | December 31, 2014 | | |
|------------------------------|----|-------------------|---------------|-----------------|
| | | Foreign Currency | | |
| | | (thousand) | Exchange rate | NT\$ (thousand) |
| <u>Financial assets</u> | | | | |
| Monetary item: | | | | |
| USD | \$ | 4,270,165 | 31.718 | \$ 135,441,097 |
| CNY | \$ | 385,235 | 5.113 | \$ 1,969,519 |
| Non-monetary item: | | | | |
| USD | \$ | 551,121 | 31.718 | \$ 17,480,448 |
| CNY | \$ | 238,133 | 5.113 | \$ 1,217,458 |
| <u>Financial liabilities</u> | | | | |
| Monetary item: | | | | |
| USD | \$ | 2,265,729 | 31.718 | \$ 71,864,391 |
| CNY | \$ | 361,150 | 5.113 | \$ 1,846,383 |
| | | | | |
| | | December 31, 2013 | | |
| | | Foreign Currency | | |
| | | (thousand) | Exchange rate | NT\$ (thousand) |
| <u>Financial assets</u> | | | | |
| Monetary item: | | | | |
| USD | \$ | 3,222,505 | 29.950 | \$ 96,514,018 |
| CNY | \$ | 3,000 | 4.947 | \$ 14,841 |
| Non-monetary item: | | | | |
| USD | \$ | 312,787 | 29.950 | \$ 9,367,985 |
| CNY | \$ | 58,203 | 4.947 | \$ 287,924 |
| <u>Financial liabilities</u> | | | | |
| Monetary item: | | | | |
| USD | \$ | 1,528,514 | 29.950 | \$ 45,778,992 |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(4) Capital management

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

13. Segment Information

(1) General information

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

(2) Geographical information

a. Sales to other than consolidated entities

| | For the years ended December 31 | |
|--------|---------------------------------|----------------|
| | 2014 | 2013 |
| Taiwan | \$ 8,839,280 | \$ 8,690,900 |
| Asia | 190,829,061 | 126,687,863 |
| Others | 13,394,575 | 677,191 |
| Total | \$ 213,062,916 | \$ 136,055,954 |

Sales are presented by customers' country.

b. Non-current assets

| | December 31, 2014 | December 31, 2013 |
|--------|-------------------|-------------------|
| Taiwan | \$ 73,073,752 | \$ 22,226,180 |
| Asia | 11,016,882 | 3,757,147 |
| Others | 81,667 | 956,468 |
| Total | \$ 84,172,301 | \$ 26,939,795 |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(3) Major customers

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

| Customers | For the years ended December 31 | | | |
|-----------|---------------------------------|--------------|----------------------|--------------|
| | 2014 | | 2013 | |
| | Amounts | % | Amounts | % |
| A | \$ 18,549,737 | 8.71 | \$ 20,855,656 | 15.33 |
| B | 14,347,576 | 6.73 | 14,004,694 | 10.29 |
| Total | <u>\$ 32,897,313</u> | <u>15.44</u> | <u>\$ 34,860,350</u> | <u>25.62</u> |