

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

**MEDIATEK INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**WITH**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**FOR THE THREE MONTHS THEN ENDED**

**March 31, 2015 AND 2014**

English Translation of a Report Originally Issued in Chinese

Review Report of Independent Accountants

To the Board of Directors and Shareholders  
of MediaTek Inc.

We have reviewed the accompanying consolidated balance sheets of MediaTek Inc. and its subsidiaries as of March 31, 2015 and March 31, 2014 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the three months ended March 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

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

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



Ernst & Young  
CERTIFIED PUBLIC ACCOUNTANTS  
April 30, 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 review such consolidated financial statements are those generally accepted and applied in the R.O.C.

**MEDIATEK INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****As of March 31, 2015, December 31, 2014, and March 31, 2014**

(March 31, 2015 and 2014 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

<b>ASSETS</b>	Notes	March 31, 2015	%	December 31, 2014	%	March 31, 2014	%
<b>Current assets</b>							
Cash and cash equivalents	6(1)	\$ 196,143,151	54	\$ 192,797,506	55	\$ 166,999,036	56
Financial assets at fair value through profit or loss-current	4, 6(2)	1,654,357	-	3,547,217	1	2,473,160	1
Available-for-sale financial assets-current	4, 6(3)	6,378,300	2	7,575,242	2	3,650,008	1
Held-to-maturity financial assets-current	4, 6(5)	282,609	-	288,378	-	783,567	-
Debt instrument investments for which no active market exists-current	6(6), 8	493,259	-	1,086,146	-	11,709	-
Trade receivables, net	6(7)	13,346,717	4	12,552,399	4	13,572,139	5
Other receivables	6(7), 7	3,069,152	1	5,296,078	2	4,318,985	1
Current tax assets		23,861	-	47,323	-	46,909	-
Inventories, net	6(8)	28,084,741	8	22,341,336	6	16,649,438	6
Prepayments		2,384,253	-	2,247,248	1	1,678,226	1
Other current assets		903,049	-	776,062	-	700,721	-
Total current assets		<u>252,763,449</u>	<u>69</u>	<u>248,554,935</u>	<u>71</u>	<u>210,883,898</u>	<u>71</u>
<b>Non-current assets</b>							
Financial assets at fair value through profit or loss-noncurrent	4, 6(2)	4,161,243	1	4,040,793	1	937,883	-
Available-for-sale financial assets-noncurrent	4, 6(3)	6,047,368	2	4,894,091	1	4,255,419	1
Held-to-maturity financial assets-noncurrent	4, 6(5)	879,935	-	127,787	-	397,393	-
Financial assets measured at cost-noncurrent	6(4)	3,715,411	1	3,782,384	1	2,884,943	1
Debt instrument investments for which no active market exists-noncurrent	6(6), 8	210,401	-	946	-	382	-
Investments accounted for using the equity method	6(9), 11	2,221,197	1	2,154,613	1	1,645,672	1
Property, plant and equipment	6(10), 6(24)	27,334,036	8	23,294,555	7	14,770,255	5
Intangible assets	6(11), 6(12), 6(24)	63,006,716	17	60,757,826	17	60,583,941	20
Deferred tax assets	6(22)	3,155,960	1	3,196,429	1	1,916,537	1
Refundable deposits		185,306	-	194,392	-	150,006	-
Long-term prepaid rent		152,577	-	119,920	-	116,923	-
Total non-current assets		<u>111,070,150</u>	<u>31</u>	<u>102,563,736</u>	<u>29</u>	<u>87,659,354</u>	<u>29</u>
<b>Total assets</b>		<u>\$ 363,833,599</u>	<u>100</u>	<u>\$ 351,118,671</u>	<u>100</u>	<u>\$ 298,543,252</u>	<u>100</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****As of March 31, 2015, December 31, 2014, and March 31, 2014**

(March 31, 2015 and 2014 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	Notes	March 31, 2015	%	December 31, 2014	%	March 31, 2014	%
<b>Current liabilities</b>							
Short-term borrowings	6(13)	\$ 50,933,722	14	\$ 46,160,593	13	\$ 22,100,970	7
Financial liabilities at fair value through profit or loss-current	4, 6(2)	5,009	-	50,393	-	22,349	-
Trade payables		19,117,651	5	13,927,964	4	15,584,856	5
Trade payables to related parties	7	532,322	-	677,196	-	1,836,555	1
Other payables		29,317,638	8	32,766,959	10	20,936,214	7
Current tax liabilities	6(22)	7,699,862	2	7,322,589	2	6,749,315	2
Other current liabilities		510,449	-	676,082	-	1,267,924	1
Current portion of long-term liabilities		41,606	-	38,062	-	32,036	-
Total current liabilities		108,158,259	29	101,619,838	29	68,530,219	23
<b>Non-current liabilities</b>							
Long-term payables		40,036	-	53,920	-	79,326	-
Net defined benefit liabilities-noncurrent	4, 6(14)	954,626	1	940,996	1	609,305	-
Deposits received	7	119,698	-	121,643	-	64,653	-
Deferred tax liabilities	6(22)	805,608	-	629,651	-	732,076	1
Non-current liabilities-others		135,347	-	146,876	-	129,334	-
Total non-current liabilities		2,055,315	1	1,893,086	1	1,614,694	1
Total liabilities		110,213,574	30	103,512,924	30	70,144,913	24
<b>Equity attributable to owners of the parent</b>							
Share capital	6(15)						
Common stock		15,714,922	4	15,714,455	4	15,708,379	5
Capital collected in advance		841	-	467	-	1,510	-
Capital surplus	6(15), 6(16), 6(25)	88,133,136	24	88,047,914	25	88,050,023	29
Retained earnings	6(15)						
Legal reserve		27,392,687	8	27,392,687	8	24,641,182	8
Special reserve		895,749	-	895,749	-	5,072,425	2
Undistributed earnings		115,792,354	32	108,566,733	31	94,728,634	32
Other equity	6(15)	5,268,545	2	6,606,113	2	192,154	-
Treasury shares	6(15)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		253,142,264	70	247,168,148	70	228,338,337	76
<b>Non-controlling interests</b>	6(15)	477,761	-	437,599	-	60,002	-
Total equity		253,620,025	70	247,605,747	70	228,398,339	76
<b>Total liabilities and equity</b>		\$ 363,833,599	100	\$ 351,118,671	100	\$ 298,543,252	100

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**For the three months ended March 31, 2015 and 2014**

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

Description	Notes	Three Months Ended March 31			
		2015	%	2014	%
<b>Net sales</b>	6(17), 7	\$ 47,536,221	100	\$ 46,005,002	100
<b>Operating costs</b>	6(8), 6(18), 7	(25,037,623)	(53)	(23,779,339)	(52)
<b>Gross profit</b>		22,498,598	47	22,225,663	48
<b>Operating expenses</b>	6(18), 7				
Selling expenses		(2,168,569)	(4)	(1,133,935)	(3)
Administrative expenses		(1,806,860)	(4)	(1,363,338)	(3)
Research and development expenses		(10,851,192)	(23)	(8,915,460)	(19)
Total operating expenses		(14,826,621)	(31)	(11,412,733)	(25)
<b>Operating income</b>		7,671,977	16	10,812,930	23
<b>Non-operating income and expenses</b>					
Other income	6(19), 7	883,834	2	742,204	2
Other gains and losses	6(20), 6(24)	(336,314)	(1)	(455,815)	(1)
Finance costs	6(21)	(155,030)	-	(82,099)	-
Share of profit of associates accounted for using the equity method		77,716	-	483,744	1
Total non-operating income and expenses		470,206	1	688,034	2
<b>Net income before income tax</b>		8,142,183	17	11,500,964	25
<b>Income tax expense</b>	6(22)	(891,186)	(2)	(1,361,623)	(3)
<b>Net income</b>		7,250,997	15	10,139,341	22
<b>Other comprehensive income</b>	6(15)				
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations		(809,109)	(2)	1,428,233	3
Unrealized losses from available-for-sale financial assets		(533,496)	(1)	(298,445)	(1)
Share of other comprehensive income of associates accounted for using the equity method		1,489	-	(11,789)	-
Income tax relating to those items to be reclassified profit or loss		-	-	-	-
<b>Other comprehensive income, net of tax</b>		(1,341,116)	(3)	1,117,999	2
<b>Total comprehensive income</b>		<u>\$ 5,909,881</u>	<u>12</u>	<u>\$ 11,257,340</u>	<u>24</u>
<b>Net income (loss) for the periods attributable to :</b>					
Owners of the parent	6(23)	\$ 7,225,621		\$ 10,147,366	
Non-controlling interests	6(15)	25,376		(8,025)	
		<u>\$ 7,250,997</u>		<u>\$ 10,139,341</u>	
<b>Total comprehensive income for the periods attributable to :</b>					
Owners of the parent		\$ 5,888,053		\$ 11,235,269	
Non-controlling interests	6(15)	21,828		22,071	
		<u>\$ 5,909,881</u>		<u>\$ 11,257,340</u>	
<b>Basic Earnings Per Share (in New Taiwan Dollars)</b>	6(23)	<u>\$ 4.62</u>		<u>\$ 6.82</u>	
<b>Diluted Earnings Per Share (in New Taiwan Dollars)</b>	6(23)	<u>\$ 4.61</u>		<u>\$ 6.80</u>	

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

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

**For the three months ended March 31, 2015 and 2014**

(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 losses from available-for-sale financial assets				
Balance as of January 1, 2014	\$ 13,494,667	\$ 2,473	\$ 68,474,910	\$ 24,641,182	\$ 5,072,425	\$ 84,581,268	\$ (2,404,641)	\$ 1,508,892	\$ (55,970)	\$ 195,315,206	\$ 38,193	\$ 195,353,399
Profit for the three months ended March 31, 2014	-	-	-	-	-	10,147,366	-	-	-	10,147,366	(8,025)	10,139,341
Other comprehensive income for the three months ended March 31, 2014	-	-	-	-	-	-	1,386,348	(298,445)	-	1,087,903	30,096	1,117,999
Total comprehensive income	-	-	-	-	-	10,147,366	1,386,348	(298,445)	-	11,235,269	22,071	11,257,340
Share-based payment transactions	2,473	(963)	18,659	-	-	-	-	-	-	20,169	-	20,169
Shares issued to acquire a new entity	2,211,239	-	19,451,526	-	-	-	-	-	-	21,662,765	-	21,662,765
Changes in ownership interests in subsidiaries	-	-	14,008	-	-	-	-	-	-	14,008	(262)	13,746
Change in other capital surplus	-	-	90,920	-	-	-	-	-	-	90,920	-	90,920
Balance as of March 31, 2014	<u>\$ 15,708,379</u>	<u>\$ 1,510</u>	<u>\$ 88,050,023</u>	<u>\$ 24,641,182</u>	<u>\$ 5,072,425</u>	<u>\$ 94,728,634</u>	<u>\$ (1,018,293)</u>	<u>\$ 1,210,447</u>	<u>\$ (55,970)</u>	<u>\$ 228,338,337</u>	<u>\$ 60,002</u>	<u>\$ 228,398,339</u>
Balance as of January 1, 2015	\$ 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
Profit for the three months ended March 31, 2015	-	-	-	-	-	7,225,621	-	-	-	7,225,621	25,376	7,250,997
Other comprehensive income for the three months ended March 31, 2015	-	-	-	-	-	-	(804,072)	(533,496)	-	(1,337,568)	(3,548)	(1,341,116)
Total comprehensive income	-	-	-	-	-	7,225,621	(804,072)	(533,496)	-	5,888,053	21,828	5,909,881
Share-based payment transactions	467	374	16,760	-	-	-	-	-	-	17,601	-	17,601
Changes in ownership interests in subsidiaries	-	-	41,097	-	-	-	-	-	-	41,097	18,334	59,431
Change in other capital surplus	-	-	27,365	-	-	-	-	-	-	27,365	-	27,365
Balance as of March 31, 2015	<u>\$ 15,714,922</u>	<u>\$ 841</u>	<u>\$ 88,133,136</u>	<u>\$ 27,392,687</u>	<u>\$ 895,749</u>	<u>\$ 115,792,354</u>	<u>\$ 3,414,220</u>	<u>\$ 1,854,325</u>	<u>\$ (55,970)</u>	<u>\$ 253,142,264</u>	<u>\$ 477,761</u>	<u>\$ 253,620,025</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the three months ended March 31, 2015 and 2014**

(Amounts in thousands of New Taiwan Dollars)

Description	2015	2014
<b>Cash flows from operating activities :</b>		
Profit before tax from continuing operations	\$ 8,142,183	\$ 11,500,964
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	414,281	303,702
Amortization	640,440	425,437
Bad debt provision	44,311	13,593
Gains on financial assets and liabilities at fair value through profit or loss	(78,395)	(5,586)
Interest expenses	155,030	82,099
Interest income	(815,708)	(615,533)
Dividend income	(48,394)	(51,828)
Share-based payment expenses	16,760	18,659
Share of profit of associates accounted for using the equity method	(77,716)	(483,744)
Losses on disposal of property, plant and equipment	481	111
(Gain) loss on disposal of investments	(10,039)	7,839
Impairment of financial assets	56,200	-
Changes in operating assets and liabilities :		
Financial assets at fair value through profit or loss	1,770,021	276,847
Trade receivables	(888,098)	(1,828,193)
Other receivables	2,350,299	(42,953)
Inventories	(5,643,225)	(3,520,772)
Prepayments	(137,005)	(142,552)
Other current assets	(126,987)	(233,831)
Trade payables	5,189,687	3,576,307
Trade payables to related parties	(144,874)	(269,477)
Other payables	(4,986,432)	(31,303)
Other current liabilities	(165,633)	(139,288)
Long-term payables	(10,340)	(5,443)
Net defined benefit liabilities	13,630	2,669
Non-current liabilities-others	(11,529)	21,213
Cash generated from operating activities		
Interest received	694,732	414,477
Dividend received	63,295	51,828
Interest paid	(132,980)	(95,187)
Income tax paid	(274,025)	(89,789)
Net cash provided by operating activities	5,999,970	9,140,266
<b>Cash flows from investing activities :</b>		
Acquisition of available-for-sale financial assets	(1,384,012)	(290,000)
Proceeds from disposal of available-for-sale financial assets	855,847	21,357
Acquisition of debt instrument investments for which no active market exists	(691,197)	(97)
Proceeds from disposal of debt instrument investments for which no active market exists	1,063,731	-
Acquisition of held-to-maturity financial assets	(753,422)	-
Acquisition of financial assets measured at cost	(75,048)	(788,752)
Proceeds from disposal of financial assets measured at cost	24,219	-
Proceeds from capital return of financial assets measured at cost	7,338	3,304
Acquisition of investments accounted for using the equity method	(40,331)	(76,094)
Proceeds from capital return of investments accounted for using the equity method	20,725	-
Net cash inflows from acquisition of subsidiaries	-	33,097,485
Acquisition of property, plant and equipment	(4,510,686)	(602,933)
Proceeds from disposal of property, plant and equipment	2,793	63,462
Decrease in refundable deposits	9,086	9,026
Acquisition of intangible assets	(1,451,687)	(256,432)
(Increase) decrease in long-term prepaid rent	(32,657)	1,572
Net cash (used in) provided by investing activities	(6,955,301)	31,181,898
<b>Cash flows from financing activities :</b>		
Increase (decrease) in short-term borrowings	4,773,129	(7,137,750)
Decrease in long-term borrowings	-	(651,000)
Decrease in deposits received	(1,945)	(6,584)
Proceeds from exercise of employee stock options	28,076	50,471
Increase (decrease) in non-controlling interests	59,431	(262)
Net cash provided by (used in) financing activities	4,858,691	(7,745,125)
Effect of changes in exchange rate on cash and cash equivalents	(557,715)	1,424,271
Net increase in cash and cash equivalents	3,345,645	34,001,310
Cash and cash equivalents at the beginning of the period	192,797,506	132,997,726
Cash and cash equivalents at the end of the period	\$ 196,143,151	\$ 166,999,036

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**1. Organization and Operation**

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

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

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on April 30, 2015.

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

- (1) The effects of adopting the International Financial Reporting Standards issued, revised or amended, which have been recognized by Financial Supervisory Commission ("FSC"):

MTK and its subsidiaries ("the Company") adopted the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations developed by the International Financial Reporting Interpretation Committee (IFRIC) and Interpretations of IASs (SIC) (collectively, "TIFRS") which have been endorsed by Financial Supervisory Commission (FSC) and effective for annual periods beginning on or after January 1, 2015. Except for the following descriptions of the nature and impact of the new standards and amendments, all other new standards and amendments have no material impact on the Company.

**A. IAS 19 "Employee Benefits" (Revised)**

Major changes to the accounting of the Company's defined benefit plan are summarized as follows:

- a. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under the revised IAS 19, which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period.



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

b. In the previous version of IAS 19, past service cost is recognized as an expense immediately to the extent that the benefits are already vested, or on a straight-line basis over the average period until the benefits become vested. Under the revised IAS 19, all past service costs are recognized at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognized. Therefore unvested past service cost is no longer deferred over future vesting periods.

c. The amendment emphasizes more disclosure of employee benefits.

**B. IFRS 12 “Disclosure of Interests in Other Entities”**

IFRS 12 sets out the requirements for the disclosures relating to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. The Company adds relevant disclosures for the consolidated entities and unconsolidated entities.

**C. IFRS 13 “Fair Value Measurements”**

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. The Company re-assessed its policies for measuring fair values. Application of IFRS 13 has not material impact on the fair value measurements of the Company.

Additional disclosures where required under IFRS 13, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 12. According to the transitional provisions of IFRS 13, IFRS 13 is applied prospectively as of 1 January, 2015; the disclosure requirements of IFRS 13 need not be applied in comparative information before 1 January, 2015.

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

The amendment requires the Company changes 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. The amendment has no material impact on the Company’s recognitions and measurements, but for presentation of Statements of Other Comprehensive Income.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IAS 36	"Impairment of Assets" (Amendment)	January 1, 2014
IFRIC 21	"Levies"	January 1, 2014
IAS 39	"Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IAS 19	"Employee Benefits" (Amendment) - Defined benefit plans: employee contributions	July 1, 2014
Improvements to International Financial Reporting Standards (2010-2012 cycle) :		
IFRS 2	"Share-based Payment"	July 1, 2014
IFRS 3	"Business Combinations"	July 1, 2014
IFRS 8	"Operating Segments"	July 1, 2014
IFRS 13	"Fair Value Measurement"	July 1, 2014
IAS 16	"Property, Plant and Equipment"	July 1, 2014
IAS 24	"Related Party Disclosures"	July 1, 2014
IAS 38	"Intangible Assets"	July 1, 2014
Improvements to International Financial Reporting Standards (2011-2013 cycle) :		
IFRS 1	"First-time Adoption of International Financial Reporting Standards"	July 1, 2014
IFRS 3	"Business Combinations"	July 1, 2014
IFRS 13	"Fair Value Measurement"	July 1, 2014
IAS 40	"Investment Property"	July 1, 2014
IFRS 14	"Regulatory Deferral Accounts"	January 1, 2016
IFRS 11	"Joint Arrangements"- Joint operation (Amendment)	January 1, 2016
IAS 16 and IAS 38	"Property, Plant and Equipment" and "Intangible Assets" (Amendment) - Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
IFRS 15	"Revenue from Contracts with Customers"	January 1, 2017
IAS 16 and IAS 41	"Agriculture: Bearer Plants" (Amendment)	January 1, 2016
IFRS 9	"Financial Instruments"	January 1, 2018

(To be continued)

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(Continued)

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

**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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**B. 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.

**C. IFRS 15 “Revenue from Contracts with Customers”**

The core principle of the new Standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1 : Identify the contracts with a customer;

Step 2 : Identify the performance obligations in the contract;

Step 3 : Determine the transaction price;

Step 4 : Allocate the transaction price to the performance obligations in the contracts; and

Step 5 : Recognize revenue when the entity satisfies a performance obligation.

IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

**D. 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 UNAUDITED 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.

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**4. Summary of Significant Accounting Policies**

*Statement of Compliance*

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and IAS 34 “Interim Financial Reporting” as endorsed by the FSC.

*Basis of Preparation*

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

*Basis of Consolidation*

Preparation principle of consolidated financial statement

Control is achieved when MTK is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, MTK controls an investee if and only if MTK has:

- a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- b. exposure, or rights, to variable returns from its involvement with the investee; and
- c. the ability to use its power over the investee to affect its returns.

When MTK has less than a majority of the voting or similar rights of an investee, MTK considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- a. the contractual arrangement with the other vote holders of the investee;
- b. rights arising from other contractual arrangements;
- c. MTK’s voting rights and potential voting rights.

MTK re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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.

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

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 loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2015	December 31, 2014	March 31, 2014	
MTK	MediaTek Investment Corp.	General investing	-	-	100%	1
MTK	Hsu-Ta Investment Corp.	General investing	100%	100%	100%	-
MTK	MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100%	100%	100%	-
MTK	Ralink Technology Corp.	Research, manufacturing and sales	-	-	100%	2
MTK	MediaTek Investment Singapore Pte. Ltd.	General investing	100%	100%	100%	1&3
MTK	T-Rich Technology (Cayman) Corp.	General investing	100%	100%	-	2
MTK	MStar Semiconductor Inc.	Research, manufacturing and sales	100%	100%	-	3&4
MTK	Hsu-Chuang Investment Corp.	General investing	100%	-	-	5
Hsu-Ta Investment Corp.	Core Tech Resources Inc.	General investing	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2015	December 31, 2014	March 31, 2014	
Hsu-Ta Investment Corp.	MediaTek Capital Corp.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Bangalore Private Limited	Research	0%	0%	-	6
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.	MediaTek Wireless LLC (Dubai)	Technology services	-	-	100%	7
MediaTek Capital Corp.	RollTech Technology Co., Ltd.	Software development	67%	67%	67%	-
MediaTek Capital Corp.	E-Vehicle Semiconductor Technology Co., Ltd.	Research, manufacturing and sales	59%	72%	72%	-
Core Tech Resources Inc.	MediaTek India Technology Pvt. Ltd.	Research	0%	0%	0%	-
Gaintech Co. Limited	MediaTek China Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	MTK Wireless Limited (UK)	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek Japan Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek India Technology Pvt. Ltd.	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek Korea Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	Hesine Technologies International Worldwide Inc.	General investing	52%	65%	65%	-
Gaintech Co. Limited	Gold Rich International (Samoa) Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Smarthead Limited	General investing	100%	100%	100%	-

(To be continued)



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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2015	December 31, 2014	March 31, 2014	
Gaintech Co. Limited	Lepower Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Ralink Technology (Samoa) Corp.	General investing	100%	100%	100%	-
Gaintech Co. Limited	EcoNet (Cayman) Inc.	General investing	88%	88%	100%	-
Gaintech Co. Limited	MediaTek Wireless FZ-LLC	Technology services	100%	100%	100%	-
MediaTek China Limited	MediaTek (Hefei) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Beijing) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Shenzhen) Inc.	Research and Technology services	100%	100%	100%	-
MediaTek China Limited	MediaTek (Chengdu) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Wuhan) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Shanghai) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MStar Chen Si Electronics Technology (Shanghai) Co., Ltd.	Research and Technology services	100%	100%	-	8
MTK Wireless Limited (UK)	MediaTek Sweden AB	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek USA Inc.	Research	100%	100%	89%	2
MTK Wireless Limited (UK)	MediaTek Denmark Aps	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Wireless Finland Oy	Research	100%	100%	-	9
MediaTek USA Inc.	Ralink Technology Corporation (USA)	Research	-	-	100%	10
Hesine Technologies International Worldwide Inc.	Hesine Technologies, Inc.	Technology services	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2015	December 31, 2014	March 31, 2014	
Gold Rich International (Samoa) Limited	Gold Rich International (HK) Limited	General investing	100%	100%	100%	-
Lepower Limited	Lepower (HK) Limited	General investing	100%	100%	100%	-
Lepower (HK) Limited	Lepower Technologies (Beijing), Inc.	Research, manufacturing and sales	91%	91%	91%	-
E-Vehicle Semiconductor Technology Co., Ltd.	E-Vehicle Holdings Corp.	General investing	100%	100%	100%	-
E-Vehicle Holdings Corp.	E-Vehicle Investment Limited	General investing	100%	100%	100%	-
E-Vehicle Investment Limited	E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	100%	100%	100%	-
EcoNet (Cayman) Inc.	Shadow Investment Limited	General investing	100%	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	Research, manufacturing and sales	100%	100%	100%	-
EcoNet (HK) Limited	EcoNet (Suzhou) Limited	Research, manufacturing and sales	100%	100%	-	11
Shadow Investment Limited	MediaTek (Suzhou) Inc.	Research	100%	100%	100%	-
Shadow Investment Limited	MediaTek (Nanjing) Inc.	Research	100%	100%	100%	-
Ralink Technology (Samoa) Corp.	AutoChips Inc.	Research, manufacturing and sales	89%	89%	100%	-
MediaTek Investment Singapore Pte. Ltd.	MStar Semiconductor B.V.	General investing	100%	100%	100%	3
MediaTek Investment Singapore Pte. Ltd.	Lightup International Corp.	General investing	100%	100%	100%	3
MediaTek Investment Singapore Pte. Ltd.	MediaTek Bangalore Private Limited	Research	100%	100%	-	6

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2015	December 31, 2014	March 31, 2014	
MediaTek Investment Singapore Pte. Ltd.	Gaintech Co. Limited	General investing	100%	100%	-	1
MediaTek Investment Singapore Pte. Ltd.	Cloud Ranger Limited	General investing	100%	-	-	12
MStar Semiconductor B.V.	MStar Semiconductor, Inc.	Research, manufacturing and sales	-	-	100%	3&4
MStar Semiconductor B.V.	White Dwarf Limited	General investing	100%	100%	100%	3
White Dwarf Limited	MStar India Private Limited	Research	-	-	100%	3
MStar Semiconductor, Inc.	MStar France SAS	Software development	100%	100%	100%	3
MStar Semiconductor, Inc.	Shunfonger Investment Holding Limited	General investing	100%	100%	100%	3
MStar Semiconductor, Inc.	IStar Technology Ltd.	General investing and sales	100%	100%	100%	3
MStar Semiconductor, Inc.	MStar Co., Ltd.	General investing	100%	100%	100%	3
MStar Semiconductor, Inc.	Digimoc Holdings Limited	General investing	100%	100%	100%	3
MStar Semiconductor, Inc.	MStar Semiconductor UK Ltd.	Software and customer development	100%	100%	100%	3
IStar Technology Ltd.	IStar (HK) Technology Ltd.	General investing and sales	100%	100%	100%	3
MStar Co. Ltd.	MStar Software R&D (Shenzhen), Ltd.	Software and customer development	100%	100%	100%	3
Digimoc Holdings Limited	Bubbly Bay Holdings Limited	General investing	100%	100%	100%	3
MStar Software R&D (Shenzhen), Ltd.	MStar Chen Si Electronics Technology (Shanghai) Co., Ltd.	Research and technology services	-	-	100%	3&8

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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 2014 and August 2014, respectively.
4. The 100% ownership of MStar Semiconductor, Inc., which was previously owned by MStar Semiconductor B.V., was transferred to MTK in November 2014.
5. MTK established Hsu-Chuang Investment Corp. in January 2015.
6. MediaTek Investment Singapore Pte. Ltd. and Hsu-Ta Investment Corp. jointly established MediaTek Bangalore Private Limited in May 2014.
7. For the purpose of reorganization, MediaTek Wireless LLC (Dubai) has been liquidated and returned its capital in September 2014.
8. 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.
9. MTK Wireless Limited (UK) established MediaTek Wireless Finland Oy in October 2014.
10. For the purpose of reorganization, Ralink Technology Corporation (USA) was dissolved due to the merger with MediaTek USA Inc. in July 2014.
11. EcoNet (HK) Limited established EcoNet (Suzhou) Limited in April 2014.
12. MediaTek Investment Singapore Pte. established Cloud Ranger Limited in February 2015.

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

Except for the accounting policies listed below, the same accounting policies have been followed in this consolidated financial statements as were applied in the preparation of the Company’s consolidated financial statements for the year ended December 31, 2014. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2014.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**A. 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.

The functional currency of the subsidiary, MStar Semiconductor, Inc., originally was US\$. Due to significant change of economic environment, MStar Semiconductor, Inc. changed its functional currency from US\$ to NT\$ and accounted prospectively as of 1 January, 2015 according to IAS 21 "The Effects of Changes in Foreign Exchange Rates".

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.
- 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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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.

**B. Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- a. In the principal market for the asset or liability; or
- b. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques which are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

**C. 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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

For the 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. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- a. the date of the plan amendment or curtailment; and
- b. the date that the Company recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

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.

**D. 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 UNAUDITED 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 fully 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 substitutes for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

The cost of restricted shares issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Company recognized unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period. When the subsidiaries issue restricted shares, the equity variances made from treating as above accounting policy are attributable to non-controlling interests in the consolidated financial statements.

**5. Significant Accounting Judgments, Estimates and Assumptions**

The same significant accounting judgments, estimates and assumptions have been followed in this consolidated financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2014. For the summary of significant accounting judgments, estimates and assumptions, please refer to the consolidated financial statements for the year ended December 31, 2014.



**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****6. Contents of Significant Accounts****(1) Cash and cash equivalents**

	March 31, 2015	December 31, 2014	March 31, 2014
Cash on hand and petty cash	\$ 3,881	\$ 2,525	\$ 7,140
Checking and savings accounts	25,866,599	29,446,795	49,292,305
Time deposits	170,272,671	163,348,186	117,699,591
Total	<u>\$ 196,143,151</u>	<u>\$ 192,797,506</u>	<u>\$ 166,999,036</u>

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

Cash and cash equivalents were not pledged.

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

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

	March 31, 2015	December 31, 2014	March 31, 2014
<u>Current</u>			
<u>Held for trading financial assets</u>			
Stocks	\$ 7,783	\$ 9,057	\$ 12,311
Cross currency swap contracts	7,481	-	-
Forward exchange contracts	4,319	1,933	35,667
Subtotal	<u>19,583</u>	<u>10,990</u>	<u>47,978</u>
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>			
Exchange rate-linked deposits	771,795	2,385,563	722,226
Interest rate-linked deposits	314,601	599,766	580,538
Credit-linked deposits	295,128	295,272	599,187
Index-linked deposits	253,250	255,626	295,493
Convertible bonds	-	-	227,738
Subtotal	<u>1,634,774</u>	<u>3,536,227</u>	<u>2,425,182</u>
Total	<u>\$ 1,654,357</u>	<u>\$ 3,547,217</u>	<u>\$ 2,473,160</u>
<u>Held for trading financial liabilities</u>			
Forward exchange contracts	<u>\$ 5,009</u>	<u>\$ 50,393</u>	<u>\$ 22,349</u>

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

	March 31, 2015	December 31, 2014	March 31, 2014
<u>Noncurrent</u>			
<u>Financial assets designated upon</u>			
<u>initial recognition at fair value</u>			
<u>through profit or loss</u>			
Credit-linked deposits	\$ 1,538,905	\$ 1,396,856	\$ 556,453
Exchange rate-linked deposits	1,359,786	1,677,514	-
Index-linked deposits	916,984	903,224	-
Interest rate-linked deposits	282,609	-	-
Convertible bonds	62,959	63,199	95,475
Bonds- Reverse Repo	-	-	285,955
Total	<u>\$ 4,161,243</u>	<u>\$ 4,040,793</u>	<u>\$ 937,883</u>

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

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

	March 31, 2015	December 31, 2014	March 31, 2014
<u>Current</u>			
Stocks	\$ 4,571,211	\$ 5,308,419	\$ 1,650,745
Funds	1,508,586	1,967,791	1,883,567
Bonds	268,244	271,022	88,060
Depository receipts	30,259	28,010	27,636
Subtotal	<u>6,378,300</u>	<u>7,575,242</u>	<u>3,650,008</u>
<u>Noncurrent</u>			
Funds	3,641,373	3,347,137	2,601,148
Bonds	2,274,913	1,546,954	1,654,271
Stocks	131,082	-	-
Subtotal	<u>6,047,368</u>	<u>4,894,091</u>	<u>4,255,419</u>
Total	<u>\$ 12,425,668</u>	<u>\$ 12,469,333</u>	<u>\$ 7,905,427</u>

Available-for-sale financial assets were not pledged.

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

## (4) Financial assets measured at cost

	March 31, 2015	December 31, 2014	March 31, 2014
<u>Available-for-sale financial</u>			
<u>assets-noncurrent</u>			
Capital	\$ 2,541,330	\$ 2,509,126	\$ 1,955,880
Non-publicly traded stocks	1,174,081	1,273,258	929,063
Total	<u>\$ 3,715,411</u>	<u>\$ 3,782,384</u>	<u>\$ 2,884,943</u>

Financial assets measured at cost were not pledged.

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

	March 31, 2015	December 31, 2014	March 31, 2014
<u>Current</u>			
Bonds	<u>\$ 282,609</u>	<u>\$ 288,378</u>	<u>\$ 783,567</u>
<u>Noncurrent</u>			
Bonds	<u>879,935</u>	<u>127,787</u>	<u>397,393</u>
Total	<u>\$ 1,162,544</u>	<u>\$ 416,165</u>	<u>\$ 1,180,960</u>

Held-to-maturity financial assets were not pledged.

## (6) Debt instrument investments for which no active market exists

	March 31, 2015	December 31, 2014	March 31, 2014
<u>Current</u>			
Bonds	\$ 435,590	\$ 1,074,391	\$ -
Time deposits	<u>57,669</u>	<u>11,755</u>	<u>11,709</u>
Subtotal	<u>493,259</u>	<u>1,086,146</u>	<u>11,709</u>
<u>Noncurrent</u>			
Time deposits	<u>210,401</u>	<u>946</u>	<u>382</u>
Total	<u>\$ 703,660</u>	<u>\$ 1,087,092</u>	<u>\$ 12,091</u>

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

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(7) Trade receivables**

	March 31, 2015	December 31, 2014	March 31, 2014
Trade receivables	\$ 21,860,903	\$ 18,369,294	\$ 21,152,345
Less: allowance for doubtful debts	(206,237)	(162,112)	(148,649)
Less: allowance for sales returns and discounts	(8,307,949)	(5,654,783)	(7,431,557)
Total	<u>\$ 13,346,717</u>	<u>\$ 12,552,399</u>	<u>\$ 13,572,139</u>

Trade receivables were not pledged.

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

	Individually impaired	Collectively impaired	Total
As of January 1, 2015	\$ -	\$ 162,112	\$ 162,112
Charge for the current period	-	44,311	44,311
Exchange differences	-	(186)	(186)
As of March 31, 2015	<u>\$ -</u>	<u>\$ 206,237</u>	<u>\$ 206,237</u>

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

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	
March 31, 2015	\$ 12,155,476	\$ 1,191,241	\$ -	\$ 13,346,717
December 31, 2014	\$ 11,820,401	\$ 731,998	\$ -	\$ 12,552,399
March 31, 2014	\$ 13,169,213	\$ 402,926	\$ -	\$ 13,572,139

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

The Company entered into 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. Receivables from banks due to factoring agreement were NT\$908,339 thousand, NT\$2,062,053 thousand, and NT\$2,852,119 thousand as of March 31, 2015, December 31, 2014, and March 31, 2014, respectively.

As of March 31, 2015, December 31, 2014, and March 31, 2014, trade receivables derecognized were as follows:

**A. As of March 31, 2015:**

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 24,285	\$ -	\$ 24,285	\$ 137,502
BNP Paribas	-	-	-	-	110,000
HSBC	-	139	-	139	800
TC Bank	-	4,503	-	4,503	16,500
Total		<u>\$ 28,927</u>	<u>\$ -</u>	<u>\$ 28,927</u>	<u>\$ 264,802</u>

**B. As of December 31, 2014:**

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 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		<u>\$ 65,012</u>	<u>\$ -</u>	<u>\$ 65,012</u>	<u>\$ 239,790</u>

**C. As of March 31, 2014:**

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

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

	March 31, 2015	December 31, 2014	March 31, 2014
Raw materials	\$ 1,461,515	\$ 1,354,891	\$ 957,834
Work in progress	22,171,023	15,838,703	14,957,788
Finished goods	12,546,750	13,297,586	6,958,683
Total	36,179,288	30,491,180	22,874,305
Less: allowance for inventory valuation losses	(8,094,547)	(8,149,844)	(6,224,867)
Net amount	\$ 28,084,741	\$ 22,341,336	\$ 16,649,438

For the three months ended March 31, 2015 and 2014, the cost of inventories recognized in expenses amounted to NT\$25,037,623 thousand and NT\$23,779,339 thousand, including the write-down of inventories of NT\$44,882 thousand and NT\$1,885,919 thousand for the three months ended March 31, 2015 and 2014, respectively.

No inventories were pledged.

**(9) Investments accounted for using the equity method**

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

Investees	March 31, 2015		December 31, 2014		March 31, 2014	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Shenzhen Huiding Technology Co., Ltd.	\$ 1,114,623	24	\$ 1,055,423	24	\$ 763,008	24
Airoha Technology Corp.	544,981	27	513,685	28	390,606	31
Alpha Imaging Technology Corp.	135,411	15	175,767	15	128,770	15
Others	426,182	-	409,738	-	363,288	-
Total	\$ 2,221,197		\$ 2,154,613		\$ 1,645,672	

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

Please refer to Note 11 for related information of a tender offer for Alpha Imaging Technology Corp.

The Company's investments in the associates were not individually material. The following table summarizes financial information of the Company's percentage of ownership in the associates:

	Three months ended March 31	
	2015	2014
Profit from continuing operations	\$ 111,701	\$ 327,954
Other comprehensive income (post-tax)	(214)	(11,377)
Total comprehensive income	<u>\$ 111,487</u>	<u>\$ 316,577</u>

The associates had no contingent liabilities or capital commitments and investment in the associates were not pledged as of March 31, 2015, December 31, 2014, and March 31, 2014.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(10)Property, plant and equipment

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:								
As of January 1, 2015	\$ 3,393,510	\$10,941,518	\$ 77,459	\$ 2,919,794	\$ 4,513,002	\$ 1,279,050	\$ 7,793,385	\$ 30,917,718
Additions-acquired separately	-	59,017	649	267,088	180,559	91,505	3,910,890	4,509,708
Disposals	-	(167)	(280)	(77,323)	(39,709)	(2,733)	-	(120,212)
Transfers	6,825	13,735	(2,034)	2,534	126,453	1,998	(150,717)	(1,206)
Exchange differences	56,550	(11,312)	(3,456)	(15,138)	(67,181)	(35,800)	(13,522)	(89,859)
As of March 31, 2015	<u>\$ 3,456,885</u>	<u>\$11,002,791</u>	<u>\$ 72,338</u>	<u>\$ 3,096,955</u>	<u>\$ 4,713,124</u>	<u>\$ 1,334,020</u>	<u>\$ 11,540,036</u>	<u>\$ 35,216,149</u>
As of January 1, 2014	\$ 1,273,869	\$ 9,078,987	\$ 122,675	\$ 2,287,104	\$ 3,251,188	\$ 1,192,400	\$ 1,011,252	\$ 18,217,475
Additions-acquired separately	-	12,185	1,819	118,862	116,247	45,178	289,695	583,986
Additions-acquired through business combinations	1,857,153	1,283,605	202,873	-	226,893	516,588	15,457	4,102,569
Disposals	-	(2,140)	(96,110)	(20,987)	(71,461)	(23,194)	-	(213,892)
Transfers	-	13,929	-	4,704	7,784	-	(26,417)	-
Exchange differences	8,193	(8,991)	1,880	1,314	(2,452)	4,855	(4,195)	604
As of March 31, 2014	<u>\$ 3,139,215</u>	<u>\$10,377,575</u>	<u>\$ 233,137</u>	<u>\$ 2,390,997</u>	<u>\$ 3,528,199</u>	<u>\$ 1,735,827</u>	<u>\$ 1,285,792</u>	<u>\$ 22,690,742</u>



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Depreciation and impairment:								
As of January 1, 2015	\$ -	\$ 2,110,031	\$ 14,033	\$ 1,930,859	\$ 2,722,355	\$ 845,885	\$ -	\$ 7,623,163
Depreciation	-	83,434	6,577	109,146	149,933	65,191	-	414,281
Disposals	-	(91)	(280)	(74,948)	(39,247)	(2,372)	-	(116,938)
Transfers	-	(234)	482	105	(242)	163	-	274
Exchange differences	-	4,372	69	(10,040)	(10,987)	(22,081)	-	(38,667)
As of March 31, 2015	<u>\$ -</u>	<u>\$ 2,197,512</u>	<u>\$ 20,881</u>	<u>\$ 1,955,122</u>	<u>\$ 2,821,812</u>	<u>\$ 886,786</u>	<u>\$ -</u>	<u>\$ 7,882,113</u>
As of January 1, 2014	\$ -	\$ 1,809,281	\$ 108,709	\$ 1,701,616	\$ 2,396,821	\$ 888,941	\$ -	\$ 6,905,368
Depreciation	-	67,811	5,330	85,138	92,083	53,340	-	303,702
Depreciation-acquired through business combinations	-	187,302	107,175	-	159,303	402,369	-	856,149
Disposals	-	(802)	(56,663)	(20,195)	(52,455)	(20,204)	-	(150,319)
Exchange differences	-	25	1,440	485	(1,229)	4,866	-	5,587
As of March 31, 2014	<u>\$ -</u>	<u>\$ 2,063,617</u>	<u>\$ 165,991</u>	<u>\$ 1,767,044</u>	<u>\$ 2,594,523</u>	<u>\$ 1,329,312</u>	<u>\$ -</u>	<u>\$ 7,920,487</u>
Net carrying amount as of:								
March 31, 2015	<u>\$ 3,456,885</u>	<u>\$ 8,805,279</u>	<u>\$ 51,457</u>	<u>\$ 1,141,833</u>	<u>\$ 1,891,312</u>	<u>\$ 447,234</u>	<u>\$ 11,540,036</u>	<u>\$ 27,334,036</u>
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>
March 31, 2014	<u>\$ 3,139,215</u>	<u>\$ 8,313,958</u>	<u>\$ 67,146</u>	<u>\$ 623,953</u>	<u>\$ 933,676</u>	<u>\$ 406,515</u>	<u>\$ 1,285,792</u>	<u>\$ 14,770,255</u>

Property, plant and equipment were not pledged.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(11) Intangible assets

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Cost:						
As of January 1, 2015	\$ 422,914	\$ 1,273,257	\$ 2,621,937	\$ 6,603,476	\$ 54,136,415	\$ 65,057,999
Additions-acquired separately	-	49,131	-	2,918,595	-	2,967,726
Disposals	-	-	-	(3,060,890)	-	(3,060,890)
Transfers	-	57,747	-	(56,267)	-	1,480
Exchange differences	(2,032)	(63,690)	(13,409)	(135,937)	(5,841)	(220,909)
As of March 31, 2015	<u>\$ 420,882</u>	<u>\$ 1,316,445</u>	<u>\$ 2,608,528</u>	<u>\$ 6,268,977</u>	<u>\$ 54,130,574</u>	<u>\$ 67,745,406</u>
As of January 1, 2014	\$ 32,402	\$ 669,683	\$ -	\$ 4,271,124	\$ 13,965,296	\$ 18,938,505
Additions-acquired separately	-	176,797	-	79,635	-	256,432
Additions-acquired through business combinations	380,004	1,108,486	1,800,993	7,280,308	39,285,646	49,855,437
Disposals	-	(41,062)	-	(81,299)	-	(122,361)
Transfers	-	(96)	-	96	-	-
Exchange differences	1,676	466	7,945	22,499	142,991	175,577
As of March 31, 2014	<u>\$ 414,082</u>	<u>\$ 1,914,274</u>	<u>\$ 1,808,938</u>	<u>\$ 11,572,363</u>	<u>\$ 53,393,933</u>	<u>\$ 69,103,590</u>

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Amortization and impairment:						
As of January 1, 2015	\$ 90,032	\$ 856,677	\$ 329,940	\$ 3,023,524	\$ -	\$ 4,300,173
Amortization	16,271	58,355	93,641	472,173	-	640,440
Disposals	-	-	-	(3,060,890)	-	(3,060,890)
Transfers	-	56,172	-	(56,172)	-	-
Exchange differences	-	(54,546)	-	(86,487)	-	(141,033)
As of March 31, 2015	<u>\$ 106,303</u>	<u>\$ 916,658</u>	<u>\$ 423,581</u>	<u>\$ 292,148</u>	<u>\$ -</u>	<u>\$ 1,738,690</u>
As of January 1, 2014	\$ 32,402	\$ 554,909	\$ -	\$ 2,842,001	\$ -	\$ 3,429,312
Amortization	10,983	75,504	56,265	282,685	-	425,437
Amortization due to business combinations	-	1,006,899	-	3,780,913	-	4,787,812
Disposals	-	(41,062)	-	(81,299)	-	(122,361)
Exchange differences	-	(214)	-	(337)	-	(551)
As of March 31, 2014	<u>\$ 43,385</u>	<u>\$ 1,596,036</u>	<u>\$ 56,265</u>	<u>\$ 6,823,963</u>	<u>\$ -</u>	<u>\$ 8,519,649</u>
Net carrying amount as of:						
March 31, 2015	<u>\$ 314,579</u>	<u>\$ 399,787</u>	<u>\$ 2,814,947</u>	<u>\$ 5,976,829</u>	<u>\$ 54,130,574</u>	<u>\$ 63,006,716</u>
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>
March 31, 2014	<u>\$ 370,697</u>	<u>\$ 318,238</u>	<u>\$ 1,752,673</u>	<u>\$ 4,748,400</u>	<u>\$ 53,393,933</u>	<u>\$ 60,583,941</u>

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

The Company has no intangible assets with indefinite lives. Goodwill acquired through business combination has been allocated to each group of cash-generating units which is expected to benefit from synergies of the business combination and has been assessed for impairment of the recoverable amount of goodwill at the end of each year. The recoverable amount has been determined based on the value-in-use calculated using cash flow projections discounted by the pre-tax discount rate from a five-year period financial budget. The projected cash flows reflect the change in demand for products and services. As a result of the analysis, the Company did not identify any impairment of goodwill for the three months ended March 31, 2015 and 2014.

**(13) Short-term borrowings**

	March 31, 2015	December 31, 2014	March 31, 2014
Unsecured bank loans	\$ 50,933,722	\$ 46,160,593	\$ 22,100,970
Interest rates	0.58~1.83%	0.60~1.83%	0.74~2.92%
Unused lines of credits	\$ 40,933,612	\$ 42,748,541	\$ 13,500,562

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

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

Pension expenses under the defined contribution plan for the three months ended March 31, 2015 and 2014 were NT\$324,523 thousand and NT\$216,655 thousand, respectively.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Defined benefits plan

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

Pension expenses under the defined benefits plan for the three months ended March 31, 2015 and 2014 were NT\$6,603 thousand and NT\$4,051 thousand, respectively.

**(15) Equity**

**A. Share capital**

MTK's authorized capital as of March 31, 2015, December 31, 2014, and March 31, 2014 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\$15,714,922 thousand, NT\$15,714,455 thousand, and NT\$15,708,379 thousand, divided into 1,571,492,244 shares, 1,571,445,544 shares, and 1,570,837,871 shares as of March 31, 2015, December 31, 2014 and March 31, 2014, respectively. Each share has one voting right and a right to receive dividends.

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

MTK totally issued 46,700 new shares and 247,293 new shares for the three months ended March 31, 2015 and 2014, respectively, at par value of NT\$10 for the employee stock options exercised. Furthermore, 84,103 shares (NT\$841 thousand in the amount), 46,700 shares (NT\$467 thousand in the amount), and 151,011 shares (NT\$1,510 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance as of March 31, 2015, December 31, 2014 and March 31, 2014, respectively.

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

	March 31, 2015	December 31, 2014	March 31, 2014
Additional paid-in capital	\$ 85,838,316	\$ 85,824,767	\$ 86,116,241
Treasury share transactions	1,198,502	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	149,965
Changes in ownership interests in subsidiaries	256,377	215,280	26,137
Donated assets	1,261	1,261	1,260
From share of changes in net assets of associates	68,058	68,650	93,104
Employee stock options	482,537	465,777	420,501
Others	138,120	123,712	161,224
Total	<u>\$ 88,133,136</u>	<u>\$ 88,047,914</u>	<u>\$ 88,050,023</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 March 31, 2015, December 31, 2014, and March 31, 2014, 7,794,085 shares of MTK's common shares amounting to NT\$55,970 thousand were held by the subsidiary, MediaTek Capital Corp. These shares held by MediaTek Capital Corp. were acquired for the purpose of financing before the amendment of the Company Act on November 12, 2001.

As of March 31, 2015, December 31, 2014, and March 31, 2014, MTK did not hold any other treasury shares.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**D. Retained earnings and dividend policy**

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

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

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

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

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

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

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

During the three months ended March 31, 2015 and 2014, the amounts of the employees' bonuses were estimated to be NT\$90,573 thousand and NT\$655,076 thousand, respectively. During the three months ended March 31, 2015 and 2014, the amounts of remunerations to directors and supervisors were estimated to be NT\$13,043 thousand and NT\$18,913 thousand, respectively. The employees' bonuses were estimated based on a specific rate of net income for the three months ended March 31, 2015 and 2014 (excluding the impact of employees' bonuses) while the remunerations to directors and supervisors were estimated based on MTK's Articles of Incorporation. Estimated amount of employees' bonuses and remunerations paid to directors and supervisors were charged to current income. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, MTK shall recognize the change as an adjustment to income of next year. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of shares on the day preceding the shareholders' meeting.



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

The appropriations of earnings for 2014 were resolved by the board of directors' meeting on April 30, 2015, subject to the resolution of general shareholders' meeting which will be held on June 12, 2015. The appropriations of earnings for 2013 were resolved by the general shareholders' meeting on June 12, 2014. The details of the distribution are as follows:

	Appropriation of earnings		Dividend per share (NT\$)	
	2014	2013	2014	2013
Legal reserve	\$ 4,639,789	\$ 2,751,505	-	-
Special reserve (reversal)	(895,749)	(4,176,676)	-	-
Cash dividends-common stock	34,574,697	23,565,323	\$ 22.00	\$ 15.00
Directors' and supervisors' remunerations	85,308	57,880	-	-
Employees' bonuses-cash	579,974	1,593,476	-	-
Total	<u>\$ 38,984,019</u>	<u>\$ 23,791,508</u>		

The difference between the resolution of the board of directors' meeting and the estimated expense of the directors' and supervisors' remuneration and the employees' bonuses for 2014 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	\$ 579,974	\$ 579,974	\$ -	-
Directors' and supervisors' remunerations	\$ 85,308	\$ 84,192	\$ 1,116	(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 2015.

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**E. Other equity**

	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains from available-for-sale financial assets	Total
As of January 1, 2015	\$ 4,218,292	\$ 2,387,821	\$ 6,606,113
To be reclassified to profit or loss in subsequent periods			
Exchange differences resulting from translating the financial statements of foreign operations	(805,561)	-	(805,561)
Unrealized gains from available-for-sale financial assets	-	(562,138)	(562,138)
Unrealized gains reclassified to profit or loss from available-for-sale financial assets	-	28,642	28,642
Share of other comprehensive income of associates accounted for using equity method	1,489	-	1,489
As of March 31, 2015	\$ 3,414,220	\$ 1,854,325	\$ 5,268,545

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

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

## F. Non-controlling interests

	Three months ended March 31	
	2015	2014
Beginning balance	\$ 437,599	\$ 38,193
Gain (loss) attributable to non-controlling interests	25,376	(8,025)
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	(3,548)	30,096
Changes in ownership interests in subsidiaries	18,334	(262)
Ending balance	<u>\$ 477,761</u>	<u>\$ 60,002</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.

Share-based payment plans in MTK

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	282,195	282,195	\$ 358.0
2008.08.28	1,640,285	482,656	482,656	344.5
2009.08.18	1,382,630	577,442	577,442	429.5
2010.08.27	1,605,757	715,593	715,593	404.8
2010.11.04	65,839	14,634	14,634	377.0
2011.08.24	2,109,871	1,237,587	625,534	277.4
2012.08.14	1,346,795	1,037,909	272,321	286.8
2013.08.22	1,436,343	1,292,156	-	368.0

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

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

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

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

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

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

Employee Stock Option	Three months ended March 31			
	2015		2014	
	Options	Weighted-average Exercise Price per Share (NT\$)	Options	Weighted-average Exercise Price per Share (NT\$)
	(Unit)		(Unit)	
Outstanding at beginning of period	5,754,998	\$ 341.4	6,641,191	\$ 341.3
Granted	-	-	-	-
Exercised	(84,103)	333.8	(151,011)	334.3
Forfeited (Expired)	(30,723)	320.7	(71,012)	347.4
Outstanding at end of period	<u>5,640,172</u>	341.7	<u>6,419,168</u>	341.4
Exercisable at end of period	<u>2,970,375</u>		<u>2,428,953</u>	
Weighted-average fair value of options granted during the period (in NT\$)	<u>\$ -</u>		<u>\$ -</u>	

The weighted average share price at the date of exercise of those options were NT\$490.3 and NT\$443.0 for three months then ended March 31, 2015 and 2014.

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

The information on the outstanding share-based payment plan as of March 31, 2015 and 2014 is as follows:

		Three months ended March 31			
		2015		2014	
		Outstanding stock options		Outstanding stock options	
		Weighted- average Expected Remaining	Weighted- average Exercise Price per Share (NT\$)	Weighted- average Expected Remaining	Weighted- average Exercise Price per Share (NT\$)
Date of grant	Range of Exercise Price (NT\$)	Years		Years	
2007.12.19	\$ 344.5~358.0	-	\$ 349.5	0.75	\$ 349.8
2009.07.27	429.5	0.88	429.5	1.88	429.5
2010.05.10	377.0~404.8	1.92	404.2	2.92	404.3
2011.08.09	277.4	2.92	277.4	3.92	277.4
2012.08.09	286.8	3.88	286.8	4.88	286.8
2013.08.09	368.0	4.92	368.0	5.92	368.0

Share-based payment plans of Subsidiaries

In November 2014, board of directors of EcoNet (Cayman) Inc. resolved to issue employee stock options with a total number of 1,235,388 units, each unit eligible to subscribe for one common share of EcoNet (Cayman) Inc. The options may be granted to qualified employees of EcoNet (Cayman) Inc. and its subsidiaries. 788,244 units and 152,682 units of stock options were granted on December 31, 2014 and January 31, 2015, respectively. The total numbers of outstanding stock options were 711,610 units as of March 31, 2015.

Employee Restricted Shares

In November 2014, board of directors of EcoNet (Cayman) Inc. resolved to issue employee restricted shares. The maximum restricted shares to be issued are 109,858 shares. EcoNet (Cayman) Inc. is allowed to register one or more issues based on actual need. The employee restricted shares may be granted to qualified employees of EcoNet (Cayman) Inc. and its subsidiaries. The outstanding employee restricted shares were 108,729 shares as of March 31, 2015.

Share-based compensation expenses recognized for employee services received for the three months ended March 31, 2015 and 2014, is shown in the following table:

		Three months ended March 31	
		2015	2014
Total equity-settled transactions	\$	16,760	\$ 18,659

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

There have been no cancellations or modifications to any of the plans during the three months ended March 31, 2015 and 2014.

(17) Sales

	Three months ended March 31	
	2015	2014
Sale of goods	\$ 54,410,553	\$ 52,322,512
Other operating revenues	320,921	523,904
Less: Sales returns and discounts	(7,195,253)	(6,841,414)
Net sales	<u>\$ 47,536,221</u>	<u>\$ 46,005,002</u>

(18) Summary statement of employee benefits, depreciation and amortization expenses by function for the three months ended March 31, 2015 and 2014:

	Three months ended March 31					
	2015			2014		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$ 71,228	\$ 8,275,955	\$ 8,347,183	\$ 59,384	\$ 6,126,191	\$ 6,185,575
Labor and health insurance	\$ 6,669	\$ 437,302	\$ 443,971	\$ 4,886	\$ 275,997	\$ 280,883
Pension	\$ 4,008	\$ 327,118	\$ 331,126	\$ 3,108	\$ 217,598	\$ 220,706
Others	\$ 875	\$ 223,573	\$ 224,448	\$ 1,151	\$ 189,447	\$ 190,598
Depreciation	\$ 795	\$ 413,486	\$ 414,281	\$ 697	\$ 303,005	\$ 303,702
Amortization	\$ -	\$ 640,440	\$ 640,440	\$ -	\$ 425,437	\$ 425,437

(19) Other income

	Three months ended March 31	
	2015	2014
Rental income	\$ 7,873	\$ 2,831
Interest income	815,708	615,533
Dividend income	48,394	51,828
Others	11,859	72,012
Total	<u>\$ 883,834</u>	<u>\$ 742,204</u>

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

	Three months ended March 31	
	2015	2014
Losses on disposal of property, plant and equipment	\$ (481)	\$ (111)
Gains (losses) on disposal of investments		
Available-for-sale financial assets	3,548	(16,707)
Financial assets measured at cost	6,491	-
Investments accounted for using the equity method	-	8,868
Foreign exchange losses	(343,730)	(243,489)
Impairment losses		
Available-for-sale financial assets	(32,190)	-
Financial assets measured at cost	(24,010)	-
Gain (loss) on financial assets at fair value through profit or loss	148,247	(85,849)
Losses on financial liabilities at fair value through profit or loss	(5,009)	(22,349)
Others	(89,180)	(96,178)
Total	<u>\$ (336,314)</u>	<u>\$ (455,815)</u>

**(21) Finance costs**

	Three months ended March 31	
	2015	2014
Interest expenses on short-term borrowings	<u>\$ 155,030</u>	<u>\$ 82,099</u>

**(22) Income tax**

The major components of income tax expense are as follows:

	Three months ended March 31	
	2015	2014
Current income tax	\$ 695,980	\$ 1,862,426
Deferred tax expense (income)	199,011	(455,710)
Others	(3,805)	(45,093)
Income tax expense recognized in profit or loss	<u>\$ 891,186</u>	<u>\$ 1,361,623</u>

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

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

	Three months ended March 31	
	2015	2014
Accounting profit before tax from continuing operations	\$ 8,142,183	\$ 11,500,964
Tax at the domestic rates applicable to profits in the country concerned	\$ 1,853,267	\$ 2,332,732
Tax effect of revenues exempt from taxation	(550,373)	(665,704)
Tax effect of expenses not deductible for tax purposes	(268,569)	(205,236)
Tax effect of deferred tax assets/liabilities	(202,644)	(163,076)
Others	59,505	62,907
Total income tax expense recognized in profit or loss	\$ 891,186	\$ 1,361,623

Integrated income tax information

	March 31, 2015	December 31, 2014	March 31, 2014
Balance of the imputation credit account	\$ 7,839,262	\$ 7,667,187	\$ 1,904,143

The estimated and actual creditable ratio for 2014 and 2013 were 11.86% and 4.34%, respectively.

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

The assessment of income tax returns

As of March 31, 2015, the assessment of the income tax returns of MTK and its material 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 2012	

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

Note2: MTK and its subsidiary-Ralink have applied for administrative appeals of the tax returns of 2012, 2011, 2010, 2009, 2008 and 2012, 2011, 2010, respectively, as MTK and Ralink disagreed with the decision made in the tax assessment notices. The Company has paid in full the additional taxes assessed by the tax authorities.



**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(23)Earnings per share**

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

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

	Three months ended March 31	
	2015	2014
<b>A. Basic earnings per share</b>		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 7,225,621	\$ 10,147,366
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,746,061	1,486,919,895
Basic earnings per share (NT\$)	\$ 4.62	\$ 6.82
<b>B. Diluted earnings per share</b>		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 7,225,621	\$ 10,147,366
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,746,061	1,486,919,895
Effect of dilution:		
Employee bonuses-stock (share)	1,583,346	5,002,340
Employee stock options (share)	1,318,855	1,046,969
Weighted average number of ordinary shares outstanding after dilution (share)	1,566,648,262	1,492,969,204
Diluted earnings per share (NT\$)	\$ 4.61	\$ 6.80

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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**(24)Business combinations**

The merger with MStar

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

The merger was approved by Ministry of Commerce of the People's Republic of China ("MOFCOM") on August 26, 2013, contingent upon the completion of a working plan which should be reviewed by MOFCOM. On November 26, 2013, the working plan was approved by MOFCOM. In addition, the supplementary document of the working plan was also approved by MOFCOM in January 2014. MTK obtained de facto control over MStar on the day (the acquisition day) that MTK's and MStar's board of directors approved to follow the working plan and its supplementary document which had been approved by MOFCOM. The original 48% interest of MStar acquired before the acquisition of de facto control was remeasured at fair value and the difference was recognized as a gain.

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

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:

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

	Fair value 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
	<u>1,675,731</u>
Current liabilities	(303,105)
Long-term borrowings	(21,431)
Other liabilities	(794)
	<u>(325,330)</u>
Identifiable net assets	<u>\$ 1,350,401</u>

	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	<u>\$ 1,286,734</u>

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

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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

The goodwill of US\$1,286,734 thousand comprises the value of expected synergies arising from acquisition.

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

If the combination had taken place at the January 1, 2014, revenues and net income of the Company for the three months ended March 31, 2014 would have been NT\$48,948,580 thousand and NT\$10,374,208 thousand.

**(25) Changes in ownership interests in subsidiaries**

Changes in ownership of subsidiaries

E-Vehicle Semiconductor Technology Co., Ltd. and Hesine Technologies International Worldwide Inc. issued new shares in February and March 2015, respectively, and the Company did not purchase the new shares in proportionate to its original ownership interest. Consequently, the ownership interest in these companies changed but control over these companies remained. The difference between the fair value of purchased equity investment and the increase in the non-controlling interest was NT\$41,097 thousand which was recorded in equity.

Lepower Technologies (Beijing), Inc., AutoChips Inc. and EcoNet (Cayman) 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 remained. The difference between the fair value of purchased equity investments and the increase in the non-controlling interest for the three months ended March 31, 2014 and for year ended December 31, 2014 was NT\$14,008 thousand and 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 by issued the new shares and paid in cash of MStar in February 2014.

The Company has no subsidiaries that have non-controlling interests that are material to the Company.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**7. Related Party Transactions**

(1) Significant transactions with related parties

A. Sales

	Three months ended March 31	
	2015	2014
Associates	\$ 1,740	\$ -

For the three months ended March 31, 2015 and 2014, 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

	Three months ended March 31	
	2015	2014
Other related parties	\$ 536,770	\$ 1,836,434

C. Consign research and development expense and license expense

	Three months ended March 31	
	2015	2014
Associates	\$ -	\$ 200,000
Other related parties	18,518	14,965
Total	\$ 18,518	\$ 214,965

D. Rental income

	Three months ended March 31	
	2015	2014
Associates	\$ 214	\$ 171
Other related parties	2,236	2,318
Total	\$ 2,550	\$ 2,489

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

E. Acquisition of intangible assets

	Three months ended March 31	
	2015	2014
Other related parties	\$ 9,944	\$ -

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

F. Other receivables from related parties

	March 31, 2015	December 31, 2014	March 31, 2014
Associates	\$ 150	\$ 150	\$ 60
Other related parties	-	-	581
Total	<u>\$ 150</u>	<u>\$ 150</u>	<u>\$ 641</u>

G. Trade payables to related parties

	March 31, 2015	December 31, 2014	March 31, 2014
Other related parties	<u>\$ 532,322</u>	<u>\$ 677,196</u>	<u>\$ 1,836,555</u>

H. Key management personnel compensation

	Three months ended March 31	
	2015	2014
Short-term employee benefits (Note)	\$ 501,908	\$ 217,829
Post-employment benefits	565	900
Total	<u>\$ 502,473</u>	<u>\$ 218,729</u>

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

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

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

Assets pledged for security	Carrying amount			Purpose of pledge
	March 31, 2015	December 31, 2014	March 31, 2014	
Debt instrument investments for which no active market exists-current	\$ 15,434	\$ 7,067	\$ 6,917	Land lease guarantee
Debt instrument investments for which no active market exists-current	3,142	3,142	3,104	Customs clearance deposits
Debt instrument investments for which no active market exists-current	37,740	-	-	Project performance deposits
Debt instrument investments for which no active market exists-current	1,353	1,546	1,688	Credit guarantee
Debt instrument investments for which no active market exists-noncurrent	569	820	255	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	126	126	127	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	200,000	-	-	Project performance deposits
Total	<u>\$ 258,364</u>	<u>\$ 12,701</u>	<u>\$ 12,091</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. There are no restrictions placed upon the Company by entering into these leases.

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

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

	March 31, 2015	December 31, 2014	March 31, 2014
Not later than one year	\$ 459,319	\$ 377,191	\$ 421,856
Later than one year but not later than five years	1,175,329	572,653	728,913
Later than five years	401,769	124,576	167,212
Total	<u>\$ 2,036,417</u>	<u>\$ 1,074,420</u>	<u>\$ 1,317,981</u>

Operating lease expenses are as follows:

	Three months ended March 31	
	2015	2014
Minimum lease payments	<u>\$ 192,535</u>	<u>\$ 121,519</u>

**(2) Commitment**

The Company's subsidiary, Hsu-Chuang Investment Corp. ("Hsu-Chuang"), signed a contract of with Bureau of High Speed Rail, Ministry of Transportation and Communications of R.O.C. ("BOHSR") on February 12, 2015, to obtain a land use right of Shuxing Section in Zhubei City which is of 19,395.05 square metres. The contract period is 50 years from the date of completion of registration of land use right. Hsu-Chuang can register the priority extension right according to the contract terms before the expiration date. The extension of contract is a one time only option and the extended period shall not exceed 20 years. At the expiration date of the contract, Hsu-Chuang shall transfer the agreed assets without any consideration to BOHSR or any third party BOHSR that assigns.

Hsu-Chuang shall pay an annual rent in the amount of 5% of reported land value of current period and a royalty of certain periods as agreed by both parties during the contract period. Hsu-Chuang also needs to provide NT\$200,000 thousand as a deposit. The discounted value of royalty agreed by both parties was approximately NT\$1,120,000 thousand.

**(3) 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.



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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.

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. On April 27, 2015, the Commission issued an Initial Determination terminate the investigation on the ground of Optical Devices' lack of standing.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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. ("Vantage Point") 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 court dismissed the claims with prejudice against MediaTek USA pursuant to Vantage Point and MediaTek USA's joint motion on April 20, 2015.

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 South 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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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**

The Company’s subsidiary MStar Semiconductor Inc. (“MStar Taiwan”) established MSilicon Technology Inc. (“MSilicon”) in April 2015. On April 9, 2015, the board of directors of MStar Taiwan approved a tender offer by MSilicon to acquire shares of Alpha Imaging Technology Corp. (“Alpha Tech.”). The tender offer period is set from April 10, 2015 to May 8, 2015, and MSilicon plans to merge Alpha Tech. after the tender offer is completed. The terms of the tender offer is to obtain common shares of Alpha Tech. by offering NT\$37 in cash for each share. The expected range of total shares of Alpha Tech. to be acquired is from 27,948,810 shares to 55,897,618 shares and the total consideration is expected to be in the range from NT\$1,034,106 thousand to NT\$ 2,068,212 thousand.

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

	March 31, 2015	December 31, 2014	March 31, 2014
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$ 19,583	\$ 10,990	\$ 47,978
Financial assets designated upon initial recognition at fair value through profit or loss	5,796,017	7,577,020	3,363,065
Subtotal	5,815,600	7,588,010	3,411,043
Available-for-sale financial assets	12,425,668	12,469,333	7,905,427
Financial assets measured at cost	3,715,411	3,782,384	2,884,943
Held-to-maturity financial assets	1,162,544	416,165	1,180,960
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand and petty cash)	196,139,270	192,794,981	166,991,896
Debt instrument investments for which no active market exists	703,660	1,087,092	12,091
Trade receivables	13,346,717	12,552,399	13,572,139
Other receivables	3,069,152	5,296,078	4,318,985
Subtotal	213,258,799	211,730,550	184,895,111
Total	\$ 236,378,022	\$ 235,986,442	\$ 200,277,484

Financial liabilities

	March 31, 2015	December 31, 2014	March 31, 2014
Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$ 5,009	\$ 50,393	\$ 22,349
Financial liabilities at amortized cost:			
Short-term borrowings	50,933,722	46,160,593	22,100,970
Trade payables (including related parties)	19,649,973	14,605,160	17,421,411
Other payables	29,317,638	32,766,959	20,936,214
Long-term payables (including current portion)	81,642	91,982	111,362
Subtotal	99,982,975	93,624,694	60,569,957
Total	\$ 99,987,984	\$ 93,675,087	\$ 60,592,306

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**B. Fair values of financial instruments**

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities :

- (a)The carrying amount of cash and cash equivalents, trade receivables, other receivable, 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		
	March 31, 2015	December 31, 2014	March 31, 2014
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ 1,162,544	\$ 416,165	\$ 1,180,960

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

	Fair value as of		
	March 31, 2015	December 31, 2014	March 31, 2014
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ 1,161,883	\$ 410,093	\$ 1,189,076

c. Assets measured at fair value

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Input other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly.

Level 3: Unobservable inputs for the assets or liability.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

As of March 31, 2015

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Stocks	\$ 7,783	\$ -	\$ -	\$ 7,783
Bonds	-	-	62,959	62,959
Derivative financial instruments	-	11,800	-	11,800
Linked deposits	-	3,899,025	1,834,033	5,733,058
Available-for-sale financial assets				
Depository receipts	30,259	-	-	30,259
Stocks	4,702,293	-	-	4,702,293
Bonds	2,328,456	-	214,701	2,543,157
Funds	4,980,282	-	169,677	5,149,959
Total	\$ 12,049,073	\$ 3,910,825	\$ 2,281,370	\$ 18,241,268

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

	Level 1	Level 2	Level 3	Total
<u>Financial liabilities:</u>				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	\$ -	\$ 5,009	\$ -	\$ 5,009

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
----------------------------------	------	-----------	------	-----------

As of March 31, 2014

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

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

	Level 1	Level 2	Level 3	Total
<u>Financial liabilities:</u>				
Financial liabilities at fair value				
through profit or loss				
Derivative financial instruments	\$ -	\$ 22,349	\$ -	\$ 22,349

For the three months ended March 31, 2015 and 2014, there were no transfers between Level 1 and Level 2.

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

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		
	Linked				
	Bonds	deposits	Bonds	Funds	Total
As of January 1, 2015	\$ 63,199	\$ 1,692,128	\$ 216,868	\$ 470,350	\$ 2,442,545
Amount recognized in					
profit or loss	(240)	(12,595)	-	699	(12,136)
Amount recognized in OCI	-	-	(2,167)	(4,370)	(6,537)
Acquisitions	-	154,500	-	50,650	205,150
Settlements	-	-	-	(347,652)	(347,652)
As of March 31, 2015	\$ 62,959	\$ 1,834,033	\$ 214,701	\$ 169,677	\$ 2,281,370

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		
	Linked				
	Bonds	deposits	Bonds	Funds	Total
As of January 1, 2014	\$ 59,583	\$ 1,084,037	\$ 198,395	\$ -	\$ 1,342,015
Amount recognized in					
profit or loss	1,452	11,669	-	-	13,121
Amount recognized in OCI	-	-	3,709	-	3,709
Acquisitions	-	-	-	-	-
Settlements	-	-	-	-	-
As of March 31, 2014	\$ 61,035	\$ 1,095,706	\$ 202,104	\$ -	\$ 1,358,845



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Total profits or losses recognized for the three months ended March 31, 2015 and 2014 contained profit and loss related to bonds, funds and linked deposits on hand as of March 31, 2015 and 2014 in the amount of NT\$(12,835) thousand and NT\$13,121 thousand, respectively.

Information on significant unobservable inputs to valuation of fair value measurements categorized within Level 3 of the fair value hierarchy

The valuation techniques of the Company's linked-deposits, convertible bonds, bonds and funds are reduced-form valuation techniques, discounted cash flow, discounted cash flow and net asset valuation method as of March 31, 2015, December 31, 2014 and March 31, 2014, respectively. Significant unobservable inputs include credit spread, bond price, discount rate and net asset value. The relationship between aforementioned inputs and fair value is as follows: a wider (tighten) credit spread results in a lower (higher) fair value; a higher (lower) bond price results a higher (lower) fair value; a higher (lower) discount rate results in a lower (higher) fair value, while higher (lower) net asset value results in higher (lower) fair value.

The Company's recurring fair value measurements categorized within Level 3 of the fair value hierarchy are based on unadjusted quoted price of trading partner. Therefore, the quantitative information and sensitivity analysis are not available.

Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Company's recurring fair value measurements categorized within Level 3 of the fair value hierarchy are based on unadjusted quoted price of trading partner. The Company's Finance Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on stable, independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies at each reporting date to ensure the measurement or assessment are reasonable.

C. Fair value measurement hierarchy of the Company's assets and liabilities not measured at fair value but for which the fair value is disclosed.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**As of 31 March 2015

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Held-to-maturity financial assets				
Bonds	\$ 1,161,883	\$ -	\$ -	\$ 1,161,883

As of 31 December 2014

Not Applicable

As of 31 March 2014

Not Applicable

**D. Derivative financial instruments**

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

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

Forward exchange contracts	Currency	Contract amount ( '000)	Maturity
As of March 31, 2015	TWD to USD	Sell USD80,000	April 2015
As of March 31, 2015	CNY to USD	Sell USD1,800	September 2015
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 March 31, 2014	TWD to USD	Purchase USD200,000	September 2014
As of March 31, 2014	TWD to USD	Sell USD230,000	April 2014

  

Cross currency swap contracts	Contracts amount('000)	Maturity	Interest rate paid interval	Interest rate received interval
As of March 31,2015	USD16,991	April 2015	-	-
As of December 31, 2014	None	-	-	-
As of March 31,2014	None	-	-	-

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

(2) Financial risk management objectives

The Company's principal financial risk management objective is to manage the market risk, credit risk and 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 variables, there are usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

a. Foreign currency risk

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

The Company reviews its assets and liabilities denominated in foreign currency and enters into forward exchange contracts and cross currency swap contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts and cross currency swap contracts are to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company.

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED 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 and CNY. The information of the sensitivity analysis is as follows:

When NTD appreciates or depreciates against USD by 0.1 %, the profit for the three months ended March 31, 2015 and 2014 decreases/increases by NT\$4,480 thousand and increases/decreases by NT\$405 thousand, while equity decreases/increases by NT\$40,064 thousand and NT\$68,039 thousand, respectively.

When NTD appreciates or depreciates against CNY by 0.1 %, the profit for the three months ended March 31, 2015 and 2014 decreases/increases by NT\$5,497 thousand and NT\$27 thousand, while equity decreases/increases by NT\$1,419 thousand and NT\$290 thousand, respectively.

**b. Interest rate risk**

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

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, including investments and borrowings with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause the profit for the three months ended March 31, 2015 and 2014 to increase/decrease by NT\$1,988 thousand and NT\$2,003 thousand, respectively.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

c. Other price risk

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

A change of 1% in the price of the listed equity securities classified under available-for-sale could cause the other comprehensive income for the three months ended March 31, 2015 and 2014 to increase/decrease by NT\$97,128 thousand and NT\$61,631 thousand, respectively.

Please refer to Note 12. (1) B for sensitivity analysis information of other equity instruments or derivatives that are linked to such equity instruments whose fair value measurement is categorized under Level 3.

B. Credit risk management

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

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

As of March 31, 2015, December 31, 2014, and March 31, 2014, receivables from top ten customers represented 62.59%, 59.92% and 63.37% 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 UNAUDITED 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 and cross currency swap contracts are all reputable financial institutions, management believes that the Company's exposure to default by those parties is minimal.

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

**C. Liquidity risk management**

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

**Non-derivative financial instruments**

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of March 31, 2015</u>			
Borrowings	\$ 51,013,648	\$ -	\$ 51,013,648
Trade payables (including related parties)	19,649,973	-	19,649,973
Other payables	29,279,744	-	29,279,744
Long-term payables	41,606	40,036	81,642
Total	<u>\$ 99,984,971</u>	<u>\$ 40,036</u>	<u>\$ 100,025,007</u>

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

	Less than 1 year	1 to 5 years	Total
<u>As of March 31, 2014</u>			
Borrowings	\$ 22,136,642	\$ -	\$ 22,136,642
Trade payables (including related parties)	17,421,411	-	17,421,411
Other payables	20,927,023	-	20,927,023
Long-term payables	32,036	79,326	111,362
Total	<u>\$ 60,517,112</u>	<u>\$ 79,326</u>	<u>\$ 60,596,438</u>

Derivative financial instruments

	Less than 1 year	1 to 5 years	Total
<u>As of March 31, 2015</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 1,877,185	\$ -	\$ 1,877,185
Outflow	(1,884,060)	-	(1,884,060)
Total	<u>\$ (6,875)</u>	<u>\$ -</u>	<u>\$ (6,875)</u>

	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	<u>(3,476)</u>	<u>-</u>	<u>(3,476)</u>
Net settlement			
Forward exchange contracts	(48,000)	-	(48,000)
Total	<u>\$ (51,476)</u>	<u>\$ -</u>	<u>\$ (51,476)</u>

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED 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 March 31, 2014</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 2,427,705	\$ -	\$ 2,427,705
Outflow	(2,440,800)	-	(2,440,800)
Net	(13,095)	-	(13,095)
Net settlement			
Forward exchange contracts	(15,545)	-	(15,545)
Total	\$ (28,640)	\$ -	\$ (28,640)

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

**(3) Significant assets and liabilities denominated in foreign currencies**

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

	March 31, 2015		
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
<u>Financial assets</u>			
Monetary item:			
USD	\$ 3,671,538	31.401	\$ 115,289,946
CNY	\$ 1,447,960	5.065	\$ 7,333,916
Non-monetary item:			
USD	\$ 466,953	31.401	\$ 14,662,804
CNY	\$ 280,219	5.065	\$ 1,419,309
<u>Financial liabilities</u>			
Monetary item:			
USD	\$ 2,719,949	31.401	\$ 85,409,100
CNY	\$ 362,755	5.065	\$ 1,837,354



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

		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
		March 31, 2014		
		Foreign Currency		
		(thousand)	Exchange rate	NT\$ (thousand)
<u>Financial assets</u>				
Monetary item:				
USD	\$	3,408,992	30.510	\$ 104,008,333
CNY	\$	725,473	4.907	\$ 3,559,694
Non-monetary item:				
USD	\$	331,708	30.510	\$ 10,120,408
CNY	\$	59,135	4.907	\$ 290,160
<u>Financial liabilities</u>				
Monetary item:				
USD	\$	1,523,938	30.510	\$ 46,495,351
CNY	\$	720,000	4.907	\$ 3,532,838

The Company's entities functional currency are various, and hence not disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange losses were NT\$343,730 thousand and NT\$243,489 thousand for the three months ended March 31, 2015 and 2014, respectively.

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED 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**

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