

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 SIX MONTHS THEN ENDED

June 30, 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 June 30, 2015 and June 30, 2014 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the six months ended June 30, 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

Ernst & Young

CERTIFIED PUBLIC ACCOUNTANTS

July 31, 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 June 30, 2015, December 31, 2014, and June 30, 2014**

(June 30, 2015 and 2014 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	June 30, 2015	%	December 31, 2014	%	June 30, 2014	%
Current assets							
Cash and cash equivalents	6(1)	\$ 195,824,210	53	\$ 192,797,506	55	\$ 190,138,131	59
Financial assets at fair value through profit or loss-current	4, 6(2)	668,505	-	3,547,217	1	2,013,764	1
Available-for-sale financial assets-current	4, 6(3)	5,522,326	2	7,575,242	2	3,447,913	1
Held-to-maturity financial assets-current	4, 6(5)	354,724	-	288,378	-	520,771	-
Debt instrument investments for which no active market exists-current	6(6), 8	754,466	-	1,086,146	-	310,616	-
Trade receivables, net	6(7)	12,250,444	3	12,552,399	4	12,983,016	4
Other receivables	6(7), 7	3,183,007	1	5,296,078	2	4,437,674	1
Current tax assets		278,640	-	47,323	-	42,211	-
Inventories, net	6(8)	33,653,896	9	22,341,336	6	19,325,997	6
Prepayments	7	2,709,002	1	2,247,248	1	2,360,294	1
Other current assets		941,954	-	776,062	-	811,499	-
Total current assets		<u>256,141,174</u>	<u>69</u>	<u>248,554,935</u>	<u>71</u>	<u>236,391,886</u>	<u>73</u>
Non-current assets							
Financial assets at fair value through profit or loss-noncurrent	4, 6(2)	4,285,966	1	4,040,793	1	897,128	-
Available-for-sale financial assets-noncurrent	4, 6(3)	7,908,335	2	4,894,091	1	4,205,509	1
Held-to-maturity financial assets-noncurrent	4, 6(5)	1,304,738	-	127,787	-	387,993	-
Financial assets measured at cost-noncurrent	6(4)	3,695,796	1	3,782,384	1	2,715,868	1
Debt instrument investments for which no active market exists-noncurrent	6(6), 8	210,379	-	946	-	937	-
Investments accounted for using the equity method	6(9)	2,363,381	1	2,154,613	1	1,710,883	1
Property, plant and equipment	6(10), 6(24)	28,299,971	8	23,294,555	7	15,179,733	5
Intangible assets	6(11), 6(12), 6(24), 7	63,907,154	17	60,757,826	17	59,487,766	18
Deferred tax assets	6(22)	2,891,779	1	3,196,429	1	2,618,286	1
Refundable deposits		196,473	-	194,392	-	146,638	-
Long-term prepaid rent		150,350	-	119,920	-	114,283	-
Total non-current assets		<u>115,214,322</u>	<u>31</u>	<u>102,563,736</u>	<u>29</u>	<u>87,465,024</u>	<u>27</u>
Total assets		<u>\$ 371,355,496</u>	<u>100</u>	<u>\$ 351,118,671</u>	<u>100</u>	<u>\$ 323,856,910</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 June 30, 2015, December 31, 2014, and June 30, 2014**

(June 30, 2015 and 2014 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	June 30, 2015	%	December 31, 2014	%	June 30, 2014	%
Current liabilities							
Short-term borrowings	6(13)	\$ 57,490,882	16	\$ 46,160,593	13	\$ 34,045,588	10
Financial liabilities at fair value through profit or loss-current	4, 6(2)	5,145	-	50,393	-	71,138	-
Trade payables		18,102,087	5	13,927,964	4	16,703,540	5
Trade payables to related parties	7	703,913	-	677,196	-	1,735,059	1
Other payables		63,786,495	17	32,766,959	10	48,495,820	15
Current tax liabilities	6(22)	2,573,237	1	7,322,589	2	5,364,568	2
Other current liabilities		987,133	-	676,082	-	1,301,881	-
Current portion of long-term liabilities		45,052	-	38,062	-	32,906	-
Total current liabilities		143,693,944	39	101,619,838	29	107,750,500	33
Non-current liabilities							
Long-term payables		26,409	-	53,920	-	68,805	-
Net defined benefit liabilities-noncurrent	4, 6(14)	950,073	-	940,996	1	627,202	-
Deposits received	7	118,702	-	121,643	-	114,761	-
Deferred tax liabilities	6(22)	990,838	-	629,651	-	846,573	1
Non-current liabilities-others		137,696	-	146,876	-	132,115	-
Total non-current liabilities		2,223,718	-	1,893,086	1	1,789,456	1
Total liabilities		145,917,662	39	103,512,924	30	109,539,956	34
Equity attributable to owners of the parent							
Share capital	6(15)						
Common stock		15,715,763	4	15,714,455	4	15,709,889	5
Capital collected in advance		55	-	467	-	326	-
Capital surplus	6(15), 6(16), 6(25)	88,191,328	24	88,047,914	25	88,089,501	27
Retained earnings	6(15)						
Legal reserve		32,032,476	9	27,392,687	8	27,392,687	9
Special reserve		-	-	895,749	-	895,749	-
Undistributed earnings		83,823,840	23	108,566,733	31	85,146,888	26
Other equity	6(15)	4,874,709	1	6,606,113	2	(2,898,726)	(1)
Treasury shares	6(15)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		224,582,201	61	247,168,148	70	214,280,344	66
Non-controlling interests	6(15)	855,633	-	437,599	-	36,610	-
Total equity		225,437,834	61	247,605,747	70	214,316,954	66
Total liabilities and equity		<u>\$ 371,355,496</u>	<u>100</u>	<u>\$ 351,118,671</u>	<u>100</u>	<u>\$ 323,856,910</u>	<u>100</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended June 30, 2015 and 2014

For the six months ended June 30, 2015 and 2014

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

Description	Notes	Three Months Ended June 30				Six Months Ended June 30			
		2015	%	2014	%	2015	%	2014	%
Net sales	6(17), 7	\$ 47,044,056	100	\$ 54,133,047	100	\$ 94,580,277	100	\$ 100,138,049	100
Operating costs	6(8), 6(18), 7	(25,447,682)	(54)	(27,309,245)	(51)	(50,485,305)	(54)	(51,088,584)	(51)
Gross profit		21,596,374	46	26,823,802	49	44,094,972	46	49,049,465	49
Operating expenses	6(18), 7								
Selling expenses		(1,654,870)	(3)	(2,072,204)	(4)	(3,823,439)	(4)	(3,206,139)	(3)
Administrative expenses		(2,177,881)	(5)	(1,588,516)	(3)	(3,984,741)	(4)	(2,951,854)	(3)
Research and development expenses		(10,897,246)	(23)	(10,402,758)	(19)	(21,748,438)	(23)	(19,318,218)	(19)
Total operating expenses		(14,729,997)	(31)	(14,063,478)	(26)	(29,556,618)	(31)	(25,476,211)	(25)
Operating income		6,866,377	15	12,760,324	23	14,538,354	15	23,573,254	24
Non-operating income and expenses									
Other income	6(19), 7	1,119,616	2	948,904	2	2,003,450	2	1,691,108	2
Other gains and losses	6(20), 6(24)	(620,213)	(1)	413,685	1	(956,527)	(1)	(42,130)	-
Finance costs	6(21)	(99,632)	-	(113,427)	-	(254,662)	-	(195,526)	-
Share of profit of associates accounted for using the equity method		141,004	-	143,727	-	218,720	-	627,471	-
Total non-operating income and expenses		540,775	1	1,392,889	3	1,010,981	1	2,080,923	2
Net income before income tax		7,407,152	16	14,153,213	26	15,549,335	16	25,654,177	26
Income tax expense	6(22)	(1,029,745)	(2)	(1,604,605)	(3)	(1,920,931)	(2)	(2,966,228)	(3)
Net income		6,377,407	14	12,548,608	23	13,628,404	14	22,687,949	23
Other comprehensive income	6(15)								
To be reclassified to profit or loss in subsequent periods									
Exchange differences resulting from translating the financial statements of foreign operations		(641,217)	(1)	(2,936,309)	(6)	(1,450,326)	(2)	(1,508,076)	(2)
Unrealized gains (losses) from available-for-sale financial assets		262,236	-	(160,325)	-	(271,260)	-	(458,770)	-
Share of other comprehensive income of associates accounted for using the equity method		(491)	-	(7,840)	-	998	-	(19,629)	-
Income tax relating to those items to be reclassified profit or loss		-	-	-	-	-	-	-	-
Other comprehensive income, net of tax		(379,472)	(1)	(3,104,474)	(6)	(1,720,588)	(2)	(1,986,475)	(2)
Total comprehensive income		<u>\$ 5,997,935</u>	<u>13</u>	<u>\$ 9,444,134</u>	<u>17</u>	<u>\$ 11,907,816</u>	<u>12</u>	<u>\$ 20,701,474</u>	<u>21</u>
Net income (loss) for the periods attributable to :									
Owners of the parent	6(23)	\$ 6,350,223		\$ 12,558,406		\$ 13,575,844		\$ 22,705,772	
Non-controlling interests	6(15)	27,184		(9,798)		52,560		(17,823)	
		<u>\$ 6,377,407</u>		<u>\$ 12,548,608</u>		<u>\$ 13,628,404</u>		<u>\$ 22,687,949</u>	
Total comprehensive income for the periods attributable to :									
Owners of the parent		\$ 5,956,387		\$ 9,467,526		\$ 11,844,440		\$ 20,702,795	
Non-controlling interests	6(15)	41,548		(23,392)		63,376		(1,321)	
		<u>\$ 5,997,935</u>		<u>\$ 9,444,134</u>		<u>\$ 11,907,816</u>		<u>\$ 20,701,474</u>	
Basic Earnings Per Share (in New Taiwan Dollars)	6(23)	<u>\$ 4.06</u>		<u>\$ 8.03</u>		<u>\$ 8.68</u>		<u>\$ 14.89</u>	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(23)	<u>\$ 4.05</u>		<u>\$ 8.00</u>		<u>\$ 8.67</u>		<u>\$ 14.82</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 CHANGES IN EQUITY
For the six months ended June 30, 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 gains (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
Appropriation and distribution of 2013 earnings:												
Legal reserve	-	-	-	2,751,505	-	(2,751,505)	-	-	-	-	-	-
Special reserve	-	-	-	-	(4,176,676)	4,176,676	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(23,565,323)	-	-	-	(23,565,323)	-	(23,565,323)
Total	-	-	-	2,751,505	(4,176,676)	(22,140,152)	-	-	-	(23,565,323)	-	(23,565,323)
Profit for the six months ended June 30, 2014	-	-	-	-	-	22,705,772	-	-	-	22,705,772	(17,823)	22,687,949
Other comprehensive income for the six months ended June 30, 2014	-	-	-	-	-	-	(1,544,207)	(458,770)	-	(2,002,977)	16,502	(1,986,475)
Total comprehensive income	-	-	-	-	-	22,705,772	(1,544,207)	(458,770)	-	20,702,795	(1,321)	20,701,474
Share-based payment transactions	3,983	(2,147)	37,878	-	-	-	-	-	-	39,714	-	39,714
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
Changes in other capital surplus	-	-	111,179	-	-	-	-	-	-	111,179	-	111,179
Balance as of June 30, 2014	\$ 15,709,889	\$ 326	\$ 88,089,501	\$ 27,392,687	\$ 895,749	\$ 85,146,888	\$ (3,948,848)	\$ 1,050,122	\$ (55,970)	\$ 214,280,344	\$ 36,610	\$ 214,316,954
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
Appropriation and distribution of 2014 earnings:												
Legal reserve	-	-	-	4,639,789	-	(4,639,789)	-	-	-	-	-	-
Special reserve	-	-	-	-	(895,749)	895,749	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(34,574,697)	-	-	-	(34,574,697)	-	(34,574,697)
Total	-	-	-	4,639,789	(895,749)	(38,318,737)	-	-	-	(34,574,697)	-	(34,574,697)
Profit for the six months ended June 30, 2015	-	-	-	-	-	13,575,844	-	-	-	13,575,844	52,560	13,628,404
Other comprehensive income for the six months ended June 30, 2015	-	-	-	-	-	-	(1,460,144)	(271,260)	-	(1,731,404)	10,816	(1,720,588)
Total comprehensive income	-	-	-	-	-	13,575,844	(1,460,144)	(271,260)	-	11,844,440	63,376	11,907,816
Share-based payment transactions	1,308	(412)	33,096	-	-	-	-	-	-	33,992	-	33,992
Changes in ownership interests in subsidiaries	-	-	78,948	-	-	-	-	-	-	78,948	55,541	134,489
Changes in other capital surplus	-	-	31,370	-	-	-	-	-	-	31,370	-	31,370
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	299,117	299,117
Balance as of June 30, 2015	\$ 15,715,763	\$ 55	\$ 88,191,328	\$ 32,032,476	\$ -	\$ 83,823,840	\$ 2,758,148	\$ 2,116,561	\$ (55,970)	\$ 224,582,201	\$ 855,633	\$ 225,437,834

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 six months ended June 30, 2015 and 2014

(Amounts in thousands of New Taiwan Dollars)

Description	2015	2014
Cash flows from operating activities :		
Profit before tax from continuing operations	\$ 15,549,335	\$ 25,654,177
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	836,576	607,225
Amortization	1,335,519	694,160
Bad debt (reversal) provision	(28,018)	55,325
(Gain) Loss on financial assets and liabilities at fair value through profit or loss	(55,570)	32,218
Interest expenses	254,662	195,526
Interest income	(1,623,035)	(1,427,765)
Dividend income	(298,173)	(116,827)
Share-based payment expenses	33,096	37,878
Share of profit of associates accounted for using the equity method	(218,720)	(627,471)
Losses on disposal of property, plant and equipment	5,841	1,319
Gains on disposal of investments	(419,467)	(701,966)
Impairment of financial assets	851,478	263,020
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	2,554,711	722,003
Trade receivables	417,241	(1,364,205)
Other receivables	2,019,155	(295,569)
Inventories	(11,021,248)	(6,170,323)
Prepayments	(454,293)	(824,620)
Other current assets	(165,823)	(344,609)
Trade payables	4,090,420	4,713,061
Trade payables to related parties	26,717	(348,001)
Other payables	(5,128,998)	3,781,231
Other current liabilities	308,164	(105,331)
Long-term payables	(20,521)	(15,094)
Net defined benefit liabilities	8,506	20,566
Non-current liabilities-others	(9,180)	23,994
Cash generated from operating activities:		
Interest received	1,722,405	1,364,147
Dividend received	378,389	201,262
Interest paid	(189,678)	(179,639)
Income tax paid	(6,205,072)	(3,661,695)
Net cash provided by operating activities	4,554,419	22,183,997
Cash flows from investing activities :		
Acquisition of available-for-sale financial assets	(3,457,035)	(299,516)
Proceeds from disposal of available-for-sale financial assets	1,872,910	20,941
Acquisition of debt instrument investments for which no active market exists	(1,330,601)	(299,564)
Proceeds from disposal of debt instrument investments for which no active market exists	1,497,320	102,000
Acquisition of held-to-maturity financial assets	(1,254,664)	-
Proceeds from disposal of held-to-maturity financial assets	-	256,223
Acquisition of financial assets measured at cost	(379,335)	(1,101,317)
Proceeds from disposal of financial assets measured at cost	23,964	932,241
Proceeds from capital return of financial assets measured at cost	27,547	19,012
Acquisition of investments accounted for using the equity method	(285,047)	(125,304)
Proceeds from capital return of investments accounted for using the equity method	20,506	-
Net cash (outflow) inflow from acquisition of subsidiaries	(1,105,005)	33,097,485
Acquisition of property, plant and equipment	(5,976,486)	(1,290,118)
Proceeds from disposal of property, plant and equipment	3,861	67,505
Decrease in refundable deposits	3,121	12,394
Acquisition of intangible assets	(1,766,624)	(192,033)
(Increase) decrease in long-term prepaid rent	(30,430)	4,212
Net cash (used in) provided by investing activities	(12,135,998)	31,204,161
Cash flows from financing activities :		
Increase in short-term borrowings	11,330,289	5,028,046
Decrease in long-term borrowings	-	(651,000)
(Decrease) increase in deposits received	(2,941)	43,524
Proceeds from exercise of employee stock options	29,624	62,461
Change in non-controlling interests	134,489	(262)
Net cash provided by financing activities	11,491,461	4,482,769
Effect of changes in exchange rate on cash and cash equivalents	(883,178)	(730,522)
Net increase in cash and cash equivalents	3,026,704	57,140,405
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	\$ 195,824,210	\$ 190,138,131

The accompanying notes are an integral part of the consolidated 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)

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 July 31, 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"

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 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"- Disclosure Initiative

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
			June 30, 2015	December 31, 2014	June 30, 2014	
MTK	MediaTek Investment Corp.	General investing	-	-	-	1
MTK	Hsu-Ta Investment Corp.	General investing	100%	100%	100%	-
MTK	MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100%	100%	100%	-
MTK	MediaTek Investment Singapore Pte. Ltd.	General investing	100%	100%	100%	1&4
MTK	Ralink Technology Corp.	Research, manufacturing and sales	-	-	-	2
MTK	T-Rich Technology (Cayman) Corp.	General investing	100%	100%	100%	2
MTK	MStar Semiconductor Inc.	Research, manufacturing and sales	100%	100%	-	4&5
MTK	Hsu-Chuang Investment Corp.	General investing	100%	-	-	6
Hsu-Ta Investment Corp.	Core Tech Resources Inc.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Capital Corp.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Bangalore Private Limited	Research	0%	0%	0%	7
MediaTek Investment Corp.	Gaintech Co. Limited	General investing	-	-	-	1

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			June 30, 2015	December 31, 2014	June 30, 2014	
Ralink Technology Corp.	T-Rich Technology (Cayman) Corp.	General investing	-	-	-	2
Ralink Technology Corp.	MediaTek USA Inc.	Research	-	-	-	2
MediaTek Singapore Pte. Ltd.	MediaTek Wireless LLC (Dubai)	Technology services	-	-	100%	8
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	51%	72%	72%	-
MediaTek Capital Corp.	Alpha Imaging Technology Corp.	Research, manufacturing and sales	4%	-	-	14
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	MTK Denmark Aps	Research	-	-	-	3
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	MediaTek USA Inc.	Research	-	-	-	3
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%	-
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	MediaTek Sweden AB	Research	-	-	-	3
Gaintech Co. Limited	EcoNet (Cayman) Inc.	General investing	88%	88%	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
			June 30, 2015	December 31, 2014	June 30, 2014	
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%	-	9
MTK Wireless Limited (UK)	MediaTek Sweden AB	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek USA Inc.	Research	100%	100%	100%	2
MTK Wireless Limited (UK)	MediaTek Denmark Aps	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Wireless Finland Oy	Research	100%	100%	-	10
MediaTek USA Inc.	Ralink Technology Corporation (USA)	Research	-	-	100%	11
Hesine Technologies International Worldwide Inc.	Hesine Technologies, Inc.	Technology services	100%	100%	100%	-
Gold Rich International (Samoa) Limited	Gold Rich International (HK) Limited	General investing	100%	100%	100%	-
Lepower Limited	Lepower (HK) Limited	General investing	100%	100%	100%	-
Lepower (HK) Limited	Lepower Technologies (Beijing), Inc.	Research, manufacturing and sales	91%	91%	91%	-

(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
			June 30, 2015	December 31, 2014	June 30, 2014	
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%	100%	12
Shadow Investment Limited	MediaTek (Suzhou) Inc.	Research	100%	100%	100%	-
Shadow Investment Limited	MediaTek (Nanjing) Inc.	Research	100%	100%	100%	-
Ralink Technology (Samoa) Corp.	AutoChips Inc.	Research, manufacturing and sales	89%	89%	100%	-
MediaTek Investment Singapore Pte. Ltd.	MStar Semiconductor B.V.	General investing	100%	100%	100%	4
MediaTek Investment Singapore Pte. Ltd.	Lightup International Corp.	General investing	100%	100%	100%	4
MediaTek Investment Singapore Pte. Ltd.	MediaTek Bangalore Private Limited	Research	100%	100%	100%	7
MediaTek Investment Singapore Pte. Ltd.	Gaintech Co. Limited	General investing	100%	100%	100%	1
MediaTek Investment Singapore Pte. Ltd.	Cloud Ranger Limited	General investing	100%	-	-	13
MStar Semiconductor B.V.	MStar Semiconductor, Inc.	Research, manufacturing and sales	-	-	100%	4&5

(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
			June 30, 2015	December 31, 2014	June 30, 2014	
MStar Semiconductor B.V.	White Dwarf Limited	General investing	100%	100%	100%	4
White Dwarf Limited	MStar India Private Limited	Research	-	-	100%	4
MStar Semiconductor, Inc.	MStar France SAS	Software development	100%	100%	100%	4
MStar Semiconductor, Inc.	Shunfonger Investment Holding Limited	General investing	100%	100%	100%	4
MStar Semiconductor, Inc.	IStar Technology Ltd.	General investing and sales	100%	100%	100%	4
MStar Semiconductor, Inc.	MStar Co., Ltd.	General investing	100%	100%	100%	4
MStar Semiconductor, Inc.	Digimoc Holdings Limited	General investing	100%	100%	100%	4
MStar Semiconductor, Inc.	MStar Semiconductor UK Ltd.	Software and customer development	100%	100%	100%	4
MStar Semiconductor, Inc.	MSilicon Technology Inc.	General investing	100%	-	-	14
MSilicon Technology Inc.	Alpha Imaging Technology Corp.	Research, manufacturing and sales	82%	-	-	14
Alpha Imaging Technology Corp.	AIT Holding Ltd.	General investing	100%	-	-	14
AIT Holding Ltd.	AIT Management Ltd.	General investing	100%	-	-	14
Shunfonger Investment Holding Limited	Cheng Du All Fresh Food Co.	Wholesale and retail	-	-	-	4
IStar Technology Ltd.	IStar (HK) Technology Ltd.	General investing and sales	100%	100%	100%	4
MStar Co. Ltd.	MStar Software R&D (Shenzhen), Ltd.	Software and customer development	100%	100%	100%	4
Digimoc Holdings Limited	Bubbly Bay Holdings Limited	General investing	100%	100%	100%	4
MStar Software R&D (Shenzhen), Ltd.	MStar Chen Si Electronics Technology (Shanghai) Co., Ltd.	Research and technology services	-	-	100%	4&9

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. For the purpose of reorganization, MTK Wireless Limited (UK) acquired 100% shares of MeidaTek Sweden AB, 100% shares of MediaTek Denmark Aps and 89% shares of MediaTek USA Inc. from Gaintech Co. Limited in March 2014. Moreover, MTK Wireless Limited (UK) acquired 11% shares of MediaTek USA Inc. from MTK in April 2014.
4. 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.
5. The 100% ownership of MStar Semiconductor, Inc., which was previously owned by MStar Semiconductor B.V., was transferred to MTK in November 2014.
6. MTK established Hsu-Chuang Investment Corp. in January 2015.
7. MediaTek Investment Singapore Pte. Ltd. and Hsu-Ta Investment Corp. jointly established MediaTek Bangalore Private Limited in May 2014.
8. For the purpose of reorganization, MediaTek Wireless LLC (Dubai) has been liquidated and returned its capital in September 2014.
9. 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.
10. MTK Wireless Limited (UK) established MediaTek Wireless Finland Oy in October 2014.
11. For the purpose of reorganization, Ralink Technology Corporation (USA) was dissolved due to the merger with MediaTek USA Inc. in July 2014.
12. EcoNet (HK) Limited established EcoNet (Suzhou) Limited in April 2014.
13. MediaTek Investment Singapore Pte. established Cloud Ranger Limited in February 2015.
14. MStar Semiconductor, Inc. established MSilicon Technology Inc. in April 2015 and accomplished the take-over bid process to acquire 82% shares of Alpha Imaging Technology Corp. Subsidiaries of Alpha Imaging Technology Corp. were included in the consolidated entities thereafter.

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- c. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

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

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 related restructuring or termination 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 employees 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**

	June 30, 2015	December 31, 2014	June 30, 2014
Cash on hand and petty cash	\$ 5,878	\$ 2,525	\$ 1,840
Checking and savings accounts	24,023,165	29,446,795	26,917,850
Time deposits	171,795,167	163,348,186	163,218,441
Total	<u>\$ 195,824,210</u>	<u>\$ 192,797,506</u>	<u>\$ 190,138,131</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:

	June 30, 2015	December 31, 2014	June 30, 2014
<u>Current</u>			
<u>Held for trading financial assets</u>			
Stocks	\$ 5,418	\$ 9,057	\$ 11,644
Forward exchange contracts	1,693	1,933	18,652
Subtotal	<u>7,111</u>	<u>10,990</u>	<u>30,296</u>
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>			
Exchange rate-linked deposits	296,330	2,385,563	949,240
Index-linked deposits	250,524	255,626	-
Credit-linked deposits	114,540	295,272	319,230
Interest rate-linked deposits	-	599,766	570,365
Funds	-	-	144,633
Subtotal	<u>661,394</u>	<u>3,536,227</u>	<u>1,983,468</u>
Total	<u>\$ 668,505</u>	<u>\$ 3,547,217</u>	<u>\$ 2,013,764</u>
<u>Held for trading financial liabilities</u>			
Forward exchange contracts	<u>\$ 5,145</u>	<u>\$ 50,393</u>	<u>\$ 71,138</u>

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

	June 30, 2015	December 31, 2014	June 30, 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	\$ 1,707,561	\$ 1,396,856	\$ 550,330
Exchange rate-linked deposits	1,340,045	1,677,514	288,165
Index-linked deposits	895,980	903,224	-
Interest rate-linked deposits	279,630	-	-
Convertible bonds	62,750	63,199	58,633
Total	<u>\$ 4,285,966</u>	<u>\$ 4,040,793</u>	<u>\$ 897,128</u>

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

(3) Available-for-sale financial assets

	June 30, 2015	December 31, 2014	June 30, 2014
<u>Current</u>			
Stocks	\$ 3,634,114	\$ 5,308,419	\$ 1,435,148
Funds	1,578,748	1,967,791	1,900,972
Bonds	266,653	271,022	86,593
Depository receipts	42,811	28,010	25,200
Subtotal	<u>5,522,326</u>	<u>7,575,242</u>	<u>3,447,913</u>
<u>Noncurrent</u>			
Funds	4,165,103	3,347,137	2,571,113
Bonds	3,562,646	1,546,954	1,634,396
Stocks	180,586	-	-
Subtotal	<u>7,908,335</u>	<u>4,894,091</u>	<u>4,205,509</u>
Total	<u>\$ 13,430,661</u>	<u>\$ 12,469,333</u>	<u>\$ 7,653,422</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

	June 30, 2015	December 31, 2014	June 30, 2014
<u>Available-for-sale financial assets-noncurrent</u>			
Capital	\$ 2,796,223	\$ 2,509,126	\$ 2,130,746
Non-publicly traded stocks	899,573	1,273,258	585,122
Total	<u>\$ 3,695,796</u>	<u>\$ 3,782,384</u>	<u>\$ 2,715,868</u>

Financial assets measured at cost were not pledged.

(5) Held-to-maturity financial assets

	June 30, 2015	December 31, 2014	June 30, 2014
<u>Current</u>			
Bonds	<u>\$ 354,724</u>	<u>\$ 288,378</u>	<u>\$ 520,771</u>
<u>Noncurrent</u>			
Bonds	<u>1,304,738</u>	<u>127,787</u>	<u>387,993</u>
Total	<u>\$ 1,659,462</u>	<u>\$ 416,165</u>	<u>\$ 908,764</u>

Held-to-maturity financial assets were not pledged.

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

	June 30, 2015	December 31, 2014	June 30, 2014
<u>Current</u>			
Bonds	\$ 676,415	\$ 1,074,391	\$ 298,909
Time deposits	78,051	11,755	11,707
Subtotal	<u>754,466</u>	<u>1,086,146</u>	<u>310,616</u>
<u>Noncurrent</u>			
Time deposits	<u>210,379</u>	<u>946</u>	<u>937</u>
Total	<u>\$ 964,845</u>	<u>\$ 1,087,092</u>	<u>\$ 311,553</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**

	June 30, 2015	December 31, 2014	June 30, 2014
Trade receivables	\$ 17,574,984	\$ 18,369,294	\$ 23,347,361
Less: allowance for doubtful debts	(133,854)	(162,112)	(190,162)
Less: allowance for sales returns and discounts	(5,190,686)	(5,654,783)	(10,174,183)
Total	<u>\$ 12,250,444</u>	<u>\$ 12,552,399</u>	<u>\$ 12,983,016</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	-	(28,018)	(28,018)
Exchange differences	-	(240)	(240)
As of June 30, 2015	<u>\$ -</u>	<u>\$ 133,854</u>	<u>\$ 133,854</u>

	Individually impaired	Collectively impaired	Total
As of January 1, 2014	\$ -	\$ 84,875	\$ 84,875
Charge for the current period	-	55,325	55,325
Effect of acquisition of subsidiaries	-	50,000	50,000
Exchange differences	-	(38)	(38)
As of June 30, 2014	<u>\$ -</u>	<u>\$ 190,162</u>	<u>\$ 190,162</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	
June 30, 2015	\$ 11,945,287	\$ 305,157	\$ -	\$ 12,250,444
December 31, 2014	\$ 11,820,401	\$ 731,998	\$ -	\$ 12,552,399
June 30, 2014	\$ 12,367,540	\$ 615,476	\$ -	\$ 12,983,016

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\$1,324,095 thousand, NT\$2,062,053 thousand, and NT\$2,816,002 thousand as of June 30, 2015, December 31, 2014, and June 30, 2014, respectively.

As of June 30, 2015, December 31, 2014, and June 30, 2014, trade receivables derecognized were as follows:

A. As of June 30, 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	-	\$ 28,478	\$ -	\$ 28,478	\$ 137,519
BNP Paribas	-	8,780	-	8,780	110,000
HSBC	-	62	-	62	1,000
TC Bank	-	5,297	-	5,297	16,500
Total		<u>\$ 42,617</u>	<u>\$ -</u>	<u>\$ 42,617</u>	<u>\$ 265,019</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>

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

C. As of June 30, 2014:

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 58,166	\$ -	\$ 58,166	\$ 150,934
BNP Paribas	-	28,595	-	28,595	100,000
HSBC	-	-	-	-	800
TC Bank	-	7,372	-	7,372	15,000
Total		\$ 94,133	\$ -	\$ 94,133	\$ 266,734

(8) Inventories

	June 30, 2015	December 31, 2014	June 30, 2014
Raw materials	\$ 901,932	\$ 1,325,493	\$ 1,140,274
Work in progress	20,499,599	11,459,156	10,955,517
Finished goods	12,252,365	9,556,687	7,230,206
Net amount	\$ 33,653,896	\$ 22,341,336	\$ 19,325,997

For the three months ended June 30, 2015 and 2014, the cost of inventories recognized in expenses amounted to NT\$25,447,682 thousand and NT\$27,309,245 thousand, including the write-down of inventories of NT\$401,293 thousand and NT\$1,917,499 thousand for the three months ended June 30, 2015 and 2014, respectively.

For the six months ended June 30, 2015 and 2014, the cost of inventories recognized in expenses amounted to NT\$50,485,305 thousand and NT\$51,088,584 thousand, including the write-down of inventories of NT\$446,175 thousand and NT\$3,803,418 thousand for the six months ended June 30, 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:

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

Investees	June 30, 2015		December 31, 2014		June 30, 2014	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Shenzhen Huiding Technology Co., Ltd.	\$ 1,130,268	24	\$ 1,055,423	24	\$ 773,846	24
Airoha Technology Corp.	582,369	27	513,685	28	431,695	30
Alpha Imaging Technology Corp.	-	-	175,767	15	122,864	15
Others	650,744	-	409,738	-	382,478	-
Total	<u>\$ 2,363,381</u>		<u>\$ 2,154,613</u>		<u>\$ 1,710,883</u>	

MSilicon Technology Inc. ("MSilicon") acquired 45,585,967 shares (approximately 82% of Alpha Imaging Technology Corp. ("Alpha Tech.") issued shares) of Alpha Tech. through a tender offer. The price of the tender offer was NT\$37 per share and the total amount paid in cash amounted to NT\$1,686,681 thousand. MSilicon obtained control over Alpha Tech. in May 2015 and Alpha Tech. was included in the consolidation entities thereafter. Please refer to Note 6. (24) for more details.

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

	Six months ended June 30	
	2015	2014
Profit from continuing operations	\$ 246,882	\$ 427,717
Other comprehensive income (post-tax)	983	(6,971)
Total comprehensive income	<u>\$ 247,865</u>	<u>\$ 420,746</u>

The associates had no contingent liabilities or capital commitments and investment in the associates were not pledged as of June 30, 2015, December 31, 2014, and June 30, 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	-	112,951	9,589	609,218	562,170	156,160	4,524,296	5,974,384
Additions-acquired through business combinations	-	-	-	1,689	3,791	50,009	2,327	57,816
Disposals	-	(162)	(1,289)	(91,656)	(100,666)	(13,706)	-	(207,479)
Transfers	6,825	19,406	(2,002)	40,288	193,022	7,942	(266,753)	(1,272)
Exchange differences	56,550	(35,828)	(8,972)	(32,546)	(28,692)	(52,262)	(143,792)	(245,542)
As of June 30, 2015	<u>\$ 3,456,885</u>	<u>\$ 11,037,885</u>	<u>\$ 74,785</u>	<u>\$ 3,446,787</u>	<u>\$ 5,142,627</u>	<u>\$ 1,427,193</u>	<u>\$ 11,909,463</u>	<u>\$ 36,495,625</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	13,544	96,531	5,905	291,867	505,659	89,002	427,850	1,430,358
Additions-acquired through business combinations	1,857,153	1,096,303	95,698	-	67,590	114,219	15,457	3,246,420
Disposals	-	(2,235)	(94,470)	(41,895)	(123,758)	(203,721)	-	(466,079)
Transfers	-	112,929	-	4,704	88,607	-	(206,240)	-
Exchange differences	(28,185)	(76,123)	(11,851)	(10,637)	(22,868)	(31,274)	(13,582)	(194,520)
As of June 30, 2014	<u>\$ 3,116,381</u>	<u>\$ 10,306,392</u>	<u>\$ 117,957</u>	<u>\$ 2,531,143</u>	<u>\$ 3,766,418</u>	<u>\$ 1,160,626</u>	<u>\$ 1,234,737</u>	<u>\$ 22,233,654</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	-	165,121	12,175	232,701	305,921	120,658	-	836,576
Disposals	-	(88)	(1,289)	(88,613)	(99,000)	(8,787)	-	(197,777)
Transfers	-	(231)	475	101	(241)	161	-	265
Exchange differences	-	2,611	(184)	(21,917)	(16,114)	(30,969)	-	(66,573)
As of June 30, 2015	<u>\$ -</u>	<u>\$ 2,277,444</u>	<u>\$ 25,210</u>	<u>\$ 2,053,131</u>	<u>\$ 2,912,921</u>	<u>\$ 926,948</u>	<u>\$ -</u>	<u>\$ 8,195,654</u>
As of January 1, 2014	\$ -	\$ 1,809,281	\$ 108,709	\$ 1,701,616	\$ 2,396,821	\$ 888,941	\$ -	\$ 6,905,368
Depreciation	-	141,248	10,752	169,356	193,567	92,302	-	607,225
Disposals	-	(870)	(55,786)	(40,343)	(102,269)	(197,987)	-	(397,255)
Exchange differences	-	(2,118)	(10,485)	(8,536)	(17,711)	(22,567)	-	(61,417)
As of June 30, 2014	<u>\$ -</u>	<u>\$ 1,947,541</u>	<u>\$ 53,190</u>	<u>\$ 1,822,093</u>	<u>\$ 2,470,408</u>	<u>\$ 760,689</u>	<u>\$ -</u>	<u>\$ 7,053,921</u>
Net carrying amount as of:								
June 30, 2015	<u>\$ 3,456,885</u>	<u>\$ 8,760,441</u>	<u>\$ 49,575</u>	<u>\$ 1,393,656</u>	<u>\$ 2,229,706</u>	<u>\$ 500,245</u>	<u>\$ 11,909,463</u>	<u>\$ 28,299,971</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>
June 30, 2014	<u>\$ 3,116,381</u>	<u>\$ 8,358,851</u>	<u>\$ 64,767</u>	<u>\$ 709,050</u>	<u>\$ 1,296,010</u>	<u>\$ 399,937</u>	<u>\$ 1,234,737</u>	<u>\$ 15,179,733</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	-	311,307	-	2,953,158	-	3,264,465
Additions-acquired through business combinations	-	6,121	228,226	120,631	942,674	1,297,652
Disposals	-	-	-	(3,060,717)	-	(3,060,717)
Transfers	-	57,747	-	(56,267)	-	1,480
Exchange differences	(2,031)	(63,911)	(13,409)	(129,453)	(11,962)	(220,766)
As of June 30, 2015	<u>\$ 420,883</u>	<u>\$ 1,584,521</u>	<u>\$ 2,836,754</u>	<u>\$ 6,430,828</u>	<u>\$ 55,067,127</u>	<u>\$ 66,340,113</u>
As of January 1, 2014	\$ 32,402	\$ 669,683	\$ -	\$ 4,271,124	\$ 13,965,296	\$ 18,938,505
Additions-acquired separately	-	192,033	-	-	-	192,033
Additions-acquired through business combinations	380,004	101,587	1,800,993	3,499,395	39,285,646	45,067,625
Disposals	-	(41,133)	-	(717,098)	-	(758,231)
Transfers	-	(1,705)	-	1,705	-	-
Exchange differences	(5,768)	(580)	(27,333)	(93,257)	(459,620)	(586,558)
As of June 30, 2014	<u>\$ 406,638</u>	<u>\$ 919,885</u>	<u>\$ 1,773,660</u>	<u>\$ 6,961,869</u>	<u>\$ 52,791,322</u>	<u>\$ 62,853,374</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	32,543	121,062	187,281	994,633	-	1,335,519
Disposals	-	-	-	(3,060,717)	-	(3,060,717)
Transfers	-	56,172	-	(56,172)	-	-
Exchange differences	-	(52,343)	-	(89,673)	-	(142,016)
As of June 30, 2015	<u>\$ 122,575</u>	<u>\$ 981,568</u>	<u>\$ 517,221</u>	<u>\$ 811,595</u>	<u>-</u>	<u>\$ 2,432,959</u>
As of January 1, 2014	\$ 32,402	\$ 554,909	\$ -	\$ 2,842,001	\$ -	\$ 3,429,312
Amortization	27,322	154,205	148,802	363,831	-	694,160
Disposals	-	(41,133)	-	(717,098)	-	(758,231)
Transfers	-	(1,089)	-	1,089	-	-
Exchange differences	-	225	-	142	-	367
As of June 30, 2014	<u>\$ 59,724</u>	<u>\$ 667,117</u>	<u>\$ 148,802</u>	<u>\$ 2,489,965</u>	<u>\$ -</u>	<u>\$ 3,365,608</u>
Net carrying amount as of:						
June 30, 2015	<u>\$ 298,308</u>	<u>\$ 602,953</u>	<u>\$ 2,319,533</u>	<u>\$ 5,619,233</u>	<u>\$ 55,067,127</u>	<u>\$ 63,907,154</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>
June 30, 2014	<u>\$ 346,914</u>	<u>\$ 252,768</u>	<u>\$ 1,624,858</u>	<u>\$ 4,471,904</u>	<u>\$ 52,791,322</u>	<u>\$ 59,487,766</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. The Company had assessed for impairment of the recoverable amount of goodwill on December 31, 2014. The Company did not identify any impairment of goodwill for the year ended December 31, 2014.

(13) Short-term borrowings

	June 30, 2015	December 31, 2014	June 30, 2014
Unsecured bank loans	\$ 57,490,882	\$ 46,160,593	\$ 34,045,588
Interest rates	0.64~4.05%	0.60~1.83%	0.73~3.60%
Unused lines of credits	\$ 32,448,838	\$ 42,748,541	\$ 4,698,532

(14) Post-employment benefits plansDefined 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 June 30, 2015 and 2014 were NT\$341,436 thousand and NT\$236,970 thousand, respectively. Pension expenses under the defined contribution plan for the six months ended June 30, 2015 and 2014 were NT\$665,959 thousand and NT\$453,625 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 June 30, 2015 and 2014 were NT\$6,544 thousand and NT\$4,143 thousand, respectively. Pension expenses under the defined benefits plan amount to NT\$13,147 thousand and NT\$8,194 thousand for the six months ended June 30, 2015 and 2014.

(15)Equity

A. Share capital

MTK's authorized capital as of June 30, 2015, December 31, 2014, and June 30, 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\$15,715,763 thousand, NT\$15,714,455 thousand, and NT\$15,709,889 thousand, divided into 1,571,576,347 shares, 1,571,445,544 shares, and 1,570,988,882 shares as of June 30, 2015, December 31, 2014 and June 30, 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 issued 130,803 new shares and 183,650 new shares during the six-month period ended June 30, 2015 and 2014, respectively, at par value of NT\$10 for employee stock options exercised. Among the new issued shares, 5,533 shares (NT\$55 thousand in the amount), 46,700 shares (NT\$467 thousand in the amount), and 32,639 shares (NT\$326 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance as of June 30, 2015, December 31, 2014 and June 30, 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**

	June 30, 2015	December 31, 2014	June 30, 2014
Additional paid-in capital	\$ 85,865,551	\$ 85,824,767	\$ 86,165,203
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	294,228	215,280	26,137
Donated assets	1,261	1,261	1,260
From share of changes in net assets of associates	70,569	68,650	99,775
Employee stock options	498,873	465,777	439,720
Others	112,379	123,712	125,850
Total	<u>\$ 88,191,328</u>	<u>\$ 88,047,914</u>	<u>\$ 88,089,501</u>

According to the Company Act, 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 June 30, 2015, December 31, 2014, and June 30, 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 June 30, 2015, December 31, 2014, and June 30, 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 Act 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.

However, according to the addition of Article 235-1 of the Company Act announced on May 20, 2015, the Company shall provide a fixed amount or percentage of the profit for the year to be distributed as "employees' compensation", after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employees' compensation may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Furthermore, the Articles of Incorporation may stipulate that the employees' compensation could be distributed to employees of affiliated enterprises meeting certain criteria.

Shareholders' dividends may be distributed in the form of shares or cash and cash dividends to be distributed may not be less than 10% of total dividends to 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)

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

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

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

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

During the six months ended June 30, 2014, the amounts of the employees' bonuses and remunerations to directors and supervisors were estimated to be NT\$1,430,378 thousand and NT\$41,195 thousand, respectively. The employees' bonuses were estimated based on a specific rate of net income for the six months ended June 30, 2014 (excluding the impact of employees' bonuses) while the remunerations to directors and supervisors were estimated based on MTK's Articles of Incorporation. The estimated employees' bonuses and remunerations to directors and supervisors were expensed in current period. If the Board modifies the estimates significantly in the subsequent periods, MTK shall recognize the change as an adjustment 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.

During the six months ended June 30, 2015, the amounts of employees' compensations and remunerations to directors and supervisors were estimated to be NT\$169,701 thousand and NT\$22,037 thousand, respectively. The estimates were based on the profit of the year. The estimated employees' compensations and remunerations to directors and supervisors were expensed in current period. If the Board modifies the estimates significantly in the subsequent periods, MTK shall recognize the change as an adjustment to current income.

The appropriations of earnings for 2014 and 2013 were proposed by the board of directors' meeting on April 30, 2015 and 2014, and were resolved by general shareholders' meeting on June 12, 2015 and 2014. The amounts resolved in the shareholders' general meeting were consistent with those proposed by the board of directors.

	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>		

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

The difference between the resolution of the shareholders' 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 shareholders' 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.

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	(1,461,142)	-	(1,461,142)
Unrealized gains from available-for-sale financial assets	-	(611)	(611)
Unrealized gains reclassified to profit or loss from available-for-sale financial assets	-	(270,649)	(270,649)
Share of other comprehensive income of associates accounted for using equity method	998	-	998
As of June 30, 2015	\$ 2,758,148	\$ 2,116,561	\$ 4,874,709

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

	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains from available-for-sale financial assets	Total
As of January 1, 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	(1,524,578)	-	(1,524,578)
Unrealized gains from available-for-sale financial assets	-	(475,477)	(475,477)
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	(19,629)	-	(19,629)
As of June 30, 2014	\$ (3,948,848)	\$ 1,050,122	\$ (2,898,726)

F. Non-controlling interests

	Six months ended June 30	
	2015	2014
Beginning balance	\$ 437,599	\$ 38,193
Gain (loss) attributable to non-controlling interests	52,560	(17,823)
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	10,816	16,502
Changes in ownership interests in subsidiaries	55,541	(262)
Others	299,117	-
Ending balance	\$ 855,633	\$ 36,610

(16) Share-based payment plans

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

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**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	481,828	481,828	344.5
2009.08.18	1,382,630	572,517	572,517	429.5
2010.08.27	1,605,757	713,068	713,068	404.8
2010.11.04	65,839	14,634	14,634	377.0
2011.08.24	2,109,871	1,225,638	620,730	277.4
2012.08.14	1,346,795	1,027,858	270,674	286.8
2013.08.22	1,436,343	1,276,683	-	368.0

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

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

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

	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:

	Six months ended June 30			
	2015		2014	
	Weighted-average		Weighted-average	
Employee Stock Option	Options (Unit)	Exercise Price per Share (NT\$)	Options (Unit)	Exercise Price per Share (NT\$)
Outstanding at beginning of period	5,754,998	\$ 341.4	6,641,191	\$ 341.3
Granted	-	-	-	-
Exercised	(89,636)	330.5	(183,650)	340.1
Forfeited (Expired)	(70,941)	332.9	(190,952)	332.9
Outstanding at end of period	<u>5,594,421</u>	341.7	<u>6,266,589</u>	341.4
Exercisable at end of period	<u>2,955,646</u>		<u>2,390,603</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\$485.6 and NT\$446.0 for six months then ended June 30, 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 June 30, 2015 and 2014 is as follows:

		Six months ended June 30			
		2015		2014	
		Outstanding stock options		Outstanding stock options	
		Weighted- average Expected	Weighted- average Exercise Price	Weighted- average Expected	Weighted- average Exercise Price
Date of grant	Range of Exercise Price (NT\$)	Remaining Years	per Share (NT\$)	Remaining Years	per Share (NT\$)
2007.12.19	\$ 344.5~358.0	-	\$ 349.5	0.50	\$ 349.8
2009.07.27	429.5	0.63	429.5	1.63	429.5
2010.05.10	377.0~404.8	1.67	404.2	2.67	404.3
2011.08.09	277.4	2.67	277.4	3.67	277.4
2012.08.09	286.8	3.63	286.8	4.63	286.8
2013.08.09	368.0	4.67	368.0	5.67	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 710,585 units as of June 30, 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 June 30, 2015.

Share-based compensation expenses recognized for employee services received for the six months ended June 30, 2015 and 2014, is shown in the following table:

		Six months ended June 30	
		2015	2014
Total equity-settled transactions	\$	33,096	\$ 37,878

There have been no cancellations or modifications to any of the plans during the six months ended June 30, 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)****(17) Sales**

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Sale of goods	\$ 51,316,129	\$ 62,253,429	\$ 105,726,682	\$ 114,575,941
Other operating revenues	240,445	719,201	561,366	1,243,105
Less: Sales returns and discounts	(4,512,518)	(8,839,583)	(11,707,771)	(15,680,997)
Net sales	<u>\$ 47,044,056</u>	<u>\$ 54,133,047</u>	<u>\$ 94,580,277</u>	<u>\$ 100,138,049</u>

(18) Summary statement of employee benefits, depreciation and amortization expenses by function for the three months and six months ended June 30, 2015 and 2014:

	Three months ended June 30					
	2015			2014		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$ 75,505	\$ 8,281,701	\$ 8,357,206	\$ 61,246	\$ 6,727,260	\$ 6,788,506
Labor and health insurance	\$ 4,342	\$ 320,067	\$ 324,409	\$ 3,601	\$ 261,748	\$ 265,349
Pension	\$ 4,232	\$ 343,748	\$ 347,980	\$ 3,025	\$ 238,088	\$ 241,113
Others	\$ 954	\$ 258,970	\$ 259,924	\$ 1,857	\$ 236,976	\$ 238,833
Depreciation	\$ 861	\$ 421,434	\$ 422,295	\$ 793	\$ 302,730	\$ 303,523
Amortization	\$ -	\$ 695,079	\$ 695,079	\$ -	\$ 268,723	\$ 268,723

	Six months ended June 30					
	2015			2014		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$ 146,733	\$ 16,557,656	\$ 16,704,389	\$ 120,630	\$ 12,853,451	\$ 12,974,081
Labor and health insurance	\$ 11,011	\$ 757,369	\$ 768,380	\$ 8,487	\$ 537,745	\$ 546,232
Pension	\$ 8,240	\$ 670,866	\$ 679,106	\$ 6,133	\$ 455,686	\$ 461,819
Others	\$ 1,829	\$ 482,543	\$ 484,372	\$ 3,008	\$ 426,423	\$ 429,431
Depreciation	\$ 1,656	\$ 834,920	\$ 836,576	\$ 1,490	\$ 605,735	\$ 607,225
Amortization	\$ -	\$ 1,335,519	\$ 1,335,519	\$ -	\$ 694,160	\$ 694,160

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(19) Other income**

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Interest income	\$ 807,327	\$ 812,232	\$ 1,623,035	\$ 1,427,765
Dividend income	249,779	64,999	298,173	116,827
Rental income	7,733	7,056	15,606	9,887
Others	54,777	64,617	66,636	136,629
Total	<u>\$ 1,119,616</u>	<u>\$ 948,904</u>	<u>\$ 2,003,450</u>	<u>\$ 1,691,108</u>

(20) Other gains and losses

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Losses on disposal of property, plant and equipment	\$ (5,360)	\$ (1,208)	\$ (5,841)	\$ (1,319)
Gains (losses) on disposal of investments				
Available-for-sale financial assets	215,496	-	219,044	(16,707)
Held-to-maturity financial assets	-	6,470	-	6,470
Financial assets measured at cost	(151)	703,335	6,340	703,335
Investments accounted for using the equity method	194,083	-	194,083	8,868
Foreign exchange gains (losses)	(235,003)	(103,312)	(578,733)	(346,801)
Impairment losses				
Available-for-sale financial assets	(457,503)	(41,640)	(489,693)	(41,640)
Financial assets measured at cost	(337,775)	(221,380)	(361,785)	(221,380)
Gains (losses) on financial assets at fair value through profit or loss	(19,036)	54,308	129,211	(31,541)
Losses on financial liabilities at fair value through profit or loss	(136)	(48,789)	(5,145)	(71,138)
Others	25,172	65,901	(64,008)	(30,277)
Total	<u>\$ (620,213)</u>	<u>\$ 413,685</u>	<u>\$ (956,527)</u>	<u>\$ (42,130)</u>

(21) Finance costs

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Interest expenses on short-term borrowings	<u>\$ 99,632</u>	<u>\$ 113,427</u>	<u>\$ 254,662</u>	<u>\$ 195,526</u>

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

The major components of income tax expense are as follows:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Current income tax	\$ 486,063	\$ 2,079,008	\$ 1,182,043	\$ 3,941,434
Deferred tax expenses (incomes)	484,930	(587,252)	683,941	(1,042,962)
Others	58,752	112,849	54,947	67,756
Income tax expense recognized in profit or loss	<u>\$ 1,029,745</u>	<u>\$ 1,604,605</u>	<u>\$ 1,920,931</u>	<u>\$ 2,966,228</u>

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

	Six months ended June 30	
	2015	2014
Accounting profit before tax from continuing operations	<u>\$ 15,549,335</u>	<u>\$ 25,654,177</u>
Tax at the domestic rates applicable to profits in the country concerned	\$ 3,662,952	\$ 5,196,878
Tax effect of revenues exempt from taxation	(722,516)	(1,417,508)
Tax effect of expenses not deductible for tax purposes	(481,924)	(753,712)
Investment tax credits	(566,932)	(537,490)
Tax effect of deferred tax assets/liabilities	(882,442)	(158,705)
10% surtax on undistributed retained earnings	807,915	537,490
Others	103,878	99,275
Total income tax expense recognized in profit or loss	<u>\$ 1,920,931</u>	<u>\$ 2,966,228</u>

Integrated income tax information

	June 30, 2015	December 31, 2014	June 30, 2014
Balance of the imputation credit account	<u>\$ 12,619,653</u>	<u>\$ 7,667,187</u>	<u>\$ 3,728,830</u>

The estimated and actual creditable ratio for 2014 and 2013 were 11.55% 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 June 30, 2015, the assessment of the income tax returns of MTK and its material subsidiaries are as follows:

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	The assessment of income tax returns	Notes
MTK	Assessed and approved up to 2012	(Note 3)
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: In June 2015, subsidiary Ralink Technology Corp. reached a settlement for the administrative appeals of the tax returns of 2012, 2011 and 2010 with National Taxation Bureau of the Northern Area, Ministry of Finance.

Note3: MTK has applied for administrative appeals of the tax returns of 2012, 2011, 2010, 2009 and 2008. MTK disagreed with the decision made in the tax assessment notices. The Company has paid in full the additional taxes assessed by the tax authorities.

(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 June 30		Six months ended June 30	
	2015	2014	2015	2014
A. Basic earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 6,350,223	\$ 12,558,406	\$ 13,575,844	\$ 22,705,772
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,783,068	1,563,222,542	1,563,764,663	1,525,281,935
Basic earnings per share (NT\$)	\$ 4.06	\$ 8.03	\$ 8.68	\$ 14.89

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

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
B. Diluted earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 6,350,223	\$ 12,558,406	\$ 13,575,844	\$ 22,705,772
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,783,068	1,563,222,542	1,563,764,663	1,525,281,935
Effect of dilution:				
Employee bonuses-stock (share)	1,784,914	5,823,834	1,784,914	5,823,834
Employee stock options (share)	730,602	1,572,160	1,007,218	1,383,354
Weighted average number of ordinary shares outstanding after dilution (share)	1,566,298,584	1,570,618,536	1,566,556,795	1,532,489,123
Diluted earnings per share (NT\$)	\$ 4.05	\$ 8.00	\$ 8.67	\$ 14.82

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

(24)Business combinations**The merger with MStar**

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

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

	Fair value recognized on the acquisition date (US\$'000)
Cash and cash equivalents	\$ 1,098,762
Current assets	279,016
Funds and investments	9,172
Property, plant and equipment	106,875
Intangible assets-trademark, computer software, patent, core techniques and customer relationship	180,645
Other non-current assets	1,261
	<hr/> 1,675,731 <hr/>
Current liabilities	(303,105)
Long-term borrowings	(21,431)
Other liabilities	(794)
	<hr/> (325,330) <hr/>
Identifiable net assets	<hr/> \$ 1,350,401 <hr/>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Goodwill of MStar is as follows:	Amount (US\$'000)
The fair value of the equity interest in MStar originally 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>
Cash flows on acquisition:	Amount (US\$'000)
Net cash acquired from 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.

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

From the acquisition date to June 30, 2014, MStar has contributed NT\$14,815,488 thousand of net sales and NT\$2,240,992 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 six months ended June 30, 2014 would have been NT\$103,081,627 thousand and NT\$22,922,816 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)**The merger with Alpha Tech.

Subsidiary MStar Taiwan established MSilicon in April 2015. On April 9, 2015, the board of directors of MStar Taiwan approved to have MSilicon to acquire shares of Alpha Tech. in a tender offer. The terms of the tender offer was to obtain common shares of Alpha Tech. by offering NT\$37 in cash for each share. MSilicon completed the tender offer and paid NT\$1,686,681 thousand in cash to acquire 82% shares of Alpha Tech. on May 8, 2015.

Alpha Tech. is a fabless IC design company specialized in image processing. The Company's image processing chips are mainly applied to TV camera, Web camera and car DV. The purpose of this tender offer is to meet the Company's long-term development strategies. The merge would enhance the Company's competitive advantage by expansion of production lines and integration of existing products and resources. In the long term, the Company expects there would be positive effect on consolidated net worth per share and earnings per share.

The Company has measured the non-controlling interest in Alpha Tech. at the fair value.

The fair values of the identifiable assets and liabilities of Alpha Tech. as of the date of acquisition were:

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$ 349,630
Current assets	394,930
Funds and investments	32,701
Property, plant and equipment	57,816
Intangible assets- computer software, patent and customer relationship	354,978
Other non-current assets	37,857
	<u>1,227,912</u>
Current liabilities	(99,704)
Other liabilities	(2,670)
	<u>(102,374)</u>
Identifiable net assets	<u>\$ 1,125,538</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Goodwill of Alpha Tech. is as follows:	Amount
Cash consideration (Note)	\$ 1,454,635
Fair value of equity interest in Alpha Tech. originally held by the Company	314,460
Add: non-controlling interest at fair value	299,117
Less: identifiable net assets at fair value	(1,125,538)
Goodwill	<u>\$ 942,674</u>

Note: MSilicon Technology Inc. acquired 71% of Alpha Tech.'s common shares from third parties by paying NT\$1,454,635 thousand. In addition, MSilicon paid NT\$82,414 thousand and NT\$149,632 thousand to MediaTek Capital Corp. and MediaTek Investment Singapore Pte. Ltd. to obtain 4% and 7% of Alpha Tech.'s common shares, respectively.

Cash flows on acquisition:	Amount
Net cash acquired from the subsidiary	\$ 349,630
Transaction costs attributable to cash paid	(1,454,635)
Net cash flows on acquisition	<u>\$ (1,105,005)</u>

As of end of July 31, 2015, the identifiable net assets recognized in the consolidated financial statements as of June 30, 2015 were based on a provisional assessment of fair value. There could be adjustments subject to finalization of the assessment report.

The goodwill of NT\$942,674 thousand comprises the value of expected synergies arising from acquisition.

From the acquisition date to June 30, 2015, Alpha Tech. has contributed NT\$130,483 thousand of net sales and NT\$42,026 thousand of net loss to the Company.

If the combination had taken place at the January 1, 2015, revenues and net income of the Company for the six months ended June 30, 2015 would have been NT\$94,753,194 thousand and NT\$13,561,406 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)

(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 the six-month period ended June 30, 2015 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 investments and the increase in the non-controlling interest was NT\$78,948 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 six months ended June 30, 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% shares of MStar by issuing new shares and paying in cash in February 2014.

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

7. Related Party Transactions

(1) Significant transactions with related parties

A. Sales

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Associates	\$ 1,000	\$ -	\$ 2,740	\$ -

For the three months and six months ended June 30, 2015 and 2014, respectively, the trade credit term for related parties and third-party customers were both 45 to 60 days.

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

Third-party customers may pay their accounts in advance.

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

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Other related parties	\$ 704,953	\$ 1,704,692	\$ 1,241,723	\$ 3,541,126

For the three months and six months ended June 30, 2015 and 2014, respectively, the trade credit term for related parties and third-party customers were 75 days.

C. Consign research and development expense and license expense

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Associates	\$ -	\$ -	\$ -	\$ 200,000
Other related parties	2,628	15,168	21,146	30,133
Total	\$ 2,628	\$ 15,168	\$ 21,146	\$ 230,133

D. Purchases

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Associates	\$ 1,834	\$ 2,952	\$ 1,834	\$ 2,952

For the three months and six months ended June 30, 2015 and 2014, respectively, the trade credit term for associates was 30 days. The trade credit term for third-party customers was 30 to 60 days.

E. Rental income

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Associates	\$ 214	\$ 172	\$ 428	\$ 343
Other related parties	2,335	2,318	4,671	4,636
Total	\$ 2,549	\$ 2,490	\$ 5,099	\$ 4,979

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

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

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Other related parties	\$ -	\$ -	\$ 9,944	\$ -

G. Other receivables from related parties

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Associates	\$ 150	\$ 150	\$ 60

H. Trade payables to related parties

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Associates	\$ 913	\$ -	\$ 1,528
Other related parties	703,000	677,196	1,733,531
Total	\$ 703,913	\$ 677,196	\$ 1,735,059

I. Other prepayments to related parties

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Other related parties	\$ 5,282	\$ -	\$ -

J. Key management personnel compensation

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Short-term employee benefits (Note)	\$ 59,338	\$ 32,381	\$ 561,246	\$ 250,210
Post-employment benefits	688	883	1,253	1,783
Total	\$ 60,026	\$ 33,264	\$ 562,499	\$ 251,993

Note: The compensation to key management personnel was determined by the Compensation Committee of MTK in accordance with the individual performance and the market trends.

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
	June 30, 2015	December 31, 2014	June 30, 2014	
Debt instrument investments for which no active market exists-current	\$ 20,918	\$ 7,067	\$ 6,917	Land lease guarantee
Debt instrument investments for which no active market exists-current	3,142	3,142	3,142	Customs clearance deposits
Debt instrument investments for which no active market exists-current	1,393	1,546	1,648	Credit guarantee
Debt instrument investments for which no active market exists-current	50,000	-	-	Wafer capacity guarantee
Debt instrument investments for which no active market exists-current	2,598	-	-	Import guarantee
Debt instrument investments for which no active market exists-noncurrent	552	820	812	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	122	126	125	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	200,000	-	-	Project performance deposits (note)
Debt instrument investments for which no active market exists-noncurrent	9,705	-	-	Lease execution deposits
Total	<u>\$ 288,430</u>	<u>\$ 12,701</u>	<u>\$ 12,644</u>	

Note: Please refer to Note 9. (2) for more details.

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

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

	June 30, 2015	December 31, 2014	June 30, 2014
Not later than one year	\$ 448,803	\$ 377,191	\$ 399,391
Later than one year but not later than five years	1,124,144	572,653	653,547
Later than five years	335,932	124,576	153,813
Total	<u>\$ 1,908,879</u>	<u>\$ 1,074,420</u>	<u>\$ 1,206,751</u>

Operating lease expenses are as follows:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Minimum lease payments	<u>\$ 195,237</u>	<u>\$ 136,020</u>	<u>\$ 387,772</u>	<u>\$ 257,539</u>

(2) Commitment

Subsidiary Hsu-Chuang Investment Corp. ("Hsu-Chuang") signed a contract 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 June 11, 2015, the date of completion of registration of land use right. According to the contract terms, Hsu-Chuang has the priority right to apply for an extension 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 that BOHSR 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(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.

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. This case has been settled and dismissed with prejudice on June 16, 2015.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Palmchip filed a complaint in the United States District Court for the Central District of California against MTK and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA) on August 30, 2013, alleging infringement of United States Patents Nos. 6,601,126, 6,769,046, and 7,124,376. This case has been settled and the court dismissed the case with prejudice on June 22, 2015.

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. The Commission issued notice to affirm the Initial Determination with modified reasoning and terminate the investigation on June 9, 2015.

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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

F. Bandspeed Inc. filed a complaint in the United States District Court for the Western District of Texas against MTK, subsidiary MediaTek USA Inc. and other defendants on May 9, 2014, alleging infringement of United States Patent Nos. 7,027,418, 7,570,614, 7,477,624, 7,903,608 and 8,542,643. On October 17, 2014, the court granted the parties joint stipulation to dismiss the claims against MTK, all other claims against other parties including those against subsidiary MediaTek USA Inc. remain pending. On February 13, 2015, the court granted Bandspeed's motion for leave to file a First Amended Complaint to add United States Patent No. 8,873,500 to the case. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

G. Adaptive Data LLC ("Adaptive Data") filed a complaint in the United States District Court for the District of Delaware against subsidiary MediaTek USA Inc. on December 31, 2014, alleging infringement of United States Patent Nos. 6,108,347 and 6,243,391 by the Bluetooth chips of subsidiary MediaTek USA Inc. and seeking damages. This case has been settled and Adaptive Data voluntarily dismissed the case on February 19, 2015.

H. Luciano F. Paone filed a complaint in the United States District Court for the 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.

I. Innovatio IP Ventures, LLC ("Innovatio") filed a complaint in the United States District Court for the Northern District of Illinois against subsidiary MediaTek USA Inc. on March 16, 2015, alleging infringement of United States Patent Nos. 6,697,415, 5,844,893, 5,740,366, 7,916,747, 6,665,536, 7,013,138, 7,107,052, 5,546,397, 7,710,907, 7,710,935, 6,714,559, 7,457,646 and 6,374,311. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

The Company will handle these cases carefully.

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

None

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO 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

	June 30, 2015	December 31, 2014	June 30, 2014
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$ 7,111	\$ 10,990	\$ 30,296
Financial assets designated upon initial recognition at fair value through profit or loss	4,947,360	7,577,020	2,880,596
Subtotal	4,954,471	7,588,010	2,910,892
Available-for-sale financial assets	13,430,661	12,469,333	7,653,422
Financial assets measured at cost	3,695,796	3,782,384	2,715,868
Held-to-maturity financial assets	1,659,462	416,165	908,764
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand and petty cash)	195,818,332	192,794,981	190,136,291
Debt instrument investments for which no active market exists	964,845	1,087,092	311,553
Trade receivables	12,250,444	12,552,399	12,983,016
Other receivables	3,183,007	5,296,078	4,437,674
Subtotal	212,216,628	211,730,550	207,868,534
Total	\$ 235,957,018	\$ 235,986,442	\$ 222,057,480

Financial liabilities

	June 30, 2015	December 31, 2014	June 30, 2014
Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$ 5,145	\$ 50,393	\$ 71,138
Financial liabilities at amortized cost:			
Short-term borrowings	57,490,882	46,160,593	34,045,588
Trade payables (including related parties)	18,806,000	14,605,160	18,438,599
Other payables	63,786,495	32,766,959	48,495,820
Long-term payables (including current portion)	71,461	91,982	101,711
Subtotal	140,154,838	93,624,694	101,081,718
Total	\$ 140,159,983	\$ 93,675,087	\$ 101,152,856

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		
	June 30, 2015	December 31, 2014	June 30, 2014
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ 1,659,462	\$ 416,165	\$ 908,764

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		
	June 30, 2015	December 31, 2014	June 30, 2014
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ 1,655,159	\$ 410,093	\$ 905,883

c. Fair value measurement hierarchy

(1) Fair value measurement hierarchy

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 liabilities, either directly or indirectly.

Level 3: Unobservable inputs for the assets or liabilities.

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.

(2) Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets measured at fair value on non-recurring basis; the following table presents the fair value measurement hierarchy of the Company's assets and liabilities on a recurring basis:

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 June 30, 2015

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Stocks	\$ 5,418	\$ -	\$ -	5,418
Bonds	-	-	62,750	62,750
Derivative financial instruments	-	1,693	-	1,693
Linked deposits	-	3,062,509	1,822,101	4,884,610
Available-for-sale financial assets				
Depository receipts	42,811	-	-	42,811
Stocks	3,814,700	-	-	3,814,700
Bonds	3,611,273	-	218,026	3,829,299
Funds	5,511,866	-	231,985	5,743,851
Total	<u>\$ 12,986,068</u>	<u>\$ 3,064,202</u>	<u>\$ 2,334,862</u>	<u>\$ 18,385,132</u>

	Level 1	Level 2	Level 3	Total
<u>Financial liabilities:</u>				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	\$ -	\$ 5,145	\$ -	5,145

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	<u>\$ 11,791,172</u>	<u>\$ 5,823,626</u>	<u>\$ 2,442,545</u>	<u>\$ 20,057,343</u>

<u>Financial liabilities:</u>				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	\$ -	\$ 50,393	\$ -	50,393

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 June 30, 2014

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Stocks	\$ 11,644	\$ -	\$ -	\$ 11,644
Bonds	-	-	58,633	58,633
Derivative financial instruments	-	18,652	-	18,652
Linked deposits	-	1,866,876	810,454	2,677,330
Funds	-	-	144,633	144,633
Available-for-sale financial assets				
Depository receipts	25,200	-	-	25,200
Stocks	1,435,148	-	-	1,435,148
Bonds	1,511,556	-	209,433	1,720,989
Funds	4,472,085	-	-	4,472,085
Total	<u>\$ 7,455,633</u>	<u>\$ 1,885,528</u>	<u>\$ 1,223,153</u>	<u>\$ 10,564,314</u>

Financial liabilities:

Financial liabilities at fair value through profit or loss

Derivative financial instruments	\$ -	\$ 71,138	\$ -	\$ 71,138
----------------------------------	------	-----------	------	-----------

For the six months ended June 30, 2015 and 2014, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

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	(449)	(20,400)	-	825	(20,024)
Amount recognized in OCI	-	-	1,158	(9,933)	(8,775)
Acquisitions	-	725,200	-	262,593	987,793
Settlements	-	(574,827)	-	(491,850)	(1,066,677)
As of June 30, 2015	<u>\$ 62,750</u>	<u>\$ 1,822,101</u>	<u>\$ 218,026</u>	<u>\$ 231,985</u>	<u>\$ 2,334,862</u>

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Financial assets at fair value through profit or loss			Available-for-sale financial assets	
	Linked				
	Bonds	Funds	deposits	Bonds	Total
As of January 1, 2014	\$ 59,583	\$ -	\$ 1,084,037	\$ 198,395	\$ 1,342,015
Amount recognized in profit or loss	(950)	-	(4,033)	-	(4,983)
Amount recognized in OCI	-	-	-	11,038	11,038
Acquisitions	-	144,633	-	-	144,633
Settlements	-	-	(269,550)	-	(269,550)
As of June 30, 2014	\$ 58,633	\$ 144,633	\$ 810,454	\$ 209,433	\$ 1,223,153

Total profits or losses recognized for the six months ended June 30, 2015 and 2014 contained losses related to bonds, funds and linked deposits on hand as of June 30, 2015 and 2014 in the amount of NT\$21,696 thousand and NT\$4,983 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 June 30, 2015, December 31, 2014 and June 30, 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 in 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

As of 30 June 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Held-to-maturity financial assets				
Bonds	\$ 1,655,159	\$ -	\$ -	\$ 1,655,159

As of 31 December 2014

Not Applicable

As of 30 June 2014

Not Applicable

D. Derivative financial instruments

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

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

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

Forward exchange contracts	Currency	Contract amount ('000)	Maturity
As of June 30, 2015	TWD to USD	Sell USD30,000	July 2015
As of June 30, 2015	CNY to USD	Sell USD4,800	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 June 30, 2014	TWD to USD	Purchase USD20,000	July 2014
As of June 30, 2014	TWD to USD	Purchase USD200,000	September 2014
As of June 30, 2014	TWD to USD	Sell USD160,000	July 2014
As of June 30, 2014	TWD to USD	Sell USD30,000	August 2014

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

(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.

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 risk

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

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

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company's foreign currency risk is mainly related to the volatility in the exchange rates for USD 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 six months ended June 30, 2015 and 2014 decreases/increases by NT\$3,305 thousand and increases/decreases by NT\$2,997 thousand, while equity decreases/increases by NT\$40,103 thousand and NT\$104,941 thousand, respectively.

When NTD appreciates or depreciates against CNY by 0.1 %, the profit for the six months ended June 30, 2015 and 2014 decreases/increases by NT\$5,480 thousand and NT\$43 thousand, while equity decreases/increases by NT\$1,839 thousand and increases/decreases NT\$5,082 thousand, respectively.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

b. Interest rate risk

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

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, including investments and 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 six months ended June 30, 2015 and 2014 to increase/decrease by NT\$3,047 thousand and NT\$1,446 thousand, respectively.

c. Other price risk

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

A change of 1% in the price of the listed equity securities classified under available-for-sale could cause the other comprehensive income for the six months ended June 30, 2015 and 2014 to increase/decrease by NT\$93,694 thousand and NT\$59,324 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)

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 of the fair value hierarchy.

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 June 30, 2015, December 31, 2014, and June 30, 2014, receivables from top ten customers represented 66.66%, 59.92% and 60.98% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

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

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

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

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

Non-derivative financial instruments

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of June 30, 2015</u>			
Borrowings	\$ 57,638,882	\$ -	\$ 57,638,882
Trade payables (including related parties)	18,806,000	-	18,806,000
Other payables	63,705,666	-	63,705,666
Long-term payables	45,052	26,409	71,461
Total	<u>\$ 140,195,600</u>	<u>\$ 26,409</u>	<u>\$ 140,222,009</u>

As of December 31, 2014

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>

As of June 30, 2014

Borrowings	\$ 34,149,506	\$ -	\$ 34,149,506
Trade payables (including related parties)	18,438,599	-	18,438,599
Other payables	48,457,654	-	48,457,654
Long-term payables	32,906	68,805	101,711
Total	<u>\$ 101,078,665</u>	<u>\$ 68,805</u>	<u>\$ 101,147,470</u>

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

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of June 30, 2015</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 925,454	\$ -	\$ 925,454
Outflow	(932,100)	-	(932,100)
Total	<u>\$ (6,646)</u>	<u>\$ -</u>	<u>\$ (6,646)</u>
	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<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>
	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of June 30, 2014</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 298,865	\$ -	\$ 298,865
Outflow	(299,150)	-	(299,150)
Net	<u>(285)</u>	<u>-</u>	<u>(285)</u>
Net settlement			
Forward exchange contracts	(49,470)	-	(49,470)
Total	<u>\$ (49,755)</u>	<u>\$ -</u>	<u>\$ (49,755)</u>

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

(3) Significant assets and liabilities denominated in foreign currencies

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

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

June 30, 2015			
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
Monetary item:			
USD	\$ 3,514,173	31.070	\$ 109,185,343
CNY	\$ 2,945,672	5.010	\$ 14,759,230
Non-monetary item:			
USD	\$ 463,720	31.070	\$ 14,407,783
CNY	\$ 365,647	5.010	\$ 1,832,069
Financial liabilities			
Monetary item:			
USD	\$ 2,580,772	31.070	\$ 80,184,597
CNY	\$ 1,850,480	5.010	\$ 9,271,793
December 31, 2014			
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
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
Financial liabilities			
Monetary item:			
USD	\$ 2,265,729	31.718	\$ 71,864,391
CNY	\$ 361,150	5.113	\$ 1,846,383

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

	June 30, 2014		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
Monetary item:			
USD	\$ 4,929,614	29.915	\$ 147,469,404
CNY	\$ 763,012	4.821	\$ 3,678,567
Non-monetary item:			
USD	\$ 286,539	29.915	\$ 8,571,827
CNY	\$ 201,841	4.821	\$ 973,096
Financial liabilities			
Monetary item:			
USD	\$ 1,808,374	29.915	\$ 54,097,520
CNY	\$ 2,010,000	4.821	\$ 9,690,431

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\$578,733 thousand and NT\$346,801 thousand for the six months ended June 30, 2015 and 2014, respectively. The foreign exchange losses NT\$235,003 thousand and NT\$103,312 thousand for the three months ended June 30, 2015 and 2014, respectively.

(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.