

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

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

WITH

REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE NINE MONTHS THEN ENDED

September 30, 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 September 30, 2015 and September 30, 2014 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the nine months ended September 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
CERTIFIED PUBLIC ACCOUNTANTS
October 30, 2015
Taipei, Taiwan
Republic of China

Notice to Readers

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

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

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of September 30, 2015, December 31, 2014, and September 30, 2014

(September 30, 2015 and 2014 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

| ASSETS | Notes | September 30, 2015 | % | December 31, 2014 | % | September 30, 2014 | % |
|--|------------------------|-----------------------|------------|-----------------------|------------|-----------------------|------------|
| Current assets | | | | | | | |
| Cash and cash equivalents | 6(1) | \$ 159,115,861 | 46 | \$ 192,797,506 | 55 | \$ 185,070,345 | 55 |
| Financial assets at fair value through profit or loss-current | 4, 6(2) | 1,865,355 | 1 | 3,547,217 | 1 | 2,416,799 | 1 |
| Available-for-sale financial assets-current | 4, 6(3) | 6,955,025 | 2 | 7,575,242 | 2 | 6,474,655 | 2 |
| Held-to-maturity financial assets-current | 4, 6(5) | 330,041 | - | 288,378 | - | 433,281 | - |
| Debt instrument investments for which no active market exists-current | 6(6), 8 | 701,422 | - | 1,086,146 | - | 326,149 | - |
| Trade receivables, net | 6(7) | 16,117,231 | 4 | 12,552,399 | 4 | 15,418,455 | 5 |
| Other receivables | 6(7), 7 | 3,152,314 | 1 | 5,296,078 | 2 | 5,359,364 | 2 |
| Current tax assets | | 349,517 | - | 47,323 | - | 44,528 | - |
| Inventories, net | 6(8) | 33,980,933 | 10 | 22,341,336 | 6 | 24,463,919 | 7 |
| Prepayments | 7 | 2,425,742 | 1 | 2,247,248 | 1 | 2,203,998 | 1 |
| Other current assets | | 1,402,220 | - | 776,062 | - | 1,314,836 | - |
| Total current assets | | 226,395,661 | 65 | 248,554,935 | 71 | 243,526,329 | 73 |
| Non-current assets | | | | | | | |
| Financial assets at fair value through profit or loss-noncurrent | 4, 6(2) | 6,352,189 | 2 | 4,040,793 | 1 | 2,168,555 | - |
| Available-for-sale financial assets-noncurrent | 4, 6(3) | 7,734,826 | 2 | 4,894,091 | 1 | 4,560,665 | 1 |
| Held-to-maturity financial assets-noncurrent | 4, 6(5) | 1,573,330 | 1 | 127,787 | - | 123,136 | - |
| Financial assets measured at cost-noncurrent | 6(4) | 4,590,569 | 1 | 3,782,384 | 1 | 3,422,408 | 1 |
| Debt instrument investments for which no active market exists-noncurrent | 6(6), 8 | 210,402 | - | 946 | - | 924 | - |
| Investments accounted for using the equity method | 6(9) | 2,442,724 | 1 | 2,154,613 | 1 | 1,903,406 | 1 |
| Property, plant and equipment | 6(10), 6(25) | 30,472,999 | 9 | 23,294,555 | 7 | 16,736,187 | 5 |
| Intangible assets | 6(11), 6(12), 6(25), 7 | 64,071,614 | 18 | 60,757,826 | 17 | 59,259,332 | 18 |
| Deferred tax assets | 6(23) | 3,187,053 | 1 | 3,196,429 | 1 | 2,946,263 | 1 |
| Refundable deposits | | 228,353 | - | 194,392 | - | 318,909 | - |
| Long-term prepaid rent | | 155,217 | - | 119,920 | - | 116,898 | - |
| Total non-current assets | | 121,019,276 | 35 | 102,563,736 | 29 | 91,556,683 | 27 |
| Total assets | | <u>\$ 347,414,937</u> | <u>100</u> | <u>\$ 351,118,671</u> | <u>100</u> | <u>\$ 335,083,012</u> | <u>100</u> |

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**As of **September 30, 2015, December 31, 2014, and September 30, 2014**

(September 30, 2015 and 2014 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

| LIABILITIES AND EQUITY | Notes | September 30, 2015 | % | December 31, 2014 | % | September 30, 2014 | % |
|--|---------------------|-----------------------|------------|-----------------------|------------|-----------------------|------------|
| Current liabilities | | | | | | | |
| Short-term borrowings | 6(13) | \$ 57,032,937 | 16 | \$ 46,160,593 | 13 | \$ 43,453,914 | 13 |
| Financial liabilities at fair value through profit or loss-current | 4, 6(2) | 13,439 | - | 50,393 | - | 63,600 | - |
| Trade payables | | 17,887,340 | 5 | 13,927,964 | 4 | 20,604,954 | 6 |
| Trade payables to related parties | 7 | 779,597 | - | 677,196 | - | 701,908 | - |
| Other payables | 6(14) | 27,960,999 | 8 | 32,766,959 | 10 | 29,798,732 | 9 |
| Current tax liabilities | 6(23) | 2,049,530 | 1 | 7,322,589 | 2 | 6,249,519 | 2 |
| Other current liabilities | | 1,642,649 | 1 | 676,082 | - | 1,475,474 | 1 |
| Current portion of long-term liabilities | | 52,176 | - | 38,062 | - | 35,002 | - |
| Total current liabilities | | 107,418,667 | 31 | 101,619,838 | 29 | 102,383,103 | 31 |
| Non-current liabilities | | | | | | | |
| Long-term payables | | 14,079 | - | 53,920 | - | 60,872 | - |
| Net defined benefit liabilities-noncurrent | 4, 6(15) | 1,053,938 | 1 | 940,996 | 1 | 630,302 | - |
| Deposits received | 7 | 124,198 | - | 121,643 | - | 117,331 | - |
| Deferred tax liabilities | 6(23) | 1,574,134 | - | 629,651 | - | 775,177 | - |
| Non-current liabilities-others | | 155,267 | - | 146,876 | - | 136,937 | - |
| Total non-current liabilities | | 2,921,616 | 1 | 1,893,086 | 1 | 1,720,619 | - |
| Total liabilities | | 110,340,283 | 32 | 103,512,924 | 30 | 104,103,722 | 31 |
| Equity attributable to owners of the parent | | | | | | | |
| Share capital | 6(16) | | | | | | |
| Common stock | | 15,715,819 | 5 | 15,714,455 | 4 | 15,710,215 | 5 |
| Capital collected in advance | | 18 | - | 467 | - | 4,240 | - |
| Capital surplus | 6(16), 6(17), 6(26) | 88,369,498 | 26 | 88,047,914 | 25 | 87,900,019 | 26 |
| Retained earnings | 6(16) | | | | | | |
| Legal reserve | | 32,032,476 | 9 | 27,392,687 | 8 | 27,392,687 | 8 |
| Special reserve | | - | - | 895,749 | - | 895,749 | - |
| Undistributed earnings | | 91,778,287 | 26 | 108,566,733 | 31 | 98,446,128 | 30 |
| Other equity | 6(16) | 8,323,414 | 2 | 6,606,113 | 2 | 557,333 | - |
| Treasury shares | 6(16) | (55,970) | - | (55,970) | - | (55,970) | - |
| Equity attributable to owners of the parent | | 236,163,542 | 68 | 247,168,148 | 70 | 230,850,401 | 69 |
| Non-controlling interests | 6(16) | 911,112 | - | 437,599 | - | 128,889 | - |
| Total equity | | 237,074,654 | 68 | 247,605,747 | 70 | 230,979,290 | 69 |
| Total liabilities and equity | | <u>\$ 347,414,937</u> | <u>100</u> | <u>\$ 351,118,671</u> | <u>100</u> | <u>\$ 335,083,012</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 September 30, 2015 and 2014

For the nine months ended September 30, 2015 and 2014

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

| Description | Notes | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|--|----------------|---------------------------------|-----------|----------------------|-----------|--------------------------------|-----------|----------------------|-----------|
| | | 2015 | % | 2014 | % | 2015 | % | 2014 | % |
| Net sales | 6(18), 7 | \$ 56,962,044 | 100 | \$ 57,472,148 | 100 | \$ 151,542,321 | 100 | \$ 157,610,197 | 100 |
| Operating costs | 6(8), 6(19), 7 | (32,657,866) | (57) | (29,238,133) | (51) | (83,143,171) | (55) | (80,326,717) | (51) |
| Gross profit | | 24,304,178 | 43 | 28,234,015 | 49 | 68,399,150 | 45 | 77,283,480 | 49 |
| Operating expenses | 6(19), 7 | | | | | | | | |
| Selling expenses | | (1,903,708) | (3) | (1,521,020) | (3) | (5,727,147) | (4) | (4,727,159) | (3) |
| Administrative expenses | | (2,435,794) | (4) | (1,380,947) | (2) | (6,420,535) | (4) | (4,332,801) | (3) |
| Research and development expenses | | (12,342,909) | (22) | (11,537,947) | (20) | (34,091,347) | (23) | (30,856,165) | (19) |
| Total operating expenses | | (16,682,411) | (29) | (14,439,914) | (25) | (46,239,029) | (31) | (39,916,125) | (25) |
| Operating income | | 7,621,767 | 14 | 13,794,101 | 24 | 22,160,121 | 14 | 37,367,355 | 24 |
| Non-operating income and expenses | | | | | | | | | |
| Other income | 6(20), 7 | 733,517 | 1 | 1,191,919 | 2 | 2,736,967 | 2 | 2,883,027 | 2 |
| Other gains and losses | 6(21), 6(25) | 726,400 | 1 | (74,949) | - | (230,127) | - | (117,079) | - |
| Finance costs | 6(22) | (162,414) | - | (147,285) | - | (417,076) | - | (342,811) | - |
| Share of profit of associates accounted for using the equity method | | 154,906 | - | 149,779 | - | 373,626 | - | 777,250 | - |
| Total non-operating income and expenses | | 1,452,409 | 2 | 1,119,464 | 2 | 2,463,390 | 2 | 3,200,387 | 2 |
| Net income before income tax | | 9,074,176 | 16 | 14,913,565 | 26 | 24,623,511 | 16 | 40,567,742 | 26 |
| Income tax expense | 6(23) | (1,114,408) | (2) | (1,612,328) | (3) | (3,035,339) | (2) | (4,578,556) | (3) |
| Net income | | 7,959,768 | 14 | 13,301,237 | 23 | 21,588,172 | 14 | 35,989,186 | 23 |
| Other comprehensive income | 6(16) | | | | | | | | |
| To be reclassified to profit or loss in subsequent periods | | | | | | | | | |
| Exchange differences resulting from translating the financial statements of foreign operations | | 4,702,549 | 8 | 2,703,892 | 5 | 3,252,223 | 2 | 1,195,816 | 1 |
| Unrealized gains (losses) from available-for-sale financial assets | | (1,195,064) | (2) | 750,970 | 1 | (1,466,324) | (1) | 292,200 | - |
| Share of other comprehensive income of associates accounted for using the equity method | | (73,184) | - | 8,333 | - | (72,186) | - | (11,296) | - |
| Income tax relating to those items to be reclassified profit or loss | | - | - | - | - | - | - | - | - |
| Other comprehensive income, net of tax | | 3,434,301 | 6 | 3,463,195 | 6 | 1,713,713 | 1 | 1,476,720 | 1 |
| Total comprehensive income | | <u>\$ 11,394,069</u> | <u>20</u> | <u>\$ 16,764,432</u> | <u>29</u> | <u>\$ 23,301,885</u> | <u>15</u> | <u>\$ 37,465,906</u> | <u>24</u> |
| Net income (loss) for the periods attributable to : | | | | | | | | | |
| Owners of the parent | 6(24) | \$ 7,954,447 | | \$ 13,299,240 | | \$ 21,530,291 | | \$ 36,005,012 | |
| Non-controlling interests | 6(16) | 5,321 | | 1,997 | | 57,881 | | (15,826) | |
| | | <u>\$ 7,959,768</u> | | <u>\$ 13,301,237</u> | | <u>\$ 21,588,172</u> | | <u>\$ 35,989,186</u> | |
| Total comprehensive income for the periods attributable to : | | | | | | | | | |
| Owners of the parent | | \$ 11,403,152 | | \$ 16,755,299 | | \$ 23,247,592 | | \$ 37,458,094 | |
| Non-controlling interests | 6(16) | (9,083) | | 9,133 | | 54,293 | | 7,812 | |
| | | <u>\$ 11,394,069</u> | | <u>\$ 16,764,432</u> | | <u>\$ 23,301,885</u> | | <u>\$ 37,465,906</u> | |
| Basic Earnings Per Share (in New Taiwan Dollars) | 6(24) | <u>\$ 5.09</u> | | <u>\$ 8.51</u> | | <u>\$ 13.77</u> | | <u>\$ 23.41</u> | |
| Diluted Earnings Per Share (in New Taiwan Dollars) | 6(24) | <u>\$ 5.08</u> | | <u>\$ 8.46</u> | | <u>\$ 13.74</u> | | <u>\$ 23.28</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 nine months ended September 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 nine months ended September 30, 2014 | - | - | - | - | - | 36,005,012 | - | - | - | 36,005,012 | (15,826) | 35,989,186 |
| Other comprehensive income for the nine months ended September 30, 2014 | - | - | - | - | - | - | 1,160,882 | 292,200 | - | 1,453,082 | 23,638 | 1,476,720 |
| Total comprehensive income | - | - | - | - | - | 36,005,012 | 1,160,882 | 292,200 | - | 37,458,094 | 7,812 | 37,465,906 |
| Share-based payment transactions | 4,309 | 1,767 | 49,985 | - | - | - | - | - | - | 56,061 | - | 56,061 |
| Shares issued to acquire a new entity | 2,211,239 | - | 18,957,141 | - | - | - | - | - | - | 21,168,380 | - | 21,168,380 |
| Adjustments due to dividends that subsidiaries received from parent company | - | - | 116,911 | - | - | - | - | - | - | 116,911 | - | 116,911 |
| Changes in ownership interests in subsidiaries | - | - | 77,942 | - | - | - | - | - | - | 77,942 | 82,884 | 160,826 |
| Changes in other capital surplus | - | - | 223,130 | - | - | - | - | - | - | 223,130 | - | 223,130 |
| Balance as of September 30, 2014 | \$ 15,710,215 | \$ 4,240 | \$ 87,900,019 | \$ 27,392,687 | \$ 895,749 | \$ 98,446,128 | \$ (1,243,759) | \$ 1,801,092 | \$ (55,970) | \$ 230,850,401 | \$ 128,889 | \$ 230,979,290 |
| 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 nine months ended September 30, 2015 | - | - | - | - | - | 21,530,291 | - | - | - | 21,530,291 | 57,881 | 21,588,172 |
| Other comprehensive income for the nine months ended September 30, 2015 | - | - | - | - | - | - | 3,183,625 | (1,466,324) | - | 1,717,301 | (3,588) | 1,713,713 |
| Total comprehensive income | - | - | - | - | - | 21,530,291 | 3,183,625 | (1,466,324) | - | 23,247,592 | 54,293 | 23,301,885 |
| Share-based payment transactions | 1,364 | (449) | 32,302 | - | - | - | - | - | - | 33,217 | - | 33,217 |
| Adjustments due to dividends that subsidiaries received from parent company | - | - | 171,469 | - | - | - | - | - | - | 171,469 | - | 171,469 |
| Changes in ownership interests in subsidiaries | - | - | 89,270 | - | - | - | - | - | - | 89,270 | 151,508 | 240,778 |
| Changes in other capital surplus | - | - | 28,543 | - | - | - | - | - | - | 28,543 | - | 28,543 |
| Non-controlling interests | - | - | - | - | - | - | - | - | - | - | 267,712 | 267,712 |
| Balance as of September 30, 2015 | \$ 15,715,819 | \$ 18 | \$ 88,369,498 | \$ 32,032,476 | \$ - | \$ 91,778,287 | \$ 7,401,917 | \$ 921,497 | \$ (55,970) | \$ 236,163,542 | \$ 911,112 | \$ 237,074,654 |

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2015 and 2014

(Amounts in thousands of New Taiwan Dollars)

| Description | 2015 | 2014 |
|---|----------------|----------------|
| Cash flows from operating activities : | | |
| Profit before tax from continuing operations | \$ 24,623,511 | \$ 40,567,742 |
| Adjustments for: | | |
| The profit or loss items which did not affect cash flows: | | |
| Depreciation | 1,356,624 | 958,315 |
| Amortization | 2,053,785 | 1,079,725 |
| Bad debt (reversal) provision | (28,545) | 14,445 |
| Losses on financial assets and liabilities at fair value through profit or loss | 74,538 | 18,461 |
| Interest expenses | 417,076 | 342,811 |
| Interest income | (2,238,214) | (2,322,611) |
| Dividend income | (366,078) | (201,049) |
| Share-based payment expenses | 32,302 | 49,985 |
| Share of profit of associates accounted for using the equity method | (373,626) | (777,250) |
| Losses on disposal of property, plant and equipment | 6,344 | 1,561 |
| Gains on disposal of investments | (1,224,250) | (894,939) |
| Impairment of financial assets | 851,478 | 263,020 |
| Changes in operating assets and liabilities: | | |
| Financial assets at fair value through profit or loss | (426,072) | (891,016) |
| Trade receivables | (2,822,275) | (3,637,084) |
| Other receivables | 1,856,357 | (979,430) |
| Inventories | (11,389,931) | (11,333,860) |
| Prepayments | (117,797) | (668,324) |
| Other current assets | (626,089) | (847,946) |
| Trade payables | 3,809,013 | 8,614,475 |
| Trade payables to related parties | 97,296 | (1,381,152) |
| Other payables | (6,481,084) | 8,621,600 |
| Other current liabilities | 962,736 | 68,398 |
| Long-term payables | (25,727) | (20,931) |
| Net defined benefit liabilities | 8,430 | 23,666 |
| Non-current liabilities-others | 8,391 | 28,816 |
| Cash generated from operating activities: | | |
| Interest received | 2,531,310 | 2,023,564 |
| Dividend received | 663,445 | 303,233 |
| Interest paid | (407,494) | (307,746) |
| Income tax paid | (7,613,277) | (4,790,762) |
| Net cash provided by operating activities | 5,212,177 | 33,925,717 |
| Cash flows from investing activities : | | |
| Acquisition of available-for-sale financial assets | (6,906,875) | (3,271,101) |
| Proceeds from disposal of available-for-sale financial assets | 3,913,798 | 411,849 |
| Acquisition of debt instrument investments for which no active market exists | (1,578,221) | (622,543) |
| Proceeds from disposal of debt instrument investments for which no active market exists | 1,850,906 | 411,668 |
| Acquisition of held-to-maturity financial assets | (1,773,790) | - |
| Proceeds from disposal of held-to-maturity financial assets | 299,121 | 634,620 |
| Acquisition of financial assets measured at cost | (1,198,997) | (1,579,285) |
| Proceeds from disposal of financial assets measured at cost | 33,721 | 930,174 |
| Proceeds from capital return of financial assets measured at cost | 29,371 | 27,482 |
| Acquisition of investments accounted for using the equity method | (459,409) | (202,396) |
| Proceeds from disposal of investments accounted for using the equity method | 248,000 | - |
| Proceeds from capital return of investments accounted for using the equity method | 21,864 | - |
| Net cash (outflow) inflow from acquisition of subsidiaries | (1,895,647) | 33,097,485 |
| Acquisition of property, plant and equipment | (8,379,402) | (3,073,986) |
| Proceeds from disposal of property, plant and equipment | 9,182 | 90,747 |
| Increase in refundable deposits | (27,537) | (159,877) |
| Acquisition of intangible assets | (1,895,402) | (182,497) |
| (Increase) decrease in long-term prepaid rent | (35,297) | 1,597 |
| Net cash (used in) provided by investing activities | (17,744,614) | 26,513,937 |
| Cash flows from financing activities : | | |
| Increase in short-term borrowings | 10,339,590 | 14,436,372 |
| Decrease in long-term borrowings | - | (651,000) |
| Increase in deposits received | 2,555 | 46,094 |
| Proceeds from exercise of employee stock options | 30,132 | 208,987 |
| Cash dividends | (34,403,228) | (23,448,412) |
| Change in non-controlling interests | 242,032 | 164,835 |
| Net cash used in financing activities | (23,788,919) | (9,243,124) |
| Effect of changes in exchange rate on cash and cash equivalents | 2,639,711 | 876,089 |
| Net (decrease) increase in cash and cash equivalents | (33,681,645) | 52,072,619 |
| 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 | \$ 159,115,861 | \$ 185,070,345 |

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Organization and Operation

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

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

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

3. Newly Issued or Revised Standards and Interpretations

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

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

A. IAS 19 "Employee Benefits"

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 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, 2018 |
| 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:

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

The consolidated entities are listed as follows:

| Investor | Subsidiary | Business nature | Percentage of Ownership | | | Note |
|-------------------------|---|-----------------------------------|-------------------------|----------------------|-----------------------|------|
| | | | September 30, 2015 | December 31, 2014 | September 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 |

(To be continued)

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

(Continued)

| Investor | Subsidiary | Business nature | Percentage of Ownership | | | Note |
|------------------------------|--|-----------------------------------|-------------------------|----------------------|-----------------------|------|
| | | | September 30, 2015 | December 31, 2014 | September 30, 2014 | |
| Hsu-Ta Investment Corp. | Hsu-Si Investment Corp. | General investing | 100% | - | - | 15 |
| MediaTek Investment Corp. | Gaintech Co. Limited | General investing | - | - | - | 1 |
| 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 | - | - | - | 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 |
| MediaTek Capital Corp. | Chingis Technology Corp. | Research | 100% | - | - | 16 |
| Core Tech Resources Inc. | MediaTek India Technology Pvt. Ltd. | Research | 0% | 0% | 0% | - |
| Gaintech Co. Limited | MediaTek China Limited | General investing | 100% | 100% | 100% | - |
| Gaintech Co. Limited | MTK Wireless Limited (UK) | Research | 100% | 100% | 100% | - |
| Gaintech Co. Limited | MediaTek Denmark Aps | Research | - | - | - | 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% | - |

(To be continued)

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

(Continued)

| Investor | Subsidiary | Business nature | Percentage of Ownership | | | Note |
|------------------------------|--|-------------------------------------|-------------------------|----------------------|-----------------------|------|
| | | | September 30, 2015 | December 31, 2014 | September 30, 2014 | |
| 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% | - |
| Gaintech Co. Limited | MediaTek Wireless FZ-LLC | Technology services | 100% | 100% | 100% | - |
| Gaintech Co. Limited | Digital Lord Limited | General investing | 100% | - | - | 17 |
| Gaintech Co. Limited | Hsu Chia (Samoa) Investment Ltd. | General investing | 100% | - | - | 17 |
| Gaintech Co. Limited | Hsu Fa (Samoa) Investment Ltd. | General investing | 100% | - | - | 17 |
| Gaintech Co. Limited | Hsu Kang (Samoa) Investment Ltd. | General investing | 100% | - | - | 17 |
| 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. | General investing | 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% | 3 |
| MTK Wireless Limited (UK) | MediaTek USA Inc. | Research | 100% | 100% | 100% | 2&3 |

(To be continued)

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

(Continued)

| Investor | Subsidiary | Business nature | Percentage of Ownership | | | Note |
|--|--|-----------------------------------|-------------------------|----------------------|-----------------------|------|
| | | | September 30, 2015 | December 31, 2014 | September 30, 2014 | |
| MTK Wireless Limited (UK) | MediaTek Denmark Aps | Research | 100% | 100% | 100% | 3 |
| MTK Wireless Limited (UK) | MediaTek Wireless Finland Oy | Research | 100% | 100% | - | 10 |
| MediaTek USA Inc. | Ralink Technology Corporation (USA) | Research | - | - | - | 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% | 18 |
| Digital Lord Limited | Lepower (HK) Limited | General investing | 100% | - | - | 18 |
| Lepower (HK) Limited | Lepower Technologies (Beijing), Inc. | Research, manufacturing and sales | 91% | 91% | 91% | - |
| E-Vehicle Semiconductor Technology Co., Ltd. | E-Vehicle Holdings Corp. | General investing | 100% | 100% | 100% | - |
| E-Vehicle Holdings Corp. | E-Vehicle Investment Limited | General investing | 100% | 100% | 100% | - |
| E-Vehicle Investment Limited | E-Vehicle Semiconductor (Shanghai) Co., Ltd. | Research, manufacturing and sales | 100% | 100% | 100% | - |
| EcoNet (Cayman) Inc. | Shadow Investment Limited | General investing | 100% | 100% | 100% | - |
| EcoNet (Cayman) Inc. | EcoNet (HK) Limited | Research, manufacturing and sales | 100% | 100% | 100% | - |
| EcoNet (HK) Limited | EcoNet (Suzhou) Limited | Research, manufacturing and sales | 100% | 100% | 100% | 12 |
| Shadow Investment Limited | MediaTek (Suzhou) Inc. | Research | 100% | 100% | 100% | - |

(To be continued)

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

(Continued)

| Investor | Subsidiary | Business nature | Percentage of Ownership | | | Note |
|---|---------------------------------------|-----------------------------------|-------------------------|----------------------|-----------------------|------|
| | | | September 30, 2015 | December 31, 2014 | September 30, 2014 | |
| Shadow Investment Limited | MediaTek (Nanjing) Inc. | Research | 100% | 100% | 100% | - |
| Ralink Technology (Samoa) Corp. | AutoChips Inc. | Research, manufacturing and sales | 86% | 89% | 89% | - |
| 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 |
| 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 |

(To be continued)

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

(Continued)

| Investor | Subsidiary | Business nature | Percentage of Ownership | | | Note |
|---------------------------------------|---|-----------------------------------|-------------------------|----------------------|-----------------------|------|
| | | | September 30, 2015 | December 31, 2014 | September 30, 2014 | |
| MStar Semiconductor, Inc. | MStar Semiconductor UK Ltd. | Software and customer development | 100% | 100% | 100% | 4 |
| MStar Semiconductor, Inc. | Mrise Technology Inc. | Research, manufacturing and sales | 100% | - | - | 19 |
| MStar Semiconductor, Inc. | MSilicon Technology Inc. | Research, manufacturing and sales | 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 |

- 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.
- 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

3. For the purpose of reorganization, MTK Wireless Limited (UK) acquired 100% shares of MediaTek 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. For the purpose of reorganization, 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. For the purpose of reorganization, 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.
15. Hsu-Ta Investment Corp. established Hsu-Si Investment Corp. in September 2015.
16. MediaTek Capital Corp. accomplished the acquisition of 100% shares of Chingis Technology Corp. in September 2015.
17. Gaintech Co. Limited established Digital Lord Limited, Hsu Chia (Samoa) Investment Ltd., Hsu Fa (Samoa) Investment Ltd. and Hsu Kang (Samoa) Investment Ltd. in August 2015.
18. For the purpose of reorganization, the 100% ownership of Lepower (HK) Limited which was previously owned by Lepower Limited, was transferred to Digital Lord Limited in August 2015.
19. MStar Semiconductor, Inc. established Mrise Technology Inc. in July 2015.

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**

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|-------------------------------|-----------------------|-----------------------|-----------------------|
| Cash on hand and petty cash | \$ 7,422 | \$ 2,525 | \$ 1,765 |
| Checking and savings accounts | 37,448,957 | 29,446,795 | 24,079,039 |
| Time deposits | 121,659,482 | 163,348,186 | 160,989,541 |
| Total | <u>\$ 159,115,861</u> | <u>\$ 192,797,506</u> | <u>\$ 185,070,345</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

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|--|-----------------------|----------------------|-----------------------|
| <u>Current</u> | | | |
| <u>Held for trading financial assets</u> | | | |
| Stocks | \$ 4,508 | \$ 9,057 | \$ 9,238 |
| Forward exchange contracts | 3,831 | 1,933 | 10,519 |
| Cross currency swap contracts | - | - | 343 |
| Subtotal | <u>8,339</u> | <u>10,990</u> | <u>20,100</u> |
| <u>Financial assets designated upon initial recognition at fair value through profit or loss</u> | | | |
| Credit-linked deposits | 1,290,352 | 295,272 | 295,351 |
| Exchange rate-linked deposits | 306,105 | 2,385,563 | 1,221,841 |
| Index-linked deposits | 260,559 | 255,626 | - |
| Interest rate-linked deposits | - | 599,766 | 879,507 |
| Subtotal | <u>1,857,016</u> | <u>3,536,227</u> | <u>2,396,699</u> |
| Total | <u>\$ 1,865,355</u> | <u>\$ 3,547,217</u> | <u>\$ 2,416,799</u> |
| <u>Held for trading financial liabilities</u> | | | |
| Forward exchange contracts | <u>\$ 13,439</u> | <u>\$ 50,393</u> | <u>\$ 63,600</u> |

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

| | September 30, 2015 | December 31, 2014 | September 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 | \$ 2,956,614 | \$ 1,396,856 | \$ 1,366,775 |
| Exchange rate-linked deposits | 1,390,502 | 1,677,514 | 466,831 |
| Index-linked deposits | 943,849 | 903,224 | 275,294 |
| Bonds | 763,072 | 63,199 | 59,655 |
| Interest rate-linked deposits | 298,152 | - | - |
| Total | <u>\$ 6,352,189</u> | <u>\$ 4,040,793</u> | <u>\$ 2,168,555</u> |

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

(3) Available-for-sale financial assets

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|---------------------|-----------------------|----------------------|-----------------------|
| <u>Current</u> | | | |
| Stocks | \$ 2,667,921 | \$ 5,308,419 | \$ 4,562,071 |
| Funds | 2,163,203 | 1,967,791 | 1,793,577 |
| Bonds | 2,093,174 | 271,022 | 88,280 |
| Depository receipts | 30,727 | 28,010 | 30,727 |
| Subtotal | <u>6,955,025</u> | <u>7,575,242</u> | <u>6,474,655</u> |
| <u>Noncurrent</u> | | | |
| Funds | 4,082,928 | 3,347,137 | 2,889,754 |
| Bonds | 3,491,563 | 1,546,954 | 1,670,911 |
| Stocks | 160,335 | - | - |
| Subtotal | <u>7,734,826</u> | <u>4,894,091</u> | <u>4,560,665</u> |
| Total | <u>\$ 14,689,851</u> | <u>\$ 12,469,333</u> | <u>\$ 11,035,320</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

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|-------------------------------------|-----------------------|----------------------|-----------------------|
| <u>Available-for-sale financial</u> | | | |
| <u>assets-noncurrent</u> | | | |
| Capital | \$ 3,613,796 | \$ 2,509,126 | \$ 2,247,833 |
| Non-publicly traded stocks | 976,773 | 1,273,258 | 1,174,575 |
| Total | <u>\$ 4,590,569</u> | <u>\$ 3,782,384</u> | <u>\$ 3,422,408</u> |

Financial assets measured at cost were not pledged.

(5) Held-to-maturity financial assets

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|-------------------|-----------------------|----------------------|-----------------------|
| <u>Current</u> | | | |
| Bonds | <u>\$ 330,041</u> | <u>\$ 288,378</u> | <u>\$ 433,281</u> |
| <u>Noncurrent</u> | | | |
| Bonds | <u>1,573,330</u> | <u>127,787</u> | <u>123,136</u> |
| Total | <u>\$ 1,903,371</u> | <u>\$ 416,165</u> | <u>\$ 556,417</u> |

Held-to-maturity financial assets were not pledged.

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

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|-------------------|-----------------------|----------------------|-----------------------|
| <u>Current</u> | | | |
| Bonds | \$ 620,130 | \$ 1,074,391 | \$ 223,083 |
| Time deposits | 81,292 | 11,755 | 103,066 |
| Subtotal | <u>701,422</u> | <u>1,086,146</u> | <u>326,149</u> |
| <u>Noncurrent</u> | | | |
| Time deposits | <u>210,402</u> | <u>946</u> | <u>924</u> |
| Total | <u>\$ 911,824</u> | <u>\$ 1,087,092</u> | <u>\$ 327,073</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**

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|---|-----------------------|----------------------|-----------------------|
| Trade receivables | \$ 23,572,854 | \$ 18,369,294 | \$ 23,000,413 |
| Less: allowance for doubtful debts | (147,563) | (162,112) | (149,362) |
| Less: allowance for sales returns and discounts | (7,308,060) | (5,654,783) | (7,432,596) |
| Total | <u>\$ 16,117,231</u> | <u>\$ 12,552,399</u> | <u>\$ 15,418,455</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 |
| Reversal for current period | - | (28,545) | (28,545) |
| Effect of acquisition of subsidiaries | - | 7,087 | 7,087 |
| Exchange differences | - | 6,909 | 6,909 |
| As of September 30, 2015 | <u>\$ -</u> | <u>\$ 147,563</u> | <u>\$ 147,563</u> |

| | Individually impaired | Collectively impaired | Total |
|---------------------------------------|--------------------------|--------------------------|-------------------|
| As of January 1, 2014 | \$ - | \$ 84,875 | \$ 84,875 |
| Charge for the current period | - | 14,445 | 14,445 |
| Effect of acquisition of subsidiaries | - | 50,000 | 50,000 |
| Exchange differences | - | 42 | 42 |
| As of September 30, 2014 | <u>\$ -</u> | <u>\$ 149,362</u> | <u>\$ 149,362</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 | |
| September 30, 2015 | \$ 15,777,085 | \$ 324,864 | \$ 15,282 | \$ 16,117,231 |
| December 31, 2014 | \$ 11,820,401 | \$ 731,998 | \$ - | \$ 12,552,399 |
| September 30, 2014 | \$ 14,873,469 | \$ 544,986 | \$ - | \$ 15,418,455 |

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\$1,652,404 thousand, NT\$2,062,053 thousand, and NT\$3,159,483 thousand as of September 30, 2015, December 31, 2014, and September 30, 2014, respectively.

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

A. As of September 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 | - | \$ 31,666 | \$ - | \$ 31,666 | \$ 135,459 |
| BNP Paribas | - | 12,119 | - | 12,119 | 85,000 |
| HSBC | - | - | - | - | 1,000 |
| TC Bank | - | 6,094 | - | 6,094 | 16,500 |
| ING Bank | - | - | - | - | 100,000 |
| Total | | <u>\$ 49,879</u> | <u>\$ -</u> | <u>\$ 49,879</u> | <u>\$ 337,959</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 September 30, 2014:

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

(8) Inventories

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|------------------|-----------------------|----------------------|-----------------------|
| Raw materials | \$ 919,776 | \$ 1,325,493 | \$ 1,286,275 |
| Work in progress | 19,884,045 | 11,459,156 | 14,553,753 |
| Finished goods | 13,177,112 | 9,556,687 | 8,623,891 |
| Net amount | \$ 33,980,933 | \$ 22,341,336 | \$ 24,463,919 |

For the three months ended September 30, 2015 and 2014, the cost of inventories recognized in expenses amounted to NT\$32,657,866 thousand and NT\$29,238,133 thousand, including the reversal gain of the write-down of inventories of NT\$494,423 thousand and NT\$120,679 thousand for the three months ended September 30, 2015 and 2014, respectively because of circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed.

For the nine months ended September 30, 2015 and 2014, the cost of inventories recognized in expenses amounted to NT\$83,143,171 thousand and NT\$80,326,717 thousand, including the reversal gain of the write-down of inventories of NT\$48,248 thousand for the nine months ended September 30, 2015 because of circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed and the write-down of inventories of NT\$3,682,739 thousand for the nine months ended September 30, 2014.

No inventories were pledged.

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

(9) Investments accounted for using the equity method

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

| Investees | September 30, 2015 | | December 31, 2014 | | September 30, 2014 | |
|---------------------------------------|---------------------|-----------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| | Carrying amount | Percentage of ownership (%) | Carrying amount | Percentage of ownership (%) | Carrying amount | Percentage of ownership (%) |
| Shenzhen Huiding Technology Co., Ltd. | \$ 1,240,986 | 24 | \$ 1,055,423 | 24 | \$ 913,338 | 24 |
| Airoha Technology Corp. | 530,811 | 24 | 513,685 | 28 | 471,165 | 30 |
| Alpha Imaging Technology Corp. | - | - | 175,767 | 15 | 130,021 | 15 |
| Others | 670,927 | - | 409,738 | - | 388,882 | - |
| Total | <u>\$ 2,442,724</u> | | <u>\$ 2,154,613</u> | | <u>\$ 1,903,406</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. (25) 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:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---------------------------------------|------------------------------------|-------------------|-----------------------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Profit from continuing operations | \$ 227,243 | \$ 161,573 | \$ 474,125 | \$ 589,290 |
| Other comprehensive income (post-tax) | (9,181) | (1,983) | (8,198) | (8,954) |
| Total comprehensive income | <u>\$ 218,062</u> | <u>\$ 159,590</u> | <u>\$ 465,927</u> | <u>\$ 580,336</u> |

The associates had no contingent liabilities or capital commitments and investment in the associates were not pledged as of September 30, 2015, December 31, 2014, and September 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 | 112,870 | 759,425 | 8,711 | 1,323,920 | 987,499 | 307,826 | 4,879,918 | 8,380,169 |
| Additions-acquired through business combinations | - | - | 18,753 | 1,689 | 21,690 | 52,092 | 2,327 | 96,551 |
| Disposals | - | (167) | (2,034) | (135,957) | (230,519) | (116,385) | - | (485,062) |
| Transfers | 6,825 | 1,466,148 | 249 | 49,770 | 308,859 | 8,424 | (1,846,668) | (6,393) |
| Exchange differences | 56,550 | 64,553 | (5,796) | 35,957 | 26,396 | 62 | (14,605) | 163,117 |
| As of September 30, 2015 | <u>\$ 3,569,755</u> | <u>\$ 13,231,477</u> | <u>\$ 97,342</u> | <u>\$ 4,195,173</u> | <u>\$ 5,626,927</u> | <u>\$ 1,531,069</u> | <u>\$ 10,814,357</u> | <u>\$ 39,066,100</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 | 179,859 | 95,620 | 7,410 | 445,644 | 957,426 | 154,140 | 1,382,815 | 3,222,914 |
| Additions-acquired through business combinations | 1,857,153 | 1,096,303 | 95,698 | - | 67,590 | 114,219 | 15,457 | 3,246,420 |
| Disposals | - | (13,270) | (156,184) | (113,610) | (145,674) | (285,358) | - | (714,096) |
| Transfers | - | 364,495 | - | 26,784 | 72,460 | (1,220) | (464,581) | (2,062) |
| Exchange differences | 3,669 | 13,364 | 626 | 5,775 | 503 | 1,153 | 1,143 | 26,233 |
| As of September 30, 2014 | <u>\$ 3,314,550</u> | <u>\$ 10,635,499</u> | <u>\$ 70,225</u> | <u>\$ 2,651,697</u> | <u>\$ 4,203,493</u> | <u>\$ 1,175,334</u> | <u>\$ 1,946,086</u> | <u>\$ 23,996,884</u> |

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 | - | 265,530 | 17,759 | 395,078 | 491,844 | 186,413 | - | 1,356,624 |
| Disposals | - | (91) | (1,818) | (131,207) | (225,368) | (111,052) | - | (469,536) |
| Transfers | - | (241) | 242 | - | (242) | 168 | - | (73) |
| Exchange differences | - | 10,740 | 2,784 | 31,745 | 23,691 | 13,963 | - | 82,923 |
| As of September 30, 2015 | <u>\$ -</u> | <u>\$ 2,385,969</u> | <u>\$ 33,000</u> | <u>\$ 2,226,475</u> | <u>\$ 3,012,280</u> | <u>\$ 935,377</u> | <u>\$ -</u> | <u>\$ 8,593,101</u> |
| As of January 1, 2014 | \$ - | \$ 1,809,281 | \$ 108,709 | \$ 1,701,616 | \$ 2,396,821 | \$ 888,941 | \$ - | \$ 6,905,368 |
| Depreciation | - | 216,564 | 16,786 | 264,222 | 318,638 | 142,105 | - | 958,315 |
| Disposals | - | (11,882) | (116,826) | (108,859) | (120,236) | (263,985) | - | (621,788) |
| Transfers | - | - | - | - | - | 206 | - | 206 |
| Exchange differences | - | 4,798 | 305 | 4,124 | 1,607 | 7,762 | - | 18,596 |
| As of September 30, 2014 | <u>\$ -</u> | <u>\$ 2,018,761</u> | <u>\$ 8,974</u> | <u>\$ 1,861,103</u> | <u>\$ 2,596,830</u> | <u>\$ 775,029</u> | <u>\$ -</u> | <u>\$ 7,260,697</u> |
| Net carrying amount as of: | | | | | | | | |
| September 30, 2015 | <u>\$ 3,569,755</u> | <u>\$ 10,845,508</u> | <u>\$ 64,342</u> | <u>\$ 1,968,698</u> | <u>\$ 2,614,647</u> | <u>\$ 595,692</u> | <u>\$ 10,814,357</u> | <u>\$ 30,472,999</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> |
| September 30, 2014 | <u>\$ 3,314,550</u> | <u>\$ 8,616,738</u> | <u>\$ 61,251</u> | <u>\$ 790,594</u> | <u>\$ 1,606,663</u> | <u>\$ 400,305</u> | <u>\$ 1,946,086</u> | <u>\$ 16,736,187</u> |

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 | - | 385,584 | - | 3,094,057 | - | 3,479,641 |
| Additions-acquired through business combinations | - | 6,121 | 244,069 | 637,631 | 992,444 | 1,880,265 |
| Disposals | - | - | - | (3,063,376) | - | (3,063,376) |
| Transfers | - | 62,587 | - | (56,267) | - | 6,320 |
| Exchange differences | (2,032) | (62,613) | (13,409) | (61,689) | 25,456 | (114,287) |
| As of September 30, 2015 | <u>\$ 420,882</u> | <u>\$ 1,664,936</u> | <u>\$ 2,852,597</u> | <u>\$ 7,153,832</u> | <u>\$ 55,154,315</u> | <u>\$ 67,246,562</u> |
| As of January 1, 2014 | \$ 32,402 | \$ 669,683 | \$ - | \$ 4,271,124 | \$ 13,965,296 | \$ 18,938,505 |
| Additions-acquired separately | - | 209,088 | - | (26,591) | - | 182,497 |
| Additions-acquired through business combinations | 373,989 | 101,587 | 2,511,002 | 2,500,694 | 39,085,832 | 44,573,104 |
| Disposals | - | (41,062) | - | (729,587) | - | (770,649) |
| Transfers | - | 541 | - | 1,051 | - | 1,592 |
| Exchange differences | 739 | 457 | 4,958 | 8,227 | 68,603 | 82,984 |
| As of September 30, 2014 | <u>\$ 407,130</u> | <u>\$ 940,294</u> | <u>\$ 2,515,960</u> | <u>\$ 6,024,918</u> | <u>\$ 53,119,731</u> | <u>\$ 63,008,033</u> |

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 | 48,814 | 192,697 | 296,771 | 1,515,503 | - | 2,053,785 |
| Disposals | - | - | - | (3,063,376) | - | (3,063,376) |
| Transfers | - | 56,172 | - | (56,172) | - | - |
| Exchange differences | - | (52,542) | - | (63,092) | - | (115,634) |
| As of September 30, 2015 | <u>\$ 138,846</u> | <u>\$ 1,053,004</u> | <u>\$ 626,711</u> | <u>\$ 1,356,387</u> | <u>\$ -</u> | <u>\$ 3,174,948</u> |
| As of January 1, 2014 | \$ 32,402 | \$ 554,909 | \$ - | \$ 2,842,001 | \$ - | \$ 3,429,312 |
| Amortization | 41,301 | 229,101 | 237,669 | 571,654 | - | 1,079,725 |
| Disposals | - | (41,062) | - | (729,587) | - | (770,649) |
| Transfers | - | (1,108) | - | 432 | - | (676) |
| Exchange differences | - | 3,035 | - | 7,954 | - | 10,989 |
| As of September 30, 2014 | <u>\$ 73,703</u> | <u>\$ 744,875</u> | <u>\$ 237,669</u> | <u>\$ 2,692,454</u> | <u>\$ -</u> | <u>\$ 3,748,701</u> |
| Net carrying amount as of: | | | | | | |
| September 30, 2015 | <u>\$ 282,036</u> | <u>\$ 611,932</u> | <u>\$ 2,225,886</u> | <u>\$ 5,797,445</u> | <u>\$ 55,154,315</u> | <u>\$ 64,071,614</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> |
| September 30, 2014 | <u>\$ 333,427</u> | <u>\$ 195,419</u> | <u>\$ 2,278,291</u> | <u>\$ 3,332,464</u> | <u>\$ 53,119,731</u> | <u>\$ 59,259,332</u> |

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

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|-------------------------|-----------------------|----------------------|-----------------------|
| Unsecured bank loans | \$ 57,032,937 | \$ 46,160,593 | \$ 43,421,216 |
| Secured bank loans | - | - | 32,698 |
| Total | \$ 57,032,937 | \$ 46,160,593 | \$ 43,453,914 |
| Interest rates | 0.64~4.90% | 0.60~1.83% | 0.73~3.85% |
| Unused lines of credits | \$ 43,451,743 | \$ 42,748,541 | \$ 15,384,808 |

(14) Other payables

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|------------------------------|-----------------------|----------------------|-----------------------|
| Accrued salaries and bonuses | \$ 14,896,216 | \$ 20,490,929 | \$ 13,879,632 |
| Accrued royalties | 1,334,957 | 1,638,850 | 3,664,003 |
| Others | 11,729,826 | 10,637,180 | 12,255,097 |
| Total | \$ 27,960,999 | \$ 32,766,959 | \$ 29,798,732 |

(15) Post-employment benefits plans**Defined contribution plan**

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

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Pension expenses under the defined contribution plan for the three months ended September 30, 2015 and 2014 were NT\$381,107 thousand and NT\$252,922 thousand, respectively. Pension expenses under the defined contribution plan for the nine months ended September 30, 2015 and 2014 were NT\$1,047,066 thousand and NT\$706,547 thousand, respectively.

Defined benefits plan

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

Pension expenses under the defined benefits plan for the three months ended September 30, 2015 and 2014 were NT\$6,663 thousand and NT\$4,132 thousand, respectively. Pension expenses under the defined benefits plan for the nine months ended September 30, 2015 and 2014 were NT\$19,810 thousand and NT\$12,326 thousand, respectively.

(16)Equity

A. Share capital

MTK's authorized capital as of September 30, 2015, December 31, 2014, and September 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\$15,715,819 thousand, NT\$15,714,455 thousand, and NT\$15,710,215 thousand, divided into 1,571,581,880 shares, 1,571,445,544 shares, and 1,571,021,521 shares as of September 30, 2015, December 31, 2014 and September 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.

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

MTK issued 136,336 new shares and 607,673 new shares during the nine-month period ended September 30, 2015 and 2014, respectively, at par value of NT\$10 for employee stock options exercised. Among the new issued shares, 1,806 shares (NT\$18 thousand in the amount), 46,700 shares (NT\$467 thousand in the amount), and 424,023 shares (NT\$4,240 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance as of September 30, 2015, December 31, 2014 and September 30, 2014, respectively.

B. Capital surplus

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|--|-----------------------|----------------------|-----------------------|
| Additional paid-in capital | \$ 85,867,045 | \$ 85,824,767 | \$ 85,682,481 |
| Treasury share transactions | 1,369,971 | 1,198,502 | 1,198,502 |
| 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 | 304,550 | 215,280 | 90,071 |
| Donated assets | 1,261 | 1,261 | 1,261 |
| From share of changes in net assets of associates | 67,312 | 68,650 | 71,109 |
| Employee stock options | 498,079 | 465,777 | 451,827 |
| Others | 111,315 | 123,712 | 254,803 |
| Total | <u>\$ 88,369,498</u> | <u>\$ 88,047,914</u> | <u>\$ 87,900,019</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 September 30, 2015, December 31, 2014, and September 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.

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 September 30, 2015, December 31, 2014, and September 30, 2014, MTK did not hold any other treasury shares.

D. Retained earnings and dividend policy

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

- a. Income tax obligation;
- b. Offsetting accumulated deficits, if any;
- c. Legal reserve at 10% of net income after tax; where such legal reserve amounts to the total authorized capital, this provision shall not apply;
- d. Special reserve in compliance with the Company 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. The Company expects to amend the Articles of Incorporation during the shareholders' general meeting in 2016. Please refer to Note 6(19) for relevant information on estimation basis and recognized amounts of employees' compensation (bonuses) and remunerations to directors and supervisors.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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)**

The appropriations of earnings and dividend per share were resolved by the shareholders' general meeting on June 12, 2015 and 2014.

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

The difference between the resolution of the 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.

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

| | Exchange differences resulting from translating the financial statements of foreign operations | Unrealized gains from available-for-sale financial assets | Total |
|--|---|--|--------------|
| As of January 1, 2015 | \$ 4,218,292 | \$ 2,387,821 | \$ 6,606,113 |
| To be reclassified to profit or loss in subsequent periods | | | |
| Exchange differences resulting from translating the financial statements of foreign operations | 3,255,811 | - | 3,255,811 |
| Unrealized gains from available-for-sale financial assets | - | (1,808,809) | (1,808,809) |
| Unrealized gains reclassified to profit or loss from available-for-sale financial assets | - | 342,485 | 342,485 |
| Share of other comprehensive income of associates accounted for using equity method | (72,186) | - | (72,186) |
| As of September 30, 2015 | \$ 7,401,917 | \$ 921,497 | \$ 8,323,414 |

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

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

F. Non-controlling interests

| | Nine months ended September 30 | |
|--|--------------------------------|-------------------|
| | 2015 | 2014 |
| Beginning balance | \$ 437,599 | \$ 38,193 |
| Gain (loss) attributable to non-controlling interests | 57,881 | (15,826) |
| Other comprehensive income, attributable to non-controlling interests, net of tax: | | |
| Exchange differences resulting from translating the financial statements of foreign operations | (3,588) | 23,638 |
| Changes in ownership interests in subsidiaries | 151,508 | 82,884 |
| Others | 267,712 | - |
| Ending balance | <u>\$ 911,112</u> | <u>\$ 128,889</u> |

(17) Share-based payment plans

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

Share-based payment plans in MTK

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

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

| Date of grant | Total number of options granted | Total number of options outstanding | Shares available for option holders | Exercise price (NT\$) (Note) |
|---------------|---------------------------------|-------------------------------------|-------------------------------------|------------------------------|
| 2008.03.31 | 1,134,119 | 282,195 | 282,195 | \$ 358.0 |
| 2008.08.28 | 1,640,285 | 481,828 | 481,828 | 344.5 |
| 2009.08.18 | 1,382,630 | 572,517 | 572,517 | 429.5 |
| 2010.08.27 | 1,605,757 | 712,972 | 712,972 | 404.8 |
| 2010.11.04 | 65,839 | 14,634 | 14,634 | 377.0 |
| 2011.08.24 | 2,109,871 | 1,223,671 | 1,223,671 | 277.4 |
| 2012.08.14 | 1,346,795 | 1,016,159 | 592,419 | 286.8 |
| 2013.08.22 | 1,436,343 | 1,256,199 | 380,385 | 368.0 |

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

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

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

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

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

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

| | Nine months ended September 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 | (91,442) | 329.5 | (607,673) | 343.9 |
| Forfeited (Expired) | (103,381) | 334.6 | (207,870) | 332.5 |
| Outstanding at end of period | 5,560,175 | 341.8 | 5,825,648 | 341.1 |
| Exercisable at end of period | 4,260,621 | | 3,106,437 | |
| Weighted-average fair value of options granted during the period (in NT\$) | \$ - | | \$ - | |

The weighted average share price at the date of exercise of those options were NT\$481.7 and NT\$478.1 for nine months then ended September 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 September 30, 2015 and 2014 is as follows:

| | | Nine months ended September 30 | | | |
|---------------|--------------------------------|--------------------------------|------------------|---------------------------|------------------|
| | | 2015 | | 2014 | |
| | | Outstanding stock options | | Outstanding stock options | |
| | | Weighted-average | Weighted-average | Weighted-average | Weighted-average |
| | | Expected | Exercise Price | Expected | Exercise Price |
| | | Remaining | per Share | Remaining | per Share |
| Date of grant | Range of Exercise Price (NT\$) | Years | (NT\$) | Years | (NT\$) |
| 2007.12.19 | \$ 344.5~358.0 | - | \$ 349.5 | 0.25 | \$ 349.6 |
| 2009.07.27 | 429.5 | 0.38 | 429.5 | 1.38 | 429.5 |
| 2010.05.10 | 377.0~404.8 | 1.42 | 404.2 | 2.42 | 404.3 |
| 2011.08.09 | 277.4 | 2.42 | 277.4 | 3.42 | 277.4 |
| 2012.08.09 | 286.8 | 3.38 | 286.8 | 4.38 | 286.8 |
| 2013.08.09 | 368.0 | 4.42 | 368.0 | 5.42 | 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 692,741 units as of September 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 September 30, 2015.

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

| | | Nine months ended September 30 | |
|-----------------------------------|----|--------------------------------|-----------|
| | | 2015 | 2014 |
| Total equity-settled transactions | \$ | 32,302 | \$ 49,985 |

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

There have been no cancellations or modifications to any of the plans during the nine months ended September 30, 2015 and 2014.

(18) Sales

| | Three months ended September 30 | | Nine months ended September 30 | |
|-----------------------------------|------------------------------------|----------------------|-----------------------------------|-----------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Sale of goods | \$ 66,275,786 | \$ 68,726,873 | \$ 172,002,468 | \$ 183,302,814 |
| Other operating revenues | 229,028 | 60,354 | 790,394 | 1,303,459 |
| Less: Sales returns and discounts | (9,542,770) | (11,315,079) | (21,250,541) | (26,996,076) |
| Net sales | <u>\$ 56,962,044</u> | <u>\$ 57,472,148</u> | <u>\$ 151,542,321</u> | <u>\$ 157,610,197</u> |

(19) Summary statement of employee benefits, depreciation and amortization expenses by function for the three months and nine months ended September 30, 2015 and 2014:

| | Three months ended September 30 | | | | | |
|----------------------------|---------------------------------|--------------------|--------------|-----------------|--------------------|--------------|
| | 2015 | | | 2014 | | |
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefits expense | | | | | | |
| Salaries | \$ 77,760 | \$ 8,492,563 | \$ 8,570,323 | \$ 340,473 | \$ 8,328,202 | \$ 8,668,675 |
| Labor and health insurance | \$ 6,144 | \$ 460,065 | \$ 466,209 | \$ 57,650 | \$ 360,529 | \$ 418,179 |
| Pension | \$ 4,067 | \$ 383,703 | \$ 387,770 | \$ 3,459 | \$ 253,595 | \$ 257,054 |
| Others | \$ 764 | \$ 308,732 | \$ 309,496 | \$ 5,648 | \$ 291,056 | \$ 296,704 |
| Depreciation | \$ 1,005 | \$ 519,043 | \$ 520,048 | \$ 3,655 | \$ 347,435 | \$ 351,090 |
| Amortization | \$ - | \$ 718,266 | \$ 718,266 | \$ 43 | \$ 385,522 | \$ 385,565 |

| | Nine months ended September 30 | | | | | |
|----------------------------|--------------------------------|--------------------|---------------|-----------------|--------------------|---------------|
| | 2015 | | | 2014 | | |
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefits expense | | | | | | |
| Salaries | \$ 224,493 | \$ 25,050,219 | \$ 25,274,712 | \$ 461,103 | \$ 21,181,653 | \$ 21,642,756 |
| Labor and health insurance | \$ 17,155 | \$ 1,217,434 | \$ 1,234,589 | \$ 66,137 | \$ 898,274 | \$ 964,411 |
| Pension | \$ 12,307 | \$ 1,054,569 | \$ 1,066,876 | \$ 9,592 | \$ 709,281 | \$ 718,873 |
| Others | \$ 2,593 | \$ 791,275 | \$ 793,868 | \$ 8,656 | \$ 717,479 | \$ 726,135 |
| Depreciation | \$ 2,661 | \$ 1,353,963 | \$ 1,356,624 | \$ 5,145 | \$ 953,170 | \$ 958,315 |
| Amortization | \$ - | \$ 2,053,785 | \$ 2,053,785 | \$ 43 | \$ 1,079,682 | \$ 1,079,725 |

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 nine months ended September 30, 2015, the estimated amounts of employees' compensations and remunerations to directors and supervisors 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. During the three months ended September 30, 2015, the amounts of employees' compensations and remunerations to directors and supervisors were NT\$99,428 thousand and NT\$15,602 thousand, respectively. During the nine months ended September 30, 2015, the amounts of employees' compensations and remunerations to directors and supervisors were NT\$269,129 thousand and NT\$37,639 thousand, respectively.

The employees' bonuses were estimated based on a specific rate of net income for the nine months ended September 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 three months ended September 30, 2014, the amounts of employees' bonuses and remunerations to directors and supervisors were NT\$811,955 thousand and NT\$15,453 thousand, respectively. During the nine months ended September 30, 2014, the amounts of employees' bonuses and remunerations to directors and supervisors were NT\$2,242,333 thousand and NT\$56,648 thousand, respectively.

(20) Other income

| | Three months ended September 30 | | Nine months ended September 30 | |
|-----------------|------------------------------------|---------------------|-----------------------------------|---------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Interest income | \$ 615,179 | \$ 894,846 | \$ 2,238,214 | \$ 2,322,611 |
| Dividend income | 67,905 | 84,222 | 366,078 | 201,049 |
| Rental income | 9,370 | 6,570 | 24,976 | 16,457 |
| Others | 41,063 | 206,281 | 107,699 | 342,910 |
| Total | <u>\$ 733,517</u> | <u>\$ 1,191,919</u> | <u>\$ 2,736,967</u> | <u>\$ 2,883,027</u> |

MEDIATEK INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(21) Other gains and losses**

| | Three months ended | | Nine months ended | |
|--|--------------------|--------------------|---------------------|---------------------|
| | September 30 | | September 30 | |
| | 2015 | 2014 | 2015 | 2014 |
| Losses on disposal of property, plant and equipment | \$ (503) | \$ (242) | \$ (6,344) | \$ (1,561) |
| Gains (losses) on disposal of investments | | | | |
| Available-for-sale financial assets | 613,134 | 643 | 832,178 | (16,064) |
| Held-to-maturity financial assets | - | - | - | 6,470 |
| Financial assets measured at cost | 8,267 | (15,427) | 14,607 | 687,908 |
| Bond investments for which no active market exists | - | 2,308 | - | 2,308 |
| Investments accounted for using the equity method | 183,382 | 205,449 | 377,465 | 214,317 |
| Foreign exchange gains (losses) | 51,719 | 297,774 | (527,014) | (49,027) |
| Impairment losses | | | | |
| Available-for-sale financial assets | - | - | (489,693) | (41,640) |
| Financial assets measured at cost | - | - | (361,785) | (221,380) |
| (Losses) gains on financial assets at fair value through profit or loss | (93,892) | 21,469 | 35,319 | (10,072) |
| (Losses) gains on financial liabilities at fair value through profit or loss | (8,294) | 7,538 | (13,439) | (63,600) |
| Others | (27,413) | (594,491) | (91,421) | (624,738) |
| Total | <u>\$ 726,400</u> | <u>\$ (74,979)</u> | <u>\$ (230,127)</u> | <u>\$ (117,079)</u> |

(22) Finance costs

| | Three months ended | | Nine months ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | September 30 | | September 30 | |
| | 2015 | 2014 | 2015 | 2014 |
| Interest expenses on short-term borrowings | <u>\$ 162,414</u> | <u>\$ 147,285</u> | <u>\$ 417,076</u> | <u>\$ 342,811</u> |

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

The major components of income tax expense are as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|--|------------------------------------|---------------------|-----------------------------------|---------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Current income tax | \$ 754,070 | \$ 2,035,022 | \$ 1,936,113 | \$ 5,976,456 |
| Deferred tax expenses (incomes) | 310,767 | (399,373) | 994,708 | (1,442,335) |
| Others | 49,571 | (23,321) | 104,518 | 44,435 |
| Income tax expense recognized in profit or loss | <u>\$ 1,114,408</u> | <u>\$ 1,612,328</u> | <u>\$ 3,035,339</u> | <u>\$ 4,578,556</u> |

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

| | Nine months ended September 30 | |
|---|--------------------------------|----------------------|
| | 2015 | 2014 |
| Accounting profit before tax from continuing operations | <u>\$ 24,623,511</u> | <u>\$ 40,567,742</u> |
| Tax at the domestic rates applicable to profits in the country concerned | \$ 6,104,957 | \$ 8,536,729 |
| Tax effect of revenues exempt from taxation | (1,507,161) | (2,366,807) |
| Tax effect of expenses not deductible for tax purposes | (1,380,932) | (1,592,883) |
| Investment tax credits | (380,281) | (537,490) |
| Tax effect of deferred tax assets/liabilities | (688,202) | (14,652) |
| 10% surtax on undistributed retained earnings | 807,915 | 537,490 |
| Others | 79,043 | 16,169 |
| Total income tax expense recognized in profit or loss | <u>\$ 3,035,339</u> | <u>\$ 4,578,556</u> |

Integrated income tax information

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|---|-----------------------|----------------------|-----------------------|
| Balance of the imputation credit account | <u>\$ 8,119,096</u> | <u>\$ 7,667,187</u> | <u>\$ 2,693,456</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.

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

As of September 30, 2015, the assessment of the income tax returns of MTK and its material subsidiaries are as follows:

| | The assessment of income tax returns | Notes |
|-------------------------------------|---|------------|
| MTK | Assessed and approved up to 2012 | (Note 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.

(24)Earnings per share

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

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---------------------------------|---------------|--------------------------------|---------------|
| | 2015 | 2014 | 2015 | 2014 |
| A. Basic earnings per share | | | | |
| Profit attributable to ordinary equity owners of the parent (in thousand NT\$) | \$ 7,954,447 | \$ 13,299,240 | \$ 21,530,291 | \$ 36,005,012 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (share) | 1,563,789,012 | 1,563,400,622 | 1,563,772,870 | 1,538,127,789 |
| Basic earnings per share (NT\$) | \$ 5.09 | \$ 8.51 | \$ 13.77 | \$ 23.41 |

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---------------------------------|---------------|--------------------------------|---------------|
| | 2015 | 2014 | 2015 | 2014 |
| B. Diluted earnings per share | | | | |
| Profit attributable to ordinary equity owners of the parent (in thousand NT\$) | \$ 7,954,447 | \$ 13,299,240 | \$ 21,530,291 | \$ 36,005,012 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (share) | 1,563,789,012 | 1,563,400,622 | 1,563,772,870 | 1,538,127,789 |
| Effect of dilution: | | | | |
| Employee bonuses-stock (share) | 1,105,251 | 6,903,254 | 2,007,375 | 6,903,254 |
| Employee stock options (share) | 94,097 | 1,815,031 | 655,578 | 1,765,641 |
| Weighted average number of ordinary shares outstanding after dilution (share) | 1,564,988,360 | 1,572,118,907 | 1,566,435,823 | 1,546,796,684 |
| Diluted earnings per share (NT\$) | \$ 5.08 | \$ 8.46 | \$ 13.74 | \$ 23.28 |

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.

(25)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/> |
| Fair value of 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 flow-in 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 September 30, 2014, MStar has contributed NT\$25,695,242 thousand of net sales and NT\$3,677,209 thousand of net income to the Company.

If the combination had taken place on January 1, 2014, revenues and net income of the Company for the nine months ended September 30, 2014 would have been NT\$160,553,775 thousand and NT\$36,224,053 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 Acquisition for Alpha Imaging Technology Corp. (“Alpha Tech.”)

Subsidiary MStar Taiwan established MSilicon in April 2015. On April 9, 2015, the board of directors of MStar Taiwan approved a tender offer by MSilicon for shares of Alpha Tech. The terms of the offer was for NT\$37 in cash for each common share of Alpha Tech outstanding stock. MSilicon completed the tender offer and paid NT\$1,686,681 thousand in cash to acquire 82% of the shares of Alpha Tech. on May 8, 2015. On August 26, 2015, the board of directors of MSilicon approved a merger with Alpha Tech. with the effective merger date set for October 2, 2015. MSilicon, the surviving company, was renamed Alpha Imaging Technology Corp. after the merger. Thereafter, the board of directors of MStar Taiwan approved a merger with Alpha Tech. (originally MSilicon). The effective merger date is now set for December 31, 2015. Alpha Tech. will be dissolved thereafter and MStar Taiwan will be the surviving company.

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 fair value.

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

| | Fair value recognized on the acquisition date |
|---|--|
| Cash and cash equivalents | \$ 349,630 |
| Current assets | 348,948 |
| Funds and investments | 32,701 |
| Property, plant and equipment | 57,816 |
| Intangible assets- computer software, patent and customer relationship | 370,821 |
| Other non-current assets | 37,858 |
| | <u>1,197,774</u> |
| Current liabilities | (99,704) |
| Other liabilities | (2,670) |
| | <u>(102,374)</u> |
| Fair value of identifiable net assets | <u>\$ 1,095,400</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 | | 266,458 |
| Less: identifiable net assets at fair value | | (1,095,400) |
| Goodwill | \$ | 940,153 |

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 flow-out on acquisition | \$ | (1,105,005) |

The identifiable net assets recognized in the consolidated financial statements as of September 30, 2015 were based on a provisional assessment of fair value. Adjustments may be required subject to finalization of the assessment report.

The goodwill of NT\$940,153 thousand comprises the value of expected synergies arising from acquisition.

From the acquisition date to September 30, 2015, Alpha Tech. has contributed NT\$389,009 thousand of net sales and NT\$39,781 thousand of net loss to the Company.

If the combination had taken place on January 1, 2015, revenues and net income of the Company for the nine months ended September 30, 2015 would have been NT\$151,785,351 thousand and NT\$21,561,610 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 Chingis Technology Corp.

In August 2015, the board of directors of MediaTek Capital Corp. (“MediaTek Capital”), approved to acquire shares of Chingis Technology Corp. (“Chingis Tech.”). MediaTek Capital paid NT\$887,932 thousand in cash to acquire 100% shares of Chingis Tech.

Chingis Tech. is a company specialized in Specialty Memory IC products design and development. Their products are mainly applied to digital consumer, computer peripheral, wireless communication, networking, and industrial control. The purpose of this acquisition is to meet the Company’s long-term development strategies. The merge would enhance the Company’s competitive advantage by strengthening research and development capabilities. In the long term, the Company expects there would be positive effect on consolidated net worth per share and earnings per share.

The fair values of the identifiable assets and liabilities of Chingis Tech. on the acquisition date were:

| | Fair value recognized on the acquisition date |
|---|--|
| Cash and cash equivalents | \$ 97,290 |
| Current assets | 415,172 |
| Property, plant and equipment | 38,735 |
| Intangible assets- core techniques | 517,000 |
| Other non-current assets | 14,560 |
| | <u>1,082,757</u> |
| Current liabilities | (140,131) |
| Other liabilities | (106,985) |
| | <u>(247,116)</u> |
| Fair value of identifiable net assets | <u>\$ 835,641</u> |
| Goodwill of Chingis Tech. is as follows: | Amount |
| Cash consideration | \$ 887,932 |
| Less: identifiable net assets at fair value | (835,641) |
| Goodwill | <u>\$ 52,291</u> |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| Cash flows on acquisition: | Amount |
|---|--------------|
| Net cash acquired from the subsidiary | \$ 97,290 |
| Transaction costs attributable to cash paid | (887,932) |
| Net cash flow-out on acquisition | \$ (790,642) |

The identifiable net assets recognized in the consolidated financial statements as of September 30, 2015 were based on a provisional assessment of fair value. Adjustments may be required subject to finalization of the assessment report.

The goodwill of NT\$52,291 thousand comprises the value of expected synergies arising from acquisition.

From the acquisition date to September 30, 2015, Chingis Tech. has contributed NT\$41,421 thousand of net sales and NT\$1,645 thousand of net profits to the Company.

If the combination had taken place on January 1, 2015, revenues and net income of the Company for the nine months ended September 30, 2015 would have been NT\$152,047,375 thousand and NT\$21,558,793 thousand, respectively.

(26) Changes in ownership interests in subsidiaries

Changes in ownership of subsidiaries

E-Vehicle Semiconductor Technology Co., Ltd., Hesine Technologies International Worldwide Inc. and AutoChips Inc. issued new shares in the nine-month period ended September 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\$89,270 thousand and 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 nine months ended September 30, 2014 and for the year ended December 31, 2014 was NT\$77,942 thousand and NT\$203,151 thousand and were recorded in equity.

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 6. (25) 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 September 30 | | Nine months ended September 30 | |
|------------|------------------------------------|------|-----------------------------------|------|
| | 2015 | 2014 | 2015 | 2014 |
| Associates | \$ - | \$ - | \$ 2,740 | \$ - |

For the three months and nine months ended September 30, 2015 and 2014, respectively, the trade credit term for associates were both 45 to 60 days. Third-party customers may pay their accounts in advance.

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|-----------------------|------------------------------------|------------|-----------------------------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| Other related parties | \$ 742,457 | \$ 681,873 | \$ 1,984,180 | \$ 4,222,999 |

For the three months and nine months ended September 30, 2015 and 2014, respectively, the trade credit term for related parties and third-party customers were both 60 to 75 days.

C. Consign research and development expenses and license expenses

| | Three months ended September 30 | | Nine months ended September 30 | |
|-----------------------|------------------------------------|----------|-----------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Associates | \$ 6,570 | \$ - | \$ 6,570 | \$ 200,000 |
| Other related parties | 2,739 | 7,474 | 23,885 | 37,607 |
| Total | \$ 9,309 | \$ 7,474 | \$ 30,455 | \$ 237,607 |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

D. Purchases

| | Three months ended September 30 | | Nine months ended September 30 | |
|------------|------------------------------------|----------|-----------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Associates | \$ 8,943 | \$ 4,593 | \$ 10,777 | \$ 7,545 |

For the three months and nine months ended September 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 September 30 | | Nine months ended September 30 | |
|-----------------------|------------------------------------|----------|-----------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Associates | \$ 215 | \$ 171 | \$ 643 | \$ 514 |
| Other related parties | 3,113 | 851 | 7,784 | 5,487 |
| Total | \$ 3,328 | \$ 1,022 | \$ 8,427 | \$ 6,001 |

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

F. Acquisition of intangible assets

| | Three months ended September 30 | | Nine months ended September 30 | |
|-----------------------|------------------------------------|------|-----------------------------------|------|
| | 2015 | 2014 | 2015 | 2014 |
| Other related parties | \$ - | \$ - | \$ 9,944 | \$ - |

G. Other receivables from related parties

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|-----------------------|-----------------------|----------------------|-----------------------|
| Associates | \$ 75 | \$ 150 | \$ 60 |
| Other related parties | 766 | - | 15 |
| Total | \$ 841 | \$ 150 | \$ 75 |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

H. Trade payables to related parties

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|-----------------------|-----------------------|----------------------|-----------------------|
| Associates | \$ 2,920 | \$ - | \$ 1,943 |
| Other related parties | 776,677 | 677,196 | 699,965 |
| Total | <u>\$ 779,597</u> | <u>\$ 677,196</u> | <u>\$ 701,908</u> |

I. Other prepayments to related parties

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|-----------------------|-----------------------|----------------------|-----------------------|
| Other related parties | <u>\$ 2,816</u> | <u>\$ -</u> | <u>\$ -</u> |

J. Key management personnel compensation

| | Three months ended September 30 | | Nine months ended September 30 | |
|--|------------------------------------|-------------------|-----------------------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Short-term employee benefits (Note) | \$ 188,456 | \$ 436,818 | \$ 749,702 | \$ 687,028 |
| Post-employment benefits | 1,096 | 860 | 2,349 | 2,643 |
| Termination benefits | 9,544 | - | 9,544 | - |
| Total | <u>\$ 199,096</u> | <u>\$ 437,678</u> | <u>\$ 761,595</u> | <u>\$ 689,671</u> |

Note: The compensation to key management personnel was determined by the Compensation Committee of MTK in accordance with 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 |
|--|-----------------------|----------------------|-----------------------|-------------------------------------|
| | September 30, 2015 | December 31, 2014 | September 30, 2014 | |
| Debt instrument investments for which no active market exists-current | \$ 20,919 | \$ 7,067 | \$ 7,067 | 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 | 1,489 | 1,546 | 1,549 | 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 | 2,603 | - | - | Import guarantee |
| Debt instrument investments for which no active market exists-current | - | - | 91,308 | Short-term loan guarantees |
| Debt instrument investments for which no active market exists-current | 3,139 | - | - | Customs clearance deposits |
| Debt instrument investments for which no active market exists-noncurrent | 571 | 820 | 801 | Customs clearance deposits |
| Debt instrument investments for which no active market exists-noncurrent | 126 | 126 | 123 | 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>\$ 291,694</u> | <u>\$ 12,701</u> | <u>\$ 103,990</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 lease contracts with an average life of three to fifty years.

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

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|--|-----------------------|----------------------|-----------------------|
| Not later than one year | \$ 453,595 | \$ 377,191 | \$ 393,199 |
| Later than one year but not later than five years | 1,153,727 | 572,653 | 593,127 |
| Later than five years | 506,878 | 124,576 | 108,273 |
| Total | <u>\$ 2,114,200</u> | <u>\$ 1,074,420</u> | <u>\$ 1,094,599</u> |

Operating lease expenses are as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|------------------------|------------------------------------|-------------------|-----------------------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Minimum lease payments | <u>\$ 205,632</u> | <u>\$ 148,125</u> | <u>\$ 593,404</u> | <u>\$ 405,664</u> |

(2) Commitment

A. 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)

- B. Subsidiary MediaTek (Heifei) Inc. engaged Jiangsu Wannian Construction Group Co., Ltd., United Integrated Services Co., Ltd., and Shanghai Zhen Nan Engineering Supervision Co., Ltd. to build a new office building on rented land. The total amount of the contract was CNY\$360,000 thousand. As of September 30, 2015, MediaTek (Heifei) Inc. had paid CNY\$ 85,911 thousand.

(3) Legal claim contingency

- A. Azure Networks, LLC (“Azure”) and Tri-County Excelsior Foundation (“TCEF”) filed a complaint in the United States District Court for the Eastern District of Texas against Ralink and Ralink Technology Corporation (USA), along with other defendants in March 2011, alleging infringement of United States Patent No. 7,756,129. On April 6, 2012, Azure and TCEF filed a complaint in the United States District Court for the Eastern District of Texas against MTK alleging infringement of the same patent referenced above. On May 30, 2013, the Court entered a judgment in favor of Ralink and other defendants, dismissing the earlier case subject to the plaintiffs’ right to appeal. An appeal has been filed by plaintiffs on June 20, 2013. On November 6, 2014, the United States Court of Appeals for the Federal Circuit vacated the lower court’s judgment and remanded the case to the district court. The court dismissed the claims against Ralink pursuant to Azure and Ralink’s joint motion on February 10, 2015. On June 10, 2013, the Court entered a judgment dismissing the latter case pursuant to the parties’ joint stipulation.

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 case has been settled and dismissed with prejudice on August 21, 2015.

- 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- 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.

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 terminated 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- E. Vantage Point Technology, Inc. (“Vantage Point”) filed a complaint in the United States District Court for the Eastern District of Texas against MediaTek USA Inc. on November 21, 2013, alleging infringement of United States Patent Nos. 5,463,750 and 6,374,329. The court dismissed the claims with prejudice against MediaTek USA pursuant to Vantage Point and MediaTek USA’s joint motion on April 20, 2015.
- F. Bandspeed Inc. filed a complaint in the United States District Court for the Western District of Texas against MTK, subsidiary MediaTek USA Inc. and other defendants on May 9, 2014, alleging infringement of United States Patent Nos. 7,027,418, 7,570,614, 7,477,624, 7,903,608 and 8,542,643. On October 17, 2014, the court granted the parties joint stipulation to dismiss the claims against MTK, all other claims against other parties including those against subsidiary MediaTek USA Inc. remain pending. On February 13, 2015, the court granted Bandspeed’s motion for leave to file a First Amended Complaint to add United States Patent No. 8,873,500 to the case. The court dismissed the claims with prejudice against MediaTek USA pursuant to the parties’ joint motion on August 18, 2015.
- 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.

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

- (1) Subsidiary Hsu-Ta Investment Corp. (“Hsu-Ta”) established Hsu-Si Investment Corp. (“Hsu-Si”) in September 2015. On September 7, 2015, the board of directors of Hsu-Si approved a tender offer to acquire shares of Richtek Technology Corp. (“Richtek”). The tender offer period was set from September 8, 2015 to October 7, 2015. The terms of the offer was for NT\$195 in cash for each common share of Richtek outstanding stock. As of October 5, 2015, the aggregate number of shares validly tendered and not withdrawn had exceeded 51,981,057 shares, the minimum threshold amount of shares required to fulfill the terms of the tender offer (approximately 35% of Richtek’s outstanding shares). The condition of the tender offer was satisfied on that date. During the tender offer period, the number of shares validly tendered and not withdrawn was 113,794,258 shares (approximately 77% of Richtek’s outstanding shares) and the actual number of shares acquired was 75,743,826 shares (approximately 51% of Richtek’s outstanding shares). The total consideration was NT\$14,770,046 thousand.

Richtek is an international analog IC design company and its products are mainly applied to notebook, consumer end products, network communication devices, panel displays, etc. The Company is a global leader in IC design, with focus on wireless communications, digital media, etc., and a market leader in cutting-edge systems on a chip for wireless communications, HDTV, DVD and Blu-ray. Products of the Company and Richtek are applied in similar end applications and are highly complementary to each other. Once Richtek becomes part of MediaTek Group, the deal would provide customers with greater convenience in sourcing, and create scale for the Group in enhancing overall competitiveness and performance.

- (2) On October 26, 2015, the board of directors of Mrise Technology Inc. (“Mrise Tech.”) exercised the functional duties and powers of its shareholders to approve the merger with Ili Technology Corp. (“Ili Tech.”) by offering NT\$51 in cash for each outstanding share of Ili Tech. After the merger, Ili Tech. will be dissolved and Mrise Tech. will be renamed Ili Technology Corp. Thereafter, the effective date of the merger will be decided by both companies’ board of directors after obtaining all relevant regulators’ approvals.

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

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|--|-----------------------|----------------------|-----------------------|
| Financial assets at fair value through profit or loss: | | | |
| Held for trading financial assets | \$ 8,339 | \$ 10,990 | \$ 20,100 |
| Financial assets designated upon initial recognition at fair value through profit or loss | 8,209,205 | 7,577,020 | 4,565,254 |
| Subtotal | 8,217,544 | 7,588,010 | 4,585,354 |
| Available-for-sale financial assets | 14,689,851 | 12,469,333 | 11,035,320 |
| Financial assets measured at cost | 4,590,569 | 3,782,384 | 3,422,408 |
| Held-to-maturity financial assets | 1,903,371 | 416,165 | 556,417 |
| Loans and receivables: | | | |
| Cash and cash equivalents (excluding cash on hand and petty cash) | 159,108,439 | 192,794,981 | 185,068,580 |
| Debt instrument investments for which no active market exists | 911,824 | 1,087,092 | 327,073 |
| Trade receivables | 16,117,231 | 12,552,399 | 15,418,455 |
| Other receivables | 3,152,314 | 5,296,078 | 5,359,364 |
| Subtotal | 179,289,808 | 211,730,550 | 206,173,472 |
| Total | \$ 208,691,143 | \$ 235,986,442 | \$ 225,772,971 |

Financial liabilities

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|---|-----------------------|----------------------|-----------------------|
| Financial liabilities at fair value through profit or loss: | | | |
| Held for trading financial liabilities | \$ 13,439 | \$ 50,393 | \$ 63,600 |
| Financial liabilities at amortized cost: | | | |
| Short-term borrowings | 57,032,937 | 46,160,593 | 43,453,914 |
| Trade payables (including related parties) | 18,666,937 | 14,605,160 | 21,306,862 |
| Other payables | 27,960,999 | 32,766,959 | 29,798,732 |
| Long-term payables (including current portion) | 66,255 | 91,982 | 95,874 |
| Subtotal | 103,727,128 | 93,624,694 | 94,655,382 |
| Total | \$ 103,740,567 | \$ 93,675,087 | \$ 94,718,982 |

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 | | |
|-----------------------------------|-----------------------|----------------------|-----------------------|
| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
| Financial assets | | | |
| Held-to-maturity financial assets | | | |
| Bonds | \$ 1,903,371 | \$ 416,165 | \$ 556,417 |

MEDIATEK INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| | Fair value as of | | |
|-----------------------------------|-----------------------|----------------------|-----------------------|
| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
| Financial assets | | | |
| Held-to-maturity financial assets | | | |
| Bonds | \$ 1,893,205 | \$ 410,093 | \$ 554,640 |

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 September 30, 2015

| | Level 1 | Level 2 | Level 3 | Total |
|---|----------------------|---------------------|---------------------|----------------------|
| <u>Financial assets:</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Stocks | \$ 4,508 | \$ - | \$ - | \$ 4,508 |
| Bonds | - | - | 763,072 | 763,072 |
| Derivative financial instruments | - | 3,831 | - | 3,831 |
| Linked deposits | - | 3,199,167 | 4,246,966 | 7,446,133 |
| Available-for-sale financial assets | | | | |
| Depository receipts | 30,727 | - | - | 30,727 |
| Stocks | 2,828,256 | - | - | 2,828,256 |
| Bonds | 4,229,910 | 1,122,359 | 232,468 | 5,584,737 |
| Funds | 5,410,779 | - | 835,352 | 6,246,131 |
| Total | <u>\$ 12,504,180</u> | <u>\$ 4,325,357</u> | <u>\$ 6,077,858</u> | <u>\$ 22,907,395</u> |

Financial liabilities:

Financial liabilities at fair value

through profit or loss

| | | | | |
|----------------------------------|------|-----------|------|-----------|
| Derivative financial instruments | \$ - | \$ 13,439 | \$ - | \$ 13,439 |
|----------------------------------|------|-----------|------|-----------|

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> |

Financial liabilities:

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 September 30, 2014

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

Financial liabilities:

Financial liabilities at fair value through profit or loss

| | | | | |
|----------------------------------|------|-----------|------|-----------|
| Derivative financial instruments | \$ - | \$ 63,600 | \$ - | \$ 63,600 |
|----------------------------------|------|-----------|------|-----------|

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

The detail movement of recurring fair value measurements in Level 3:

Reconciliation for recurring fair value measurements in Level 3 of the fair value hierarchy during the period 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 | (3,719) | (21,800) | - | 2,161 | (23,358) |
| Amount recognized in OCI | - | - | 12,568 | (5,919) | 6,649 |
| Acquisitions | 769,848 | 3,251,610 | 3,032 | 886,002 | 4,910,492 |
| Settlements | (66,256) | (674,972) | - | (517,242) | (1,258,470) |
| As of September 30, 2015 | <u>\$ 763,072</u> | <u>\$ 4,246,966</u> | <u>\$ 232,468</u> | <u>\$ 835,352</u> | <u>\$ 6,077,858</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 | | Available-for-sale | | |
| | through profit or loss | | financial assets | | |
| | Linked | | | | |
| | Bonds | deposits | Bonds | Funds | Total |
| As of January 1, 2014 | \$ 59,583 | \$ 1,084,037 | \$ 198,395 | \$ - | \$ 1,342,015 |
| Amount recognized in | | | | | |
| profit or loss | 72 | (5,875) | - | - | (5,803) |
| Amount recognized in OCI | - | - | 14,686 | - | 14,686 |
| Acquisitions | - | 1,177,176 | - | 198,296 | 1,375,472 |
| Settlements | - | (593,212) | - | - | (593,212) |
| As of September 30, 2014 | \$ 59,655 | \$ 1,662,126 | \$ 213,081 | \$ 198,296 | \$ 2,133,158 |

Total profits or losses recognized for the nine months ended September 30, 2015 and 2014 contained losses related to bonds, funds and linked deposits on hand as of September 30, 2015 and 2014 in the amount of NT\$26,491 thousand and NT\$9,862 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 September 30, 2015, December 31, 2014 and September 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 September 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 | \$ 1,893,205 | \$ - | \$ - | \$ 1,893,205 |

As of 31 December 2014

Not Applicable

As of 30 September 2014

Not Applicable

D. Derivative financial instruments

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

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

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 September 30, 2015 | TWD to USD | Sell USD110,000 | October 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 September 30, 2014 | TWD to USD | Purchase USD80,000 | December 2014 |
| As of September 30, 2014 | TWD to USD | Sell USD130,000 | October 2014 |
| As of September 30, 2014 | CNY to USD | Sell USD3,500 | December 2014 |

| Cross currency swap contracts | Contracts amount | Maturity | Interest rate paid interval | Interest rate received interval |
|----------------------------------|---------------------|--------------|--------------------------------|------------------------------------|
| As of September 30, 2014 | CNY34,000,000 | October 2014 | 3.47% | -% |

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

(2) Financial risk management objectives

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

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

A. Market risk

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

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

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 nine months ended September 30, 2015 and 2014 decreases/increases by NT\$7,880 thousand and increases/decreases by NT\$1,917 thousand, while equity decreases/increases by NT\$51,112 thousand and NT\$136,546 thousand, respectively.

When NTD appreciates or depreciates against CNY by 0.1 %, the profit for the nine months ended September 30, 2015 and 2014 decreases/increases by NT\$3,098 thousand and NT\$249 thousand, while equity decreases/increases by NT\$2,524 thousand and NT\$1,066 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 with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause the profit for the nine months ended September 30, 2015 and 2014 to increase/decrease by NT\$6,855 thousand and NT\$1,320 thousand, respectively.

c. Other price risk

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

A change of 1% in the price of the listed equity securities classified under available-for-sale could cause the other comprehensive income for the nine months ended September 30, 2015 and 2014 to increase/decrease by NT\$82,698 thousand and NT\$90,778 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 counter-party will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for trade receivables) and from its financing activities, including bank deposits and other financial instruments.

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

As of September 30, 2015, December 31, 2014, and September 30, 2014, receivables from top ten customers represented 68.60%, 59.92% and 59.02% 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 September 30, 2015</u> | | | |
| Borrowings | \$ 57,116,796 | \$ - | \$ 57,116,796 |
| Trade payables (including related parties) | 18,666,937 | - | 18,666,937 |
| Other payables | 27,935,574 | - | 27,935,574 |
| Long-term payables | 52,176 | 14,079 | 66,255 |
| Total | <u>\$ 103,771,483</u> | <u>\$ 14,079</u> | <u>\$ 103,785,562</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 September 30, 2014

| | | | |
|--|----------------------|------------------|----------------------|
| Borrowings | \$ 43,558,283 | \$ - | \$ 43,558,283 |
| Trade payables (including related parties) | 21,306,862 | - | 21,306,862 |
| Other payables | 29,741,388 | - | 29,741,388 |
| Long-term payables | 35,002 | 60,872 | 95,874 |
| Total | <u>\$ 94,641,535</u> | <u>\$ 60,872</u> | <u>\$ 94,702,407</u> |

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

| | <u>Less than 1 year</u> | <u>1 to 5 years</u> | <u>Total</u> |
|---------------------------------|-------------------------|---------------------|--------------|
| <u>As of September 30, 2015</u> | | | |
| Net settlement | | | |
| Forward exchange contracts | \$ (23,010) | \$ - | \$ (23,010) |
| | | | |
| | <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 | (3,476) | - | (3,476) |
| Net settlement | | | |
| Forward exchange contracts | (48,000) | - | (48,000) |
| Total | \$ (51,476) | \$ - | \$ (51,476) |
| | | | |
| | <u>Less than 1 year</u> | <u>1 to 5 years</u> | <u>Total</u> |
| <u>As of September 30, 2014</u> | | | |
| Gross settlement | | | |
| Forward exchange contracts | | | |
| Inflow | \$ 2,501,285 | \$ - | \$ 2,501,285 |
| Outflow | (2,541,406) | - | (2,541,406) |
| Net | (40,121) | - | (40,121) |
| Net settlement | | | |
| Forward exchange contracts | (22,530) | - | (22,530) |
| Total | \$ (62,651) | \$ - | \$ (62,651) |

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)

| September 30, 2015 | | | |
|------------------------------|------------------|---------------|-----------------|
| | Foreign Currency | | |
| | (thousand) | Exchange rate | NT\$ (thousand) |
| Financial assets | | | |
| Monetary item: | | | |
| USD | \$ 3,937,360 | 33.128 | \$ 130,436,873 |
| CNY | \$ 610,046 | 5.211 | \$ 3,179,062 |
| Non-monetary item: | | | |
| USD | \$ 541,247 | 33.128 | \$ 17,930,442 |
| CNY | \$ 469,560 | 5.211 | \$ 2,446,964 |
| Financial liabilities | | | |
| Monetary item: | | | |
| USD | \$ 2,587,875 | 33.128 | \$ 85,731,137 |
| CNY | \$ 801 | 5.211 | \$ 4,174 |
| | | | |
| 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 | \$ - | 5.113 | \$ - |

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

| | September 30, 2014 | | |
|------------------------------|--------------------|---------------|-----------------|
| | Foreign Currency | | |
| | (thousand) | Exchange rate | NT\$ (thousand) |
| Financial assets | | | |
| Monetary item: | | | |
| USD | \$ 6,682,721 | 30.436 | \$ 203,395,282 |
| CNY | \$ 410,548 | 4.957 | \$ 2,035,253 |
| Non-monetary item: | | | |
| USD | \$ 419,846 | 30.436 | \$ 12,778,440 |
| CNY | \$ 215,105 | 4.957 | \$ 1,066,363 |
| Financial liabilities | | | |
| Monetary item: | | | |
| USD | \$ 2,629,212 | 30.436 | \$ 80,022,675 |
| CNY | \$ - | 4.957 | \$ - |

The Company's entities functional currency are various, and hence is not able to 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\$527,014 thousand and NT\$49,027 thousand for the nine months ended September 30, 2015 and 2014, respectively.

The foreign exchange gains were NT\$51,719 thousand and NT\$297,774 thousand for the three months ended September 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.