

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

MEDIATEK INC.

**PARENT COMPANY ONLY
FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT ACCOUNTANTS**

**FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014**

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
of MediaTek Inc.

We have audited the accompanying parent company only balance sheets of MediaTek Inc. as of December 31, 2015 and 2014 and the related parent company only statements of comprehensive income, parent company only changes in equity, and parent company only cash flows for the years ended December 31, 2015 and 2014. These parent company only financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these parent company only financial statements based on our audits.

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

In our opinion, the parent company only financial statements referred to above present fairly, in all material respects, the financial position of MediaTek Inc. as of December 31, 2015 and 2014 and the results of its operations and its cash flows for the years ended December 31, 2015 and 2014 in conformity with requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.



Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
March 17, 2016
Taipei, Taiwan
Republic of China

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2015 and 2014

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2015	%	December 31, 2014	%
Current assets					
Cash and cash equivalents	4, 6(1)	\$ 74,921,175	26	\$ 127,448,149	40
Financial assets at fair value through profit or loss-current	4, 5, 6(2)	164,854	-	297,143	-
Available-for-sale financial assets-current	4, 5, 6(3)	1,827,325	1	2,260,284	1
Held-to-maturity financial assets-current	4, 6(4)	1,128,925	-	-	-
Debt instrument investments for which no active market exists-current	4, 6(5), 8	24,894	-	308,133	-
Trade receivables, net	4, 5, 6(6)	4,459,513	1	3,775,223	1
Trade receivables from related parties	4, 6(6), 7	108,570	-	179,720	-
Other receivables	6(6), 7	1,676,068	1	5,104,465	2
Inventories, net	4, 5, 6(7)	7,679,002	3	7,904,602	3
Prepayments		1,151,231	-	1,295,742	-
Other current assets		1,271,251	-	693,541	-
Total current assets		<u>94,412,808</u>	<u>32</u>	<u>149,267,002</u>	<u>47</u>
Non-current assets					
Financial assets at fair value through profit or loss-noncurrent	4, 5, 6(2)	1,174,384	-	795,503	-
Available-for-sale financial assets-noncurrent	4, 5, 6(3)	4,285,729	2	2,432,403	1
Debt instrument investments for which no active market exists-noncurrent	4, 6(5), 8	9,705	-	-	-
Investments accounted for using the equity method	4, 6(8)	149,849,491	51	126,428,254	40
Property, plant and equipment	4, 6(9)	10,565,034	4	9,177,068	3
Intangible assets	4, 6(10), 6(11)	29,881,027	10	28,740,924	9
Deferred tax assets	4, 5, 6(22)	1,274,935	1	2,400,152	-
Refundable deposits		17,380	-	29,639	-
Total non-current assets		<u>197,057,685</u>	<u>68</u>	<u>170,003,943</u>	<u>53</u>
Total assets		<u>\$ 291,470,493</u>	<u>100</u>	<u>\$ 319,270,945</u>	<u>100</u>

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese

MEDIATEK INC.

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2015 and 2014

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	December 31, 2015	%	December 31, 2014	%
Current liabilities					
Short-term borrowings	6(12)	\$ 23,807,520	8	\$ 30,290,690	10
Financial liabilities at fair value through profit or loss-current	4, 5, 6(2)	31,948	-	2,595	-
Trade payables		5,760,468	2	6,751,833	2
Trade payables to related parties	7	342,812	-	419,512	-
Other payables	6(13), 7	17,424,589	6	26,714,011	8
Current tax liabilities	4, 5, 6(22)	605,742	-	5,507,246	2
Other current liabilities		1,016,089	1	704,447	-
Current portion of long-term liabilities		56,212	-	38,062	-
Total current liabilities		<u>49,045,380</u>	<u>17</u>	<u>70,428,396</u>	<u>22</u>
Non-current liabilities					
Long-term payables		-	-	53,920	-
Net defined benefit liabilities-non-current	4, 6(14)	612,336	-	949,930	1
Deposits received	7	52,572	-	50,374	-
Deferred tax liabilities	4, 5, 6(22)	1,332,479	1	620,177	-
Total non-current liabilities		<u>1,997,387</u>	<u>1</u>	<u>1,674,401</u>	<u>1</u>
Total liabilities		<u>51,042,767</u>	<u>18</u>	<u>72,102,797</u>	<u>23</u>
Equity					
Share capital	6(15)				
Common stock		15,715,837	5	15,714,455	5
Capital collected in advance		-	-	467	-
Capital surplus	4, 6(15), 6(16)	88,354,178	30	88,047,914	27
Retained earnings	6(15)				
Legal reserve		32,032,476	11	27,392,687	9
Special reserve		-	-	895,749	-
Undistributed earnings		96,476,287	33	108,566,733	34
Other equity	6(15)	7,904,918	3	6,606,113	2
Treasury shares	4, 6(15)	(55,970)	-	(55,970)	-
Total equity		<u>240,427,726</u>	<u>82</u>	<u>247,168,148</u>	<u>77</u>
Total liabilities and equity		<u>\$ 291,470,493</u>	<u>100</u>	<u>\$ 319,270,945</u>	<u>100</u>

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2015 and 2014

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

Description	Notes	2015	%	2014	%
Net sales	4, 5, 6(17), 7	\$ 99,245,700	100	\$ 136,265,018	100
Operating costs	4, 5, 6(7), 6(18), 7	(49,529,050)	(50)	(67,990,658)	(50)
Gross profit		49,716,650	50	68,274,360	50
Realized gross profit on sales		-	-	59,028	-
Gross profit, net		49,716,650	50	68,333,388	50
Operating expenses	6(18), 7				
Selling expenses		(5,538,497)	(6)	(4,761,200)	(3)
Administrative expenses		(3,186,860)	(3)	(3,003,315)	(2)
Research and development expenses		(29,543,967)	(30)	(26,701,696)	(20)
Total operating expenses		(38,269,324)	(39)	(34,466,211)	(25)
Operating income		11,447,326	11	33,867,177	25
Non-operating income and expenses					
Other income	4, 6(19), 7	1,304,871	1	1,201,272	1
Other gains and losses	4, 6(20)	(143,589)	-	909,759	1
Finance costs	6(21)	(293,986)	-	(170,523)	-
Share of profit of associates accounted for using the equity method	4	15,736,559	16	14,292,618	10
Total non-operating income and expenses		16,603,855	17	16,233,126	12
Net income before income tax		28,051,181	28	50,100,303	37
Income tax expense	4, 5, 6(22)	(2,092,752)	(2)	(3,702,411)	(3)
Net income		25,958,429	26	46,397,892	34
Other comprehensive income	4, 6(8), 6(14), 6(15), 6(22)				
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of the defined benefit plan		348,151	-	(331,755)	-
Share of other comprehensive income of subsidiaries and associates accounted for using the equity method which not to be reclassified to profit or loss		(19,103)	-	3,081	-
Income tax relating to those items not to be reclassified to profit or loss		(59,186)	-	56,399	-
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations		2,385,906	3	6,645,482	5
Unrealized gains (losses) from available-for-sale financial assets		104,283	-	(263,561)	-
Share of other comprehensive income of subsidiaries and associates accounted for using the equity method which may be reclassified to profit or loss		(1,191,384)	(1)	1,119,941	-
Income tax relating to those items to be reclassified to profit or loss		-	-	-	-
Other comprehensive income, net of tax		1,568,667	2	7,229,587	5
Total comprehensive income		\$ 27,527,096	28	\$ 53,627,479	39
Basic Earnings Per Share (in New Taiwan Dollars)	6(23)	\$ 16.60		\$ 30.04	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(23)	\$ 16.57		\$ 29.96	

The accompanying notes are an integral part of the parent company only financial statements.

MEDIATEK INC.

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2015 and 2014

(Amounts in thousands of New Taiwan Dollars)

Description	Share capital		Capital surplus	Retained earnings			Other equity		Treasury shares	Total equity
	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
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)
Total	-	-	-	2,751,505	(4,176,676)	(22,140,152)	-	-	-	(23,565,323)
Profit for the year ended December 31, 2014	-	-	-	-	-	46,397,892	-	-	-	46,397,892
Other comprehensive income for the year ended December 31, 2014	-	-	-	-	-	(272,275)	6,622,933	878,929	-	7,229,587
Total comprehensive income	-	-	-	-	-	46,125,617	6,622,933	878,929	-	53,627,479
Share-based payment transactions	8,549	(2,006)	63,935	-	-	-	-	-	-	70,478
Shares issued to acquire a new entity	2,211,239	-	18,957,141	-	-	-	-	-	-	21,168,380
Adjustments due to dividends that subsidiaries received from parent company	-	-	116,911	-	-	-	-	-	-	116,911
Changes in ownership interests in subsidiaries	-	-	203,151	-	-	-	-	-	-	203,151
Changes in other capital surplus	-	-	231,866	-	-	-	-	-	-	231,866
Balance as of December 31, 2014	15,714,455	467	88,047,914	27,392,687	895,749	108,566,733	4,218,292	2,387,821	(55,970)	247,168,148
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)
Total	-	-	-	4,639,789	(895,749)	(38,318,737)	-	-	-	(34,574,697)
Profit for the year ended December 31, 2015	-	-	-	-	-	25,958,429	-	-	-	25,958,429
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	-	269,862	2,285,303	(986,498)	-	1,568,667
Total comprehensive income	-	-	-	-	-	26,228,291	2,285,303	(986,498)	-	27,527,096
Share-based payment transactions	1,382	(467)	37,279	-	-	-	-	-	-	38,194
Adjustments due to dividends that subsidiaries received from parent company	-	-	171,469	-	-	-	-	-	-	171,469
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	-	-	(7,322)	-	-	-	-	-	-	(7,322)
Changes in ownership interests in subsidiaries	-	-	61,562	-	-	-	-	-	-	61,562
Changes in other capital surplus	-	-	43,276	-	-	-	-	-	-	43,276
Balance as of December 31, 2015	\$ 15,715,837	\$ -	\$ 88,354,178	\$ 32,032,476	\$ -	\$ 96,476,287	\$ 6,503,595	\$ 1,401,323	\$ (55,970)	\$ 240,427,726

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

(Amounts in thousands of New Taiwan Dollars)

Description	2015	2014
Cash flows from operating activities:		
Profit before tax from continuing operations	\$ 28,051,181	\$ 50,100,303
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	910,618	695,186
Amortization	1,422,332	348,171
Bad debt provision	159,276	23,440
Loss (gain) on financial assets and liabilities at fair value through profit or loss	30,337	(20,996)
Interest expenses	293,986	170,523
Interest income	(1,149,150)	(1,024,947)
Dividend income	(22,465)	(62,698)
Share of profit of associates accounted for using the equity method	(15,736,559)	(14,292,618)
Losses on disposal of property, plant and equipment	2,828	210
Gains on disposal of investments	(9,985)	(10,086)
Impairment of financial assets	295,528	-
Realized gross profit on sales	-	(59,028)
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	(247,576)	(777,265)
Trade receivables	(843,566)	1,480,522
Trade receivables from related parties	71,150	(17,415)
Other receivables	3,452,146	(702,890)
Inventories	225,600	(997,343)
Prepayments	144,511	(390,209)
Other current assets	(577,710)	(288,644)
Trade payables	(991,365)	(827,555)
Trade payables to related parties	(76,700)	(45,787)
Other payables	(10,491,881)	9,517,526
Other current liabilities	311,642	(363,010)
Long-term payables	(35,770)	(19,379)
Net defined benefit liabilities	10,557	12,143
Cash generated from operating activities:		
Interest received	1,125,401	936,802
Dividend received	8,643,402	30,384,445
Interest paid	(290,934)	(170,009)
Income tax paid	(5,215,923)	(2,410,073)
Net cash provided by operating activities	<u>9,460,911</u>	<u>71,189,319</u>
Cash flows from investing activities :		
Acquisition of available-for-sale financial assets	(1,917,013)	(546,034)
Proceeds from disposal of available-for-sale financial assets	316,448	-
Acquisition of debt instrument investments for which no active market exists	(24,390)	(489,037)
Proceeds from disposal of debt instrument investments for which no active market exists	297,924	294,279
Acquisition of held-to-maturity financial assets	(1,504,987)	-
Proceeds from redemption of held-to-maturity financial assets	375,000	-
Acquisition of investments accounted for using the equity method	(14,853,149)	(278,494)
Proceeds of cash due to merger transaction	-	8,171,812
Acquisition of property, plant and equipment	(2,311,429)	(2,191,476)
Proceeds from disposal of property, plant and equipment	288	-
Decrease in refundable deposits	12,259	39,315
Acquisition of intangible assets	(1,353,299)	(418,613)
Net cash (used in) provided by investing activities	<u>(20,962,348)</u>	<u>4,581,752</u>
Cash flows from financing activities :		
(Decrease) increase in short-term borrowings	(6,483,170)	21,305,690
Increase in deposits received	2,198	2,768
Proceeds from exercise of employee stock options	30,132	223,003
Cash dividends	(34,574,697)	(23,565,323)
Net cash used in financing activities	<u>(41,025,537)</u>	<u>(2,033,862)</u>
Net (decrease) increase in cash and cash equivalents	<u>(52,526,974)</u>	<u>73,737,209</u>
Cash and cash equivalents at the beginning of the year	127,448,149	53,710,940
Cash and cash equivalents at the end of the year	<u>\$ 74,921,175</u>	<u>\$ 127,448,149</u>

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

1. Organization and Operation

As officially approved, MediaTek Inc. ("the Company") 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 parent company only financial statements were authorized for issue in accordance with a resolution of the Board of Directors on March 17, 2016.

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"):

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 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.

NOTES TO FINANCIAL STATEMENTS

(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 revised IAS 19 required more disclosure, please refer to Note 6 for more details.

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 no 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 January 1, 2015; the disclosure requirements of IFRS 13 need not be applied in comparative information before January 1, 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.**NOTES TO FINANCIAL STATEMENTS****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- (2) Standards or interpretations issued by International Accounting Standards Board (“IASB”) but not yet endorsed by FSC at the date of authorization 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
(To be continued)		

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

(Continued)

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 9	“Financial Instruments”	January 1, 2018
IAS 27	“Separate Financial Statements” - Equity Method in Separate Financial Statements (Amendment)	January 1, 2016
IFRS 10 and IAS 28	“Consolidated Financial Statements” and “Investments in Associates and Joint Ventures” (Amendment) - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	Postponed indefinitely
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
IFRS 16	“Leases”	January 1, 2019
IAS 12	“Income Taxes”- Recognition of Deferred Tax Assets for Unrealised Losses	January 1, 2017
IAS 7	“Statement of Cash Flows” (Amendment)	January 1, 2017

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.

NOTES TO FINANCIAL STATEMENTS

(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 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;

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).

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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 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. Disclosure Initiative- Amendment to IAS 1 "Presentation of Financial Statements":

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material (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.

F. IFRS 16 "Leases"

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease.

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The abovementioned standards and interpretations issued by IASB have not yet been recognized by FSC at the date of issuance of the Company's financial statements, the local effective dates are to be determined by FSC. As the Company is still currently determining the potential impact of the standards and interpretations listed under A~F, it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations have no material impact on the Company.

4. Summary of Significant Accounting Policies

Statement of Compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

Basis of Preparation

According to article 21 of the Regulations, the profit or loss and other comprehensive income presented in the parent company only financial reports will be the same as the allocations of profit or loss and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports will be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis. Therefore, the investments in subsidiaries will be disclosed under "Investments accounted for using the equity method" in the parent company only financial report and change in value will be adjusted.

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

Foreign currency transactions

The Company's parent company only financial statements are presented in NT\$.

Transactions in foreign currencies are initially recorded by the Company's functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated 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.

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

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

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

Translation of financial statements in foreign currency

Each foreign operation of the Company determines its function currency upon its primary economic environment and items included in the financial statements of each operation are measured using that functional currency. The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of foreign operations that result in a loss of control, loss of significant influence or joint control but retain partial equity is considering as disposal.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is adjustment in “investments accounted for using the equity method”. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

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

Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

Cash and cash equivalents

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

Financial instruments

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

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

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A. Financial assets

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

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

a. Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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

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

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b. Available-for-sale financial assets

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

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

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

c. Held-to-maturity financial assets

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

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

d. Loans and receivables

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

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

e. Impairment of financial assets

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

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

Other loss events include:

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

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

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

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

f. Derecognition of financial assets

A financial asset is derecognized when:

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

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

B. Financial liabilities and equity

a. Classification between liabilities or equity

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

b. Equity instruments

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

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c. Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

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(b) Financial liabilities at amortized cost

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

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

(c) Derecognition of financial liabilities

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

C. Offsetting of financial instruments

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

Derivative financial instrument

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

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

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

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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.

Inventories

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

Investments accounted for using the equity method

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

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

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

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

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

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

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

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Property, plant and equipment

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

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

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

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

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

Leases

A. The Company as a lessee

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

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B. The Company as a lessor

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

Intangible assets

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

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

The Company's intangible assets mainly include patents, software, IPs and others which are acquired from third parties or business combinations. A summary of the amortization policies applied to the Company's intangible assets is as follows:

Patents	Software	IPs and others
2~7 years	2~5 years	2~7 years

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

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

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Impairment of non-financial assets

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

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

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

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

Treasury shares

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

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Revenue recognition

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

A. Sale of goods

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

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

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

B. Interest income

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

C. Dividends

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

Post-employment benefits

All regular employees of the Company 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 the Company. Therefore, fund assets are not included in the Company's parent company only financial statements.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

For the defined contribution plan, the Company 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.

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.

Share-based payment transactions

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

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

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.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

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

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

Income taxes

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

A. Current income tax

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

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

B. Deferred tax

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

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

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NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS

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

Business combinations and goodwill

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

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

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

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

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

Estimates and assumptions

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

A. Fair value of financial instruments

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

B. Valuation of inventory

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

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

C. Income tax

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

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

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

D. Revenue recognition - sales returns and discounts

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

6. Contents of Significant Accounts**(1) Cash and cash equivalents**

	December 31, 2015	December 31, 2014
Checking and savings accounts	\$ 10,046,897	\$ 16,685,470
Time deposits	64,874,278	110,762,679
Total	<u>\$ 74,921,175</u>	<u>\$ 127,448,149</u>

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

Cash and cash equivalents were not pledged.

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

	December 31, 2015	December 31, 2014
<u>Current</u>		
<u>Held for trading financial assets</u>		
Forward exchange contracts	\$ 232	\$ 1,871
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>		
Credit-linked deposits	164,622	295,272
Total	<u>\$ 164,854</u>	<u>\$ 297,143</u>

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

	December 31, 2015	December 31, 2014
<u>Held for trading financial liabilities</u>		
Forward exchange contracts	\$ 31,948	\$ 2,595
<u>Noncurrent</u>		
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>		
Credit-linked deposits	\$ 1,174,384	\$ 795,503

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

(3) Available-for-sale financial assets

	December 31, 2015	December 31, 2014
<u>Current</u>		
Funds	\$ 1,339,333	\$ 1,599,691
Stocks	453,050	632,583
Depository receipts	34,942	28,010
Subtotal	1,827,325	2,260,284
<u>Noncurrent</u>		
Funds	3,025,114	2,432,403
Bonds	1,260,615	-
Subtotal	4,285,729	2,432,403
Total	\$ 6,113,054	\$ 4,692,687

The Company assessed and concluded its available-for-sale financial assets were partially impaired, and recorded an impairment loss of NT\$295,528 thousand for the year ended December 31, 2015.

Available-for-sale financial assets were not pledged.

(4) Held-to-maturity financial assets

	December 31, 2015	December 31, 2014
<u>Current</u>		
Bonds	\$ 1,128,925	\$ -

Held-to-maturity financial assets were not pledged.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(5) Debt instrument investments for which no active market exists**

	December 31, 2015	December 31, 2014
<u>Current</u>		
Bonds	\$ -	\$ 297,924
Time deposits	24,894	10,209
Subtotal	24,894	308,133
<u>Noncurrent</u>		
Time deposits	9,705	-
Total	\$ 34,599	\$ 308,133

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

(6) Trade receivables and trade receivables from related parties

	December 31, 2015	December 31, 2014
Trade receivables	\$ 7,249,706	\$ 9,065,554
Less: allowance for doubtful debts	(246,652)	(87,376)
Less: allowance for sales returns and discounts	(2,543,541)	(5,202,955)
Subtotal	4,459,513	3,775,223
Trade receivables from related parties	108,570	179,720
Less: allowance for doubtful debts	-	-
Subtotal	108,570	179,720
Total	\$ 4,568,083	\$ 3,954,943

Trade receivables were not pledged.

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

	Individually impaired	Collectively impaired	Total
As of January 1, 2015	\$ -	\$ 87,376	\$ 87,376
Charge for the current period	-	159,276	159,276
As of December 31, 2015	\$ -	\$ 246,652	\$ 246,652

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

	Individually impaired	Collectively impaired	Total
As of January 1, 2014	\$ -	\$ 52,002	\$ 52,002
Charge for the current period	-	23,440	23,440
Effect of acquisition of subsidiaries	-	11,934	11,934
As of December 31, 2014	\$ -	\$ 87,376	\$ 87,376

Aging analysis of trade receivables and trade receivable from related parties were as follows:

As of	Neither past due nor impaired	Past due but not impaired		Total
		1 to 90 days	More than 91 days	
December 31, 2015	\$ 3,618,042	\$ 950,041	\$ -	\$ 4,568,083
December 31, 2014	\$ 3,331,654	\$ 623,289	\$ -	\$ 3,954,943

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\$279,501 thousand, and NT\$1,372,808 thousand as of December 31, 2015 and 2014, respectively.

Trade receivables derecognized were as follows:

A. As of December 31, 2015:

The Factor (Transferee)	Interest rate	Trade receivables	Cash	Unutilized (US\$'000)	Credit line (US\$'000)
		derecognized (US\$'000)	withdrawn (US\$'000)		
Taishin International Bank	-	\$ 8,357	\$ -	\$ 8,357	\$124,000
ING Bank	-	-	-	-	100,000
BNP Paribas	-	-	-	-	75,000
HSBC	-	-	-	-	1,000
TC Bank	-	96	-	96	750
Total		\$ 8,453	\$ -	\$ 8,453	\$300,750

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****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	-	\$ 28,590	\$ -	\$ 28,590	\$ 104,510
BNP Paribas	-	14,168	-	14,168	100,000
HSBC	-	340	-	340	800
TC Bank	-	183	-	183	1,500
Total		<u>\$ 43,281</u>	<u>\$ -</u>	<u>\$ 43,281</u>	<u>\$ 206,810</u>

(7) Inventories

	December 31, 2015	December 31, 2014
Raw materials	\$ 533	\$ 499
Work in progress	3,868,102	4,110,592
Finished goods	3,810,367	3,793,511
Net amount	<u>\$ 7,679,002</u>	<u>\$ 7,904,602</u>

For the years ended December 31, 2015 and 2014, the cost of inventories recognized in expenses amounted to NT\$49,529,050 thousand and NT\$67,990,658 thousand, including the reversal gain of the write-down of inventories of NT\$1,695,510 thousand for the year ended December 31, 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\$3,309,365 thousand for the year ended December 31, 2014.

No inventories were pledged.

(8) Investments accounted for using the equity method

Investees	December 31, 2015		December 31, 2014	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Subsidiaries:				
MediaTek Investment Singapore Pte. Ltd.	\$ 65,987,838	100	\$ 62,748,583	100
MStar Semiconductor, Inc.	44,427,162	100	45,920,451	100
Hsu-Ta Investment Corp.	23,494,799	100	7,577,187	100
Hsu-Chuang Investment Corp.	246,489	100	-	-
MediaTek Singapore Pte. Ltd.	15,649,181	100	10,139,643	100
T-Rich Technology (Cayman) Corp.	44,022	100	42,390	100
Total	<u>\$ 149,849,491</u>		<u>\$ 126,428,254</u>	

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NOTES TO FINANCIAL STATEMENTS

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In 2012, the Company totally acquired 254,115,685 shares (48% of MStar's outstanding shares) of MStar Semiconductor, Inc. (Cayman) ("MStar") through a tender offer. The price of the tender offer was 1 MStar share in exchange for 0.794 share of the Company's common stock plus NT\$1 in cash. The Company aggregately issued 201,767,854 new shares and paid NT\$254,116 thousand in cash for this tender offer. In January 2014, the Company obtained de facto control over MStar. Therefore MStar was included in the consolidation entities. In February 2014, the Company acquired the remaining 52% ownership of MStar by issuing 221,123,877 new shares and paying 278,494 thousand in cash. After that, MStar was delisted and dissolved. The 100% ownership of MediaTek Investment Singapore Pte. Ltd., which was previously owned by MStar, was therefore assumed by the Company. Please refer to Note 6. (26) of the consolidated financial statements for the year ended December 31, 2015 for more details on business combination.

For the purpose of reorganization, the 100% ownership of MStar Semiconductor, Inc. which was previously owned by MStar Semiconductor B.V. which was a subsidiary of MediaTek Investment Singapore Pte. Ltd. was transferred to the Company in November 2014.

For the purpose of reorganization, MediaTek Investment Corp. was dissolved due to the merger with MediaTek Investment Singapore Pte. Ltd. in April 2014.

For the purpose of reorganization, Ralink Technology Corp. was dissolved due to the merger with the Company in April 2014. The Company 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, the Company transferred all shares of MediaTek USA Inc. to subsidiary MTK Wireless Limited (UK) in April 2014.

The Company invested NT\$250,000 to establish Hsu-Chuang Investment Corp. in January 2015.

The Company increased its investment in Hsu-Ta Investment Corp. in NT\$14,600,000 thousand in October 2015.

No subsidiaries were pledged.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(9) 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	\$ 1,439,948	\$ 7,144,963	\$ 11,591	\$ 1,354,613	\$ 3,074,639	\$ 171,559	\$ 732,368	\$ 13,929,681
Additions-acquired separately	19,201	57,859	168	829,419	600,450	7,208	795,857	2,310,162
Disposals	-	-	-	(110,024)	(230,032)	(1,982)	-	(342,038)
Transfers	-	439,715	-	22,663	321,143	6,000	(797,983)	(8,462)
As of December 31, 2015	<u>\$ 1,459,149</u>	<u>\$ 7,642,537</u>	<u>\$ 11,759</u>	<u>\$ 2,096,671</u>	<u>\$ 3,766,200</u>	<u>\$ 182,785</u>	<u>\$ 730,242</u>	<u>\$ 15,889,343</u>
As of January 1, 2014	\$ 888,722	\$ 5,741,752	\$ 57,536	\$ 1,003,891	\$ 2,266,119	\$ 157,696	\$ 485,558	\$ 10,601,274
Additions-acquired separately	166,080	49,163	3,405	374,105	862,313	7,714	792,319	2,255,099
Additions-acquired by merger	385,146	834,540	-	14,141	30,425	22,215	-	1,286,467
Disposals	-	(11,000)	(49,350)	(69,493)	(72,480)	(10,066)	-	(212,389)
Transfers	-	530,508	-	31,969	(11,738)	(6,000)	(545,509)	(770)
As of December 31, 2014	<u>\$ 1,439,948</u>	<u>\$ 7,144,963</u>	<u>\$ 11,591</u>	<u>\$ 1,354,613</u>	<u>\$ 3,074,639</u>	<u>\$ 171,559</u>	<u>\$ 732,368</u>	<u>\$ 13,929,681</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS****(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	\$ -	\$ 1,856,844	\$ 7,862	\$ 843,838	\$ 1,893,479	\$ 150,590	\$ -	\$ 4,752,613
Depreciation	-	224,371	803	300,606	369,571	15,267	-	910,618
Disposals	-	-	-	(109,446)	(227,494)	(1,982)	-	(338,922)
As of December 31, 2015	\$ -	\$ 2,081,215	\$ 8,665	\$ 1,034,998	\$ 2,035,556	\$ 163,875	\$ -	\$ 5,324,309
As of January 1, 2014	\$ -	\$ 1,681,377	\$ 56,614	\$ 711,135	\$ 1,673,797	\$ 146,683	\$ -	\$ 4,269,606
Depreciation	-	186,467	598	202,196	292,070	13,855	-	695,186
Disposals	-	(11,000)	(49,350)	(69,493)	(72,388)	(9,948)	-	(212,179)
As of December 31, 2014	\$ -	\$ 1,856,844	\$ 7,862	\$ 843,838	\$ 1,893,479	\$ 150,590	\$ -	\$ 4,752,613
Net carrying amount as of:								
December 31, 2015	\$ 1,459,149	\$ 5,561,322	\$ 3,094	\$ 1,061,673	\$ 1,730,644	\$ 18,910	\$ 730,242	\$ 10,565,034
December 31, 2014	\$ 1,439,948	\$ 5,288,119	\$ 3,729	\$ 510,775	\$ 1,181,160	\$ 20,969	\$ 732,368	\$ 9,177,068

Property, plant and equipment were not pledged.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(10) Intangible Asset**

	Software	Patents, IPs and others	Goodwill	Total
Cost:				
As of January 1, 2015	\$ 373,170	\$ 1,626,814	\$ 27,712,833	\$ 29,712,817
Additions-acquired separately	125,801	2,428,172	-	2,553,973
Transfers	8,462	-	-	8,462
As of December 31, 2015	<u>\$ 507,433</u>	<u>\$ 4,054,986</u>	<u>\$ 27,712,833</u>	<u>\$ 32,275,252</u>
As of January 1, 2014	\$ 302,069	\$ 788,346	\$ 6,817,211	\$ 7,907,626
Additions-acquired separately	111,335	307,278	-	418,613
Additions-acquired by merger	58	531,190	20,895,622	21,426,870
Disposals	(41,062)	-	-	(41,062)
Transfers	770	-	-	770
As of December 31, 2014	<u>\$ 373,170</u>	<u>\$ 1,626,814</u>	<u>\$ 27,712,833</u>	<u>\$ 29,712,817</u>
Amortization and impairment:				
As of January 1, 2015	\$ 263,786	\$ 708,107	\$ -	\$ 971,893
Amortization	94,675	1,327,657	-	1,422,332
As of December 31, 2015	<u>\$ 358,461</u>	<u>\$ 2,035,764</u>	<u>\$ -</u>	<u>\$ 2,394,225</u>
As of January 1, 2014	\$ 206,948	\$ 457,836	\$ -	\$ 664,784
Amortization	97,900	250,271	-	348,171
Disposals	(41,062)	-	-	(41,062)
As of December 31, 2014	<u>\$ 263,786</u>	<u>\$ 708,107</u>	<u>\$ -</u>	<u>\$ 971,893</u>
Net carrying amount as of:				
December 31, 2015	<u>\$ 148,972</u>	<u>\$ 2,019,222</u>	<u>\$ 27,712,833</u>	<u>\$ 29,881,027</u>
December 31, 2014	<u>\$ 109,384</u>	<u>\$ 918,707</u>	<u>\$ 27,712,833</u>	<u>\$ 28,740,924</u>

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

(11) Impairment testing of goodwill

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

The recoverable amount of the cash-generating unit is determined based on the value-in-use calculated using cash flow projections discounted by the pre-tax discount rate from financial budgets approved by management covering a five-year period. The projected cash flows reflect the change in demand for products and services. As a result of the analysis, the Company did not identify any impairment for the goodwill of NT\$27,712,833 thousand.

Key assumptions used in value-in-use calculations

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

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

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

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

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

Sensitivity to changes in assumptions

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

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

(12) Short-term borrowings

	December 31, 2015	December 31, 2014
Unsecured bank loans	\$ 23,807,520	\$ 30,290,690
Interest rates	0.70-0.85%	0.60-0.87%
Unused lines of credits	\$ 30,667,236	\$ 16,974,428

(13) Other payables

	December 31, 2015	December 31, 2014
Accrued salaries and bonuses	\$ 10,994,492	\$ 13,614,103
Accrued royalties	1,145,550	1,358,805
Other payable from related parties	406,046	2,971,830
Others	4,878,501	8,769,273
Total	\$ 17,424,589	\$ 26,714,011

(14) Post-employment benefits

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Pension expenses under the defined contribution plan for the years ended December 31, 2015 and 2014 were NT\$490,079 thousand and NT\$390,087 thousand, respectively.

Defined benefit plan

The Company adopts 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, the Company contributes 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.

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

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the regulations for revenues, expenditures, safeguard and utilization of the labor retirement fund. The pension fund is invested in-house or under mandation, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with IAS 19. The Company expects to contribute NT\$2,716 thousand to its defined benefit plan during the 12 months beginning after December 31, 2015.

The weighted average durations of the defined benefit obligation were 21 years and 24 years as of December 31, 2015 and 2014, respectively.

Pension costs recognized in profit or loss are as follows:

	For the years ended December 31	
	2015	2014
Current service cost	\$ 2,659	\$ 1,956
Net interest on the net defined benefit liabilities	21,373	12,121
Total	<u>\$ 24,032</u>	<u>\$ 14,077</u>

Reconciliations of liabilities (assets) of the defined benefit obligation and plan assets at fair value are as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Defined benefit obligation	\$ 690,183	\$ 1,023,110	\$ 657,786
Plan assets at fair value	(77,847)	(73,180)	(49,092)
Net defined benefit liabilities	<u>\$ 612,336</u>	<u>\$ 949,930</u>	<u>\$ 608,694</u>

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

Reconciliations of liabilities (assets) of the defined benefit plan are as follows:

	Defined benefit obligation	Plan assets at fair value	Net defined benefit liabilities (assets)
As of January 1, 2015	\$ 1,023,110	\$ (73,180)	\$ 949,930
Current service cost	2,659	-	2,659
Interest expense (income)	23,020	(1,647)	21,373
Subtotal	25,679	(1,647)	24,032
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	(3,516)	-	(3,516)
Actuarial gains and losses arising from changes in financial assumptions	(259,735)	-	(259,735)
Experience adjustments	(84,597)	-	(84,597)
Remeasurements of the defined benefit assets	-	(303)	(303)
Subtotal	(347,848)	(303)	(348,151)
Payment of benefit obligation	(10,758)	-	(10,758)
Contributions by employer	-	(2,717)	(2,717)
As of December 31, 2015	\$ 690,183	\$ (77,847)	\$ 612,336

	Defined benefit obligation	Plan assets at fair value	Net defined benefit liabilities (assets)
As of January 1, 2014	\$ 657,786	\$ (49,092)	\$ 608,694
Current service cost	1,956	-	1,956
Interest expense (income)	13,510	(1,389)	12,121
Subtotal	15,466	(1,389)	14,077
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	45,889	-	45,889
Actuarial gains and losses arising from changes in financial assumptions	236,195	-	236,195
Experience adjustments	50,075	-	50,075
Remeasurements of the defined benefit assets	-	(404)	(404)
Subtotal	332,159	(404)	331,755
Contributions by employer	-	(1,934)	(1,934)
Acquired through business combinations	17,699	(20,361)	(2,662)
As of December 31, 2014	\$ 1,023,110	\$ (73,180)	\$ 949,930

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

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

	December 31, 2015	December 31, 2014
Discount rate	2.00%	2.25%
Expected rate of salary increases	2.75%	4.50%

Sensitivity analysis for significant assumption are shown below:

	For the years ended December 31			
	2015		2014	
	Defined benefit obligation increase	Defined benefit obligation decrease	Defined benefit obligation increase	Defined benefit obligation decrease
Discount rate increase 0.5%	\$ -	\$ (69,634)	\$ -	\$ (109,637)
Discount rate decrease 0.5%	78,392	-	124,103	-
Rate of future salary increase 0.5%	77,386	-	120,651	-
Rate of future salary decrease 0.5%	-	(69,474)	-	(107,902)

The sensitivity analysis above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analysis compared to the previous period.

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

The Company's authorized capital as of December 31, 2015 and 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. The Company's issued capital was NT\$15,715,837 thousand and NT\$15,714,455 thousand, divided into 1,571,583,686 shares and 1,571,445,544 shares, as of December 31, 2015 and 2014, respectively. Each share has one voting right and a right to receive dividends.

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

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

The Company issued 138,142 new shares and 654,373 new shares during the years ended December 31, 2015 and 2014, respectively, at par value of NT\$10 for employee stock options exercised. Among the new issued shares, 46,700 shares (NT\$467 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance as of December 31, 2014.

B. Capital surplus

	December 31, 2015	December 31, 2014
Additional paid-in capital	\$ 85,867,533	\$ 85,824,767
Treasury share transactions	1,369,971	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	142,643	149,965
Changes in ownership interests in subsidiaries	276,842	215,280
Donated assets	1,261	1,261
From share of changes in net assets of associates	81,858	68,650
Employee stock options	503,056	465,777
Others	111,014	123,712
Total	<u>\$ 88,354,178</u>	<u>\$ 88,047,914</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 December 31, 2015 and 2014, 7,794,085 shares of the Company's common shares amounting to NT\$55,970 thousand were held by the subsidiary, MediaTek Capital Corp. These shares held by MediaTek Capital Corp. were acquired for the purpose of financing before the amendment of the Company Act on November 12, 2001.

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

D. Retained earnings and dividend policy

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

- a. Income tax obligation;
- b. Offsetting accumulated deficits, if any;
- c. Legal reserve at 10% of net income after tax; where such legal reserve amounts to the total authorized capital, this provision shall not apply.
- d. Special reserve in compliance with the Company Law or the Securities and Exchange Law;
- e. Remuneration for directors and supervisors to a maximum of 0.5% of the remaining current year's earnings after deducting item (a) through (d). Remuneration for directors and supervisors' services is limited to cash payments.
- f. The remaining after all above appropriations and distributions, combining with undistributed earnings from prior years, shall be fully for shareholders' dividends and employees' bonuses and may be retained or distributed proportionally. The portion of employees' bonuses may not be less than 1% of total earnings resolved to distribute for shareholders' dividends and employees' bonuses. Employees' bonuses may be distributed in the form of shares or cash, or a combination of both. Employees' of the Company'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 in its shareholders' general meeting in 2016.

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

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

According to the Company Act, the Company 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 the Company. When the Company 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, the Company 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 in 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 special reserve based on the difference between the amount already set aside and the total debit balances 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 amounts to nil.

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
Total	<u>\$ 38,318,737</u>	<u>\$ 22,140,152</u>		

Please refer to Note 6. (18) for relevant information on estimation basis and recognized amounts of employees' compensations (bonuses) and remunerations to directors and supervisors.

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS****(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 (losses) 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	2,385,906	-	2,385,906
Unrealized losses from available-for-sale financial assets	-	(180,198)	(180,198)
Unrealized gains reclassified to profit or loss from available-for-sale financial assets	-	284,481	284,481
Share of other comprehensive income of subsidiaries and associates accounted for using equity method	(100,603)	(1,090,781)	(1,191,384)
Tax effect	-	-	-
As of December 31, 2015	\$ 6,503,595	\$ 1,401,323	\$ 7,904,918

	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from available-for-sale financial assets	Total
As of January 1, 2014	\$ (2,404,641)	\$ 1,508,892	\$ (895,749)
To be reclassified to profit or loss in subsequent periods			
Exchange differences resulting from translating the financial statements of foreign operations	6,645,482	-	6,645,482
Unrealized losses from available-for-sale financial assets	-	(263,561)	(263,561)
Unrealized gains reclassified to profit or loss from available-for-sale financial assets	(22,549)	1,142,490	1,119,941
Share of other comprehensive income of subsidiaries and associates accounted for using equity method	-	-	-
Tax effect	-	-	-
As of December 31, 2014	\$ 4,218,292	\$ 2,387,821	\$ 6,606,113

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(16) Share-based payment plans**

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

In December 2007, July 2009, May 2010, August 2011, August 2012 and August 2013, the Company 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 the Company or any of its domestic or foreign subsidiaries, in which the Company'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 the Company's common shares listed on the TWSE on the grant date.

Detail information relevant to the share-based payment plan as of December 31, 2015 is 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	279,948	279,948	\$ 358.0
2008.08.28	1,640,285	479,365	479,365	344.5
2009.08.18	1,382,630	567,357	567,357	429.5
2010.08.27	1,605,757	707,227	707,227	404.8
2010.11.04	65,839	14,634	14,634	377.0
2011.08.24	2,109,871	1,215,240	1,215,240	277.4
2012.08.14	1,346,795	983,897	581,048	286.8
2013.08.22	1,436,343	1,210,063	375,401	368.0

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

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

	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

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

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

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

	For the years ended December 31			
	2015		2014	
Employee Stock Option	Options (Unit)	Weighted-average Exercise Price per Share (NT\$)	Options (Unit)	Weighted-average Exercise Price per Share (NT\$)
Outstanding at beginning of year	5,754,998	\$ 341.4	6,641,191	\$ 341.3
Granted	-	-	-	-
Exercised	(91,442)	329.5	(654,373)	340.8
Forfeited (Expired)	(205,825)	337.0	(231,820)	335.6
Outstanding at end of year	<u>5,457,731</u>	341.8	<u>5,754,998</u>	341.4
Exercisable at end of year	<u>4,220,220</u>		<u>3,054,547</u>	
Weighted-average fair value of options granted during the year (in NT\$)	<u>\$ -</u>		<u>\$ -</u>	

The weighted average share price at the date of exercise of those options were NT\$481.7 and NT\$472.3 for the years ended December 31, 2015 and 2014.

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

		December 31, 2015		December 31, 2014	
		Outstanding stock options		Outstanding stock options	
Date of grant	Range of Exercise Price (NT\$)	Weighted- average Expected Remaining Years	Weighted- average Exercise Price per Share (NT\$)	Weighted- average Expected Remaining Years	Weighted- average Exercise Price per Share (NT\$)
2007.12.19	\$ 344.5~358.0	-	\$ 349.5	0.1	\$ 349.6
2009.07.27	429.5	0.13	429.5	1.13	429.5
2010.05.10	377.0~404.8	1.17	404.2	2.17	404.3
2011.08.09	277.4	2.17	277.4	3.17	277.4
2012.08.09	286.8	3.13	286.8	4.13	286.8
2013.08.09	368.0	4.17	368.0	5.17	368.0

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

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

	For the years ended December 31	
	2015	2014
Total equity-settled transactions	\$ 37,279	\$ 63,935

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

(17) Sales

	For the years ended December 31	
	2015	2014
Sale of goods	\$ 108,650,905	\$ 163,108,288
Other operating revenues	2,099,433	2,051,016
Less: Sales returns and discounts	(11,504,638)	(28,894,286)
Net sales	\$ 99,245,700	\$ 136,265,018

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

	For the years ended December 31					
	2015			2014		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 13,729	\$ 500,382	\$ 514,111	\$ 11,318	\$ 392,846	\$ 404,164
Others	\$ 296,840	\$ 17,148,914	\$ 17,445,754	\$ 267,948	\$ 19,174,164	\$ 19,442,112
Depreciation	\$ 3,689	\$ 906,929	\$ 910,618	\$ 3,147	\$ 692,039	\$ 695,186
Amortization	\$ -	\$ 1,422,332	\$ 1,422,332	\$ -	\$ 348,171	\$ 348,171

MEDIATEK INC.

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

A resolution was passed at a Board of Directors meeting of the Company held on February 1, 2016 to amend the Articles of Incorporation of the Company. According to the amend Articles of Incorporation of the Company, no lower than 1% of profit of the current year is distributable as employees' compensation and no higher than 0.5% of profit of the current year is distributable as remuneration to directors and supervisors. However, the Company's accumulated losses shall have been covered (if any). The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. The Articles of Incorporation are to be amended in the shareholders' meeting in 2016. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

The Company accrued employees' compensation and remuneration to directors and supervisors based on a percentage of profit of current year and the amend Articles of Incorporation of the Company for the year ended December 31, 2015. If the estimated amounts differ from the actual distribution resolved by the Board of Directors, the Company will recognize the change as an adjustment to current income. A resolution was approved at a Board of Directors meeting held on March 17, 2016 to distribute NT\$351,232 thousand and NT\$47,416 thousand in cash as employees' compensation and remuneration to directors and supervisors, respectively. The differences were NT\$0 and NT\$1,115 thousand between the aforementioned approved amounts and the amounts charged against earnings in 2015, respectively.

The employees' bonuses were estimated based on a specific rate of net income for the years ended December 31, 2014 (excluding the impact of employees' bonuses) while the remunerations to directors and supervisors were estimated based on the Company'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, the Company 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, the Company 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 years ended December 31, 2014, the amounts of employees' bonuses and remunerations to directors and supervisors were NT\$579,974 thousand and NT\$84,192 thousand, respectively.

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

The difference between the resolution of the shareholders' general meeting and the estimated expense of the directors' and supervisors' remuneration and the employees' bonuses for 2014 are as follows:

Appropriations	The amount resolved by the board of directors meeting	Expense estimated	Difference	Difference reasons and the accounting treatment
Employees' bonuses-cash	\$ 579,974	\$ 579,974	\$ -	-
Directors' and supervisors' remunerations	\$ 85,308	\$ 84,192	\$ 1,116	(Note)

Note: The difference, which was resulted from different calculation basis between the original accrual and the amount actually paid, was adjusted in the profit or loss in 2015.

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

(19) Other income

	For the years ended December 31	
	2015	2014
Interest income	\$ 1,149,150	\$ 1,024,947
Dividend income	22,465	62,698
Rental income	17,192	18,529
Others	116,064	95,098
Total	<u>\$ 1,304,871</u>	<u>\$ 1,201,272</u>

(20) Other gains and losses

	For the years ended December 31	
	2015	2014
Losses on disposal of property, plant and equipment	\$ (2,828)	\$ (210)
Gains (losses) on disposal of investments		
Available-for-sale financial assets	11,047	-
Held-to-maturity financial assets	(1,062)	-
Debt instrument investments for which no active market exists	-	1,354
Investment accounted for using the equity method	-	8,732
Foreign exchange gains	77,763	881,374
Impairment losses		
Available-for-sale financial assets	(295,528)	-
Gains on financial assets at fair value through profit or loss	99,264	21,104
Losses on financial liabilities at fair value through profit or loss	(31,948)	(2,595)
Others	(297)	-
Total	<u>\$ (143,589)</u>	<u>\$ 909,759</u>

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

(21) Finance costs

	For the years ended December 31	
	2015	2014
Interest expenses on short-term borrowings	\$ 293,986	\$ 170,523

(22) Income tax

The major components of income tax expense are as follows:

	For the years ended December 31	
	2015	2014
Current income tax	\$ 296,281	\$ 5,049,951
Deferred tax expense (income)	1,778,333	(1,445,013)
Others	18,138	97,473
Income tax expense recognized in profit or loss	\$ 2,092,752	\$ 3,702,411

Income tax recognized in other comprehensive income

	For the years ended December 31,	
	2015	2014
Deferred tax expenses (incomes):		
Remeasurements of the defined benefit plan	\$ 59,186	\$ (56,399)

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

	For the years ended December 31	
	2015	2014
Accounting profit before tax from continuing operations	\$ 28,051,181	\$ 50,100,303
Tax at the domestic rates applicable to profits in the country concerned	\$ 4,768,701	\$ 8,517,052
Tax effect of revenues exempt from taxation	(5,692)	(2,099,422)
Tax effect of expenses not deductible for tax purposes	-	232,761
Investment tax credits	(234,206)	(537,490)
Tax effect of deferred tax assets/liabilities	(3,297,498)	(2,912,202)
10% surtax on undistributed retained earnings	780,688	537,490
Others	80,759	(35,778)
Total income tax expense recognized in profit or loss	\$ 2,092,752	\$ 3,702,411

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

For the year ended December 31, 2015

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized allowance for inventory obsolescence	\$ 741,114	\$ (138,828)	\$ -	\$ -	\$ -	\$ 602,286
Allowance for sales returns and discounts	1,238,989	(710,312)	-	-	-	528,677
Amortization of difference for tax purpose	217,199	(202,807)	-	-	-	14,392
Amortization of goodwill difference for tax purpose	(619,240)	(710,451)	-	-	-	(1,329,691)
Others	201,913	(15,935)	(59,186)	-	-	126,792
Deferred tax expense		<u>\$(1,778,333)</u>	<u>\$ (59,186)</u>	<u>\$ -</u>	<u>\$ -</u>	
Net deferred tax assets	<u>\$ 1,779,975</u>					<u>\$ (57,544)</u>
Reflected in balance sheet as follows:						
Deferred tax assets	<u>\$ 2,400,152</u>					<u>\$ 1,274,935</u>
Deferred tax liabilities	<u>\$ (620,177)</u>					<u>\$ (1,332,479)</u>

For the year ended December 31, 2014

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized allowance for inventory obsolescence	\$ 351,814	\$ 389,300	\$ -	\$ -	\$ -	\$ 741,114
Allowance for sales returns and discounts	694,318	544,671	-	-	-	1,238,989
Amortization of difference for tax purpose	112,901	104,298	-	-	-	217,199
Amortization of goodwill difference for tax purpose	(870,081)	250,841	-	-	-	(619,240)
Others	(10,389)	155,903	56,399	-	-	201,913
Deferred tax income		<u>\$ 1,445,013</u>	<u>\$ 56,399</u>	<u>\$ -</u>	<u>\$ -</u>	
Net deferred tax assets	<u>\$ 278,563</u>					<u>\$ 1,779,975</u>
Reflected in balance sheet as follows:						
Deferred tax assets	<u>\$ 1,148,644</u>					<u>\$ 2,400,152</u>
Deferred tax liabilities	<u>\$ (870,081)</u>					<u>\$ (620,177)</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**Integrated income tax information

	December 31, 2015	December 31, 2014
Balance of the imputation credit account	\$ 9,546,658	\$ 7,667,187

The estimated and actual creditable ratios for 2015 and 2014 were 10.46% and 11.55%, respectively.

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

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

(23) Earnings per share

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

	For the years ended December 31	
	2015	2014
A. Basic earnings per share		
Profit (in thousand NT\$)	\$ 25,958,429	\$ 46,397,892
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,777,089	1,544,565,142
Basic earnings per share (NT\$)	\$ 16.60	\$ 30.04

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

	For the years ended December 31	
	2015	2014
B. Diluted earnings per share		
Profit (in thousand NT\$)	\$ 25,958,429	\$ 46,397,892
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,777,089	1,544,565,142
Effect of dilution:		
Employee bonuses-stock (share)	2,079,669	2,695,764
Employee stock options (share)	445,369	1,637,031
Weighted average number of ordinary shares outstanding after dilution (share)	1,566,302,127	1,548,897,937
Diluted earnings per share (NT\$)	\$ 16.57	\$ 29.96

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issue.

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

	For the years ended December 31	
	2015	2014
Subsidiaries	\$ 1,082,952	\$ 613,123
Associates	3,190	3,577
Total	\$ 1,086,142	\$ 616,700

For the years ended December 31, 2015 and 2014, the trade credit terms for related parties and third-party customers were both 45 to 60 days. Third-party customers may pay their accounts in advance. Above sales include royalty revenues, which were charged based on the royalty agreement.

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

	For the years ended December 31	
	2015	2014
Other related parties	\$ 1,227,583	\$ 1,739,287

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

For the years ended December 31, 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 expense and license expense

	For the years ended December 31	
	2015	2014
Subsidiaries	\$ 5,393,119	\$ 1,885,556
Associates	6,570	200,000
Other related parties	31,628	30,133
Total	<u>\$ 5,431,317</u>	<u>\$ 2,115,689</u>

D. NT\$10,361 thousand was paid for office rented from subsidiaries for the year ended December 31, 2015.

E. Rental income

	For the years ended December 31	
	2015	2014
Subsidiaries	\$ 4,324	\$ 6,432
Associates	857	714
Other related parties	10,128	8,606
Total	<u>\$ 15,309</u>	<u>\$ 15,752</u>

As of December 31, 2015 and 2014, NT\$876 thousand was received from other related parties, which was accounted for as deposits received due to a lease of office space.

F. Other income due to technology service

	For the years ended December 31	
	2015	2014
Subsidiaries	<u>\$ 58,873</u>	<u>\$ 56,777</u>

G. Endorsement amount for office lease, bank financing and IP purchasing

	As of December 31, 2015		As of December 31, 2014	
	Endorsement limit	Actual amount	Endorsement limit	Actual amount
Subsidiaries	<u>\$ 33,048,463</u>	<u>\$ 18,598,489</u>	<u>\$ 33,057,300</u>	<u>\$ 11,428,203</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****H. Acquisition of intangible assets**

	For the years ended December 31	
	2015	2014
Other related parties	\$ 9,944	\$ -

I. Trade receivables from related parties

	December 31, 2015	December 31, 2014
Subsidiaries	\$ 108,570	\$ 179,720

J. Other receivables from related parties

	December 31, 2015	December 31, 2014
Subsidiaries	\$ 137,043	\$ 1,146,847
Associates	75	150
Total	\$ 137,118	\$ 1,146,997

Other receivables from related parties were composed mainly of rent receivables and dividends receivables.

K. Trade payables to related parties

	December 31, 2015	December 31, 2014
Other related parties	\$ 342,812	\$ 419,512

L. Other payables to related parties

	December 31, 2015	December 31, 2014
Subsidiaries	\$ 406,046	\$ 2,971,830

The Company borrowed funds from related parties in the year ended December 31, 2014. Additional disclosures consisted of the following:

	Date Incurred	Maximum Balance	Ending Balance	Interest Rate
Subsidiaries	2014/9	\$ 1,840,504	\$ 1,840,504	1.25%

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****M. Key management personnel compensation**

	For the years ended December 31	
	2015	2014
Short-term employee benefits (Note)	\$ 537,415	\$ 597,844
Post-employment benefits	11,910	972
Total	<u>\$ 549,325</u>	<u>\$ 598,816</u>

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

8. Assets Pledged as Collateral

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

Assets pledged for security	Carrying amount		Purpose of pledge
	December 31, 2015	December 31, 2014	
Debt instrument investments for which no active market exists-current	\$ 15,714	\$ 7,067	Land lease guarantee
Debt instrument investments for which no active market exists-current	9,180	3,142	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	9,705	-	Lease execution deposits
Total	<u>\$ 34,599</u>	<u>\$ 10,209</u>	

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 ten years.

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

	December 31, 2015	December 31, 2014
Not later than one year	\$ 38,871	\$ 30,774
Later than one year and not later than five years	155,484	123,096
Later than five years	199,061	124,576
Total	<u>\$ 393,416</u>	<u>\$ 278,446</u>

Operating lease expenses are as follows:

	For the years ended December 31	
	2015	2014
Minimum lease payments	<u>\$ 120,006</u>	<u>\$ 68,155</u>

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

(2) Legal claim contingency

- A. Azure Networks, LLC (“Azure”) and Tri-County Excelsior Foundation (“TCEF”) filed a complaint in the United States District Court for the Eastern District of Texas against Ralink and Ralink Technology Corporation (USA), along with other defendants in March 2011, alleging infringement of United States Patent No. 7,756,129. On April 6, 2012, Azure and TCEF filed a complaint in the United States District Court for the Eastern District of Texas against the Company 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 the Company 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 the Company’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 the Company 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. This case has been settled and dismissed with prejudice on November 19, 2015.
- C. Palmchip Corporation (“Palmchip”) filed a complaint in the Superior Court of California in the County of Santa Clara against the Company and subsidiaries MediaTek USA Inc., Ralink and Ralink Technology Corporation (USA) on October 19, 2012, asserting claims of breach of contract. This case has been settled and dismissed with prejudice on June 16, 2015.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

Palmchip filed a complaint in the United States District Court for the Central District of California against the Company 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 the Company and subsidiary MediaTek USA Inc. on September 3, 2013 alleging infringement of United States Patent No. 8,416,651. Optical Devices alleged that the Company’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 20, 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 the Company 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 the Company and subsidiary MediaTek USA Inc., alleging that the Company’s optical disc drive chips infringe the above referenced patent. The operations of the Company and subsidiary MediaTek USA Inc. would not be materially affected by this case.

- E. Vantage Point Technology, Inc. (“Vantage Point”) filed a complaint in the United States District Court for the Eastern District of Texas against MediaTek USA Inc. on November 21, 2013, alleging infringement of United States Patent Nos. 5,463,750 and 6,374,329. The court dismissed the claims with prejudice against MediaTek USA pursuant to Vantage Point and MediaTek USA’s joint motion on April 20, 2015.

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

- F. Bandspeed Inc. filed a complaint in the United States District Court for the Western District of Texas against the Company, 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 the Company, 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 the Company 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 the Company and subsidiary MediaTek USA Inc. would not be materially affected by this case.

The Company will handle these cases carefully.

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

None

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

	December 31, 2015	December 31, 2014
Financial assets at fair value through profit or loss:		
Held for trading financial assets	\$ 232	\$ 1,871
Financial assets designated upon initial recognition at fair value through profit or loss	1,339,006	1,090,775
Subtotal	1,339,238	1,092,646
Available-for-sale financial assets	6,113,054	4,692,687
Held-to-maturity financial assets	1,128,925	-
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand and petty cash)	74,921,175	127,448,149
Debt instrument investments for which no active market exists	34,599	308,133
Trade receivables (including related parties)	4,568,083	3,954,943
Other receivables	1,676,068	5,104,465
Subtotal	81,199,925	136,815,690
Total	\$ 89,781,142	\$ 142,601,023

Financial liabilities

	December 31, 2015	December 31, 2014
Financial liabilities at fair value through profit or loss:		
Held for trading financial liabilities	\$ 31,948	\$ 2,595
Financial liabilities at amortized cost:		
Short-term borrowings	23,807,520	30,290,690
Trade payables (including related parties)	6,103,280	7,171,345
Other payables	17,424,589	26,714,011
Long-term payables (including current portion)	56,212	91,982
Subtotal	47,391,601	64,268,028
Total	\$ 47,423,549	\$ 64,270,623

B. Fair values of financial instruments

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

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

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(including related parties), 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	
	December 31, 2015	December 31, 2014
Financial assets		
Held-to-maturity financial assets		
Bonds	\$ 1,128,925	\$ -
	Fair value as of	
	December 31, 2015	December 31, 2014
Financial assets		
Held-to-maturity financial assets		
Bonds	\$ 1,129,657	\$ -

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

c. Fair value measurement hierarchy

(a) 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.

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

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

As of December 31, 2015

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Derivative financial instruments	\$ -	\$ 232	\$ -	\$ 232
Linked deposits	-	-	1,339,006	1,339,006
Available-for-sale financial assets				
Depository receipts	34,942	-	-	34,942
Stocks	453,050	-	-	453,050
Funds	4,364,447	-	-	4,364,447
Bonds	1,260,615	-	-	1,260,615
Total	<u>\$ 6,113,054</u>	<u>\$ 232</u>	<u>\$ 1,339,006</u>	<u>\$ 7,452,292</u>

MEDIATEK INC.**NOTES TO FINANCIAL STATEMENTS****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**As of December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	\$ -	\$ 31,948	\$ -	\$ 31,948

As of December 31, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Derivative financial instruments	\$ -	\$ 1,871	\$ -	\$ 1,871
Linked deposits	-	-	1,090,775	1,090,775
Available-for-sale financial assets				
Depository receipts	28,010	-	-	28,010
Stocks	632,583	-	-	632,583
Funds	4,032,094	-	-	4,032,094
Total	\$ 4,692,687	\$ 1,871	\$ 1,090,775	\$ 5,785,333

Financial liabilities

Financial liabilities at fair value through profit or loss				
Derivative financial instruments	\$ -	\$ 2,595	\$ -	\$ 2,595

For the years ended December 31, 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
	<u>Linked deposits</u>
As of January 1, 2015	\$ 1,090,775
Amount recognized in profit or loss	1,626
Acquisitions	921,576
Settlements	(674,971)
As of December 31, 2015	\$ 1,339,006

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

	Financial assets at fair value through profit or loss
	Linked deposits
As of January 1, 2014	\$ 275,387
Amount recognized in profit or loss	388
Acquisitions	880,000
Settlements	(65,000)
As of December 31, 2014	<u>\$ 1,090,775</u>

Total profits recognized for the years ended December 31, 2015 and 2014 contained profits related to linked deposits on hand as of December 31, 2015 and 2014 in the amount of NT\$655 thousand and NT\$411 thousand, respectively.

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

The Company's linked-deposits of the fair value hierarchy are based on unadjusted quoted price of trading partner. Therefore, the quantitative information and sensitivity analysis are not available.

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

The Company's Finance Department is responsible for validating the fair value measurements and updating the latest quoted price of trading partner periodically to ensure 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.

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

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 December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Held-to-maturity financial assets				
Bonds	\$ 1,129,657	\$ -	\$ -	\$ 1,129,657

As of 31 December 31, 2014

Not Applicable

D. Derivative financial instruments

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

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

Forward exchange contracts	Currency	Contract amount ('000)	Maturity
As of December 31, 2015	TWD to USD	Sell USD145,000	January 2016
As of December 31, 2014	TWD to USD	Sell USD105,000	February 2015

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

(2) Financial risk management objectives

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

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

MEDIATEK INC.

NOTES TO FINANCIAL STATEMENTS

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

A. Market risk

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

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

a. Foreign currency risk

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

The Company reviews its assets and liabilities denominated in foreign currency and enters into forward exchange contracts 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 is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company.

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

When NTD appreciates or depreciates against USD by 0.1%, the profit for the years ended December 31, 2015 and 2014 decreases/increases by NT\$3,526 thousand and NT\$2,822 thousand, respectively.

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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 investments with variable interest rates, bank borrowings with fixed interest rates. Moreover, the market value of the Company's investment in credit-linked deposits are affected by interest rate. The market value would decrease (even lower than the principal) when the interest rate increases, and vice versa. The market values of exchange rate-linked deposits are affected by interest rates and changes in the value and volatility of the underlying. The following sensitivity analysis focuses on interest rate risk and does not take into account the interdependencies between risk variables.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, including investments with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause the profit for the years ended December 31, 2015 and 2014 to increase/decrease by NT\$5 thousand and NT\$10 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 only impact the Company's equity and cause the other comprehensive income for the years ended December 31, 2015 and 2014 to increase/decrease by NT\$48,524 thousand and NT\$46,927 thousand, respectively.

B. Credit risk management

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

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

As of December 31, 2015 and 2014, receivables from top ten customers represented 99.35% and 84.49% 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 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 arises if the issuing banks breached the contracts or the debt issuer could not pay off the debts; the maximum exposure is the carrying value of those financial instruments. Therefore, the Company minimized the credit risk by only transacting with counter-party who is reputable, transparent and in good financial standing.

C. Liquidity risk management

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

Non-derivative financial instruments

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of December 31, 2015</u>			
Borrowings	\$ 23,831,030	\$ -	\$ 23,831,030
Trade payables (including related parties)	6,103,280	-	6,103,280
Other payables	17,411,237	-	17,411,237
Long-term payables	56,212	-	56,212
Total	<u>\$ 47,401,759</u>	<u>\$ -</u>	<u>\$ 47,401,759</u>

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	Less than 1 year	1 to 5 years	Total
<u>As of December 31, 2014</u>			
Borrowings	\$ 30,314,097	\$ -	\$ 30,314,097
Trade payables (including related parties)	7,171,345	-	7,171,345
Other payables	26,703,711	-	26,703,711
Long-term payables	38,062	53,920	91,982
Total	<u>\$ 64,227,215</u>	<u>\$ 53,920</u>	<u>\$ 64,281,135</u>

Derivative financial instruments

	Less than 1 year	1 to 5 years	Total
<u>As of December 31, 2015</u>			
Net settlement			
Forward exchange contracts	<u>\$ (33,750)</u>	<u>-</u>	<u>\$ (33,750)</u>

	Less than 1 year	1 to 5 years	Total
<u>As of December 31, 2014</u>			
Gross settlement			
Forward exchange contracts			
Inflow	\$ 1,899,065	\$ -	\$ 1,899,065
Outflow	(1,903,080)	-	(1,903,080)
Net	<u>(4,015)</u>	<u>\$ -</u>	<u>(4,015)</u>
Total	<u>\$ (4,015)</u>	<u>\$ -</u>	<u>\$ (4,015)</u>

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

(3) Significant assets and liabilities denominated in foreign currencies

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

	December 31, 2015		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
<u>Financial assets</u>			
Monetary item:			
USD	\$ 1,184,206	33.066	\$ 39,156,956
CNY	\$ 7,029	5.092	\$ 35,791
<u>Financial liabilities</u>			
Monetary item:			
USD	\$ 933,532	33.066	\$ 30,868,185
CNY	\$ 536	5.092	\$ 2,730

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	December 31, 2014		
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
Financial assets			
Monetary item:			
USD	\$ 1,493,866	31.718	\$ 47,382,443
CNY	\$ 385,235	5.113	\$ 1,969,519
Financial liabilities			
Monetary item:			
USD	\$ 1,314,906	31.718	\$ 41,706,176
CNY	\$ 361,150	5.113	\$ 1,846,383

The Company's 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 gain was NT\$77,763 thousand and NT\$881,374 thousand for the years ended December 31, 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.