

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

**MEDIATEK INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**WITH**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**FOR THE THREE MONTHS ENDED**

**MARCH 31, 2016 AND 2015**

English Translation of a Report Originally Issued in Chinese

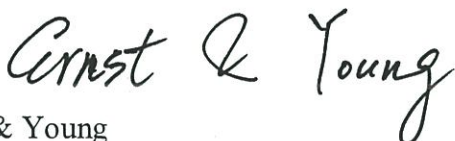
Review Report of Independent Accountants

To the Board of Directors and Shareholders  
of MediaTek Inc.

We have reviewed the accompanying consolidated balance sheets of MediaTek Inc. and its subsidiaries as of March 31, 2016 and March 31, 2015 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

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

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



Ernst & Young  
CERTIFIED PUBLIC ACCOUNTANTS  
April 29, 2016  
Taipei, Taiwan  
Republic of China

Notice to Readers

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

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

**MEDIATEK INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****As of March 31, 2016, December 31, 2015, and March 31, 2015**

(March 31, 2016 and 2015 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

<b>ASSETS</b>	Notes	March 31, 2016	%	December 31, 2015	%	March 31, 2015	%
<b>Current assets</b>							
Cash and cash equivalents	6(1)	\$ 155,962,828	44	\$ 153,279,687	44	\$ 196,143,151	54
Financial assets at fair value through profit or loss-current	6(2)	5,617,366	1	3,836,003	1	1,654,357	-
Available-for-sale financial assets-current	6(3)	8,574,223	2	7,763,131	2	6,378,300	2
Held-to-maturity financial assets-current	6(5)	1,253,951	-	1,257,437	-	282,609	-
Debt instrument investments for which no active market exists-current	6(6), 8	1,313,535	-	761,282	-	493,259	-
Trade receivables, net	6(7)	15,598,028	4	16,195,318	4	13,346,717	4
Other receivables	6(7), 7	2,714,131	1	2,996,512	1	3,069,152	1
Current tax assets		393,449	-	319,202	-	23,861	-
Inventories, net	6(8)	27,027,099	8	24,130,344	7	28,084,741	8
Prepayments		2,346,221	1	2,192,349	1	2,384,253	-
Other current assets		1,796,495	1	2,141,910	1	903,049	-
Total current assets		<u>222,597,326</u>	<u>62</u>	<u>214,873,175</u>	<u>61</u>	<u>252,763,449</u>	<u>69</u>
<b>Non-current assets</b>							
Financial assets at fair value through profit or loss-noncurrent	6(2)	3,703,825	1	5,967,301	2	4,161,243	1
Available-for-sale financial assets-noncurrent	6(3)	8,211,740	2	8,698,862	3	6,047,368	2
Held-to-maturity financial assets-noncurrent	6(5)	260,179	-	266,498	-	879,935	-
Financial assets measured at cost-noncurrent	6(4)	5,152,552	2	4,901,012	1	3,715,411	1
Debt instrument investments for which no active market exists-noncurrent	6(6), 8	266,377	-	261,068	-	210,401	-
Investments accounted for using the equity method	6(9)	2,838,501	1	2,718,990	1	2,221,197	1
Property, plant and equipment	6(10), 6(26)	35,530,834	10	34,390,077	10	27,334,036	8
Investment property	6(11)	286,340	-	275,590	-	-	-
Intangible assets	6(12), 6(13), 6(26), 7	74,586,677	21	75,430,673	21	63,006,716	17
Deferred tax assets	4, 6(24)	3,133,497	1	2,997,362	1	3,155,960	1
Refundable deposits		290,334	-	239,755	-	185,306	-
Long-term prepaid rent		146,957	-	150,864	-	152,577	-
Other non-current assets-others		-	-	78,429	-	-	-
Total non-current assets		<u>134,407,813</u>	<u>38</u>	<u>136,376,481</u>	<u>39</u>	<u>111,070,150</u>	<u>31</u>
<b>Total assets</b>		<u>\$ 357,005,139</u>	<u>100</u>	<u>\$ 351,249,656</u>	<u>100</u>	<u>\$ 363,833,599</u>	<u>100</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****As of March 31, 2016, December 31, 2015, and March 31, 2015**

(March 31, 2016 and 2015 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

<b>LIABILITIES AND EQUITY</b>	Notes	March 31, 2016	%	December 31, 2015	%	March 31, 2015	%
<b>Current liabilities</b>							
Short-term borrowings	6(14)	\$ 48,025,807	13	\$ 49,123,477	14	\$ 50,933,722	14
Financial liabilities at fair value through profit or loss-current	6(2)	-	-	32,194	-	5,009	-
Trade payables		22,411,868	6	15,511,132	4	19,117,651	5
Trade payables to related parties	7	610,766	-	645,120	-	532,322	-
Other payables	6(15)	28,548,426	8	31,558,621	9	29,317,638	8
Current tax liabilities	4, 6(24)	2,854,693	1	2,269,892	1	7,699,862	2
Other current liabilities		1,549,710	1	2,069,823	1	510,449	-
Current portion of long-term liabilities		41,160	-	56,212	-	41,606	-
Total current liabilities		104,042,430	29	101,266,471	29	108,158,259	29
<b>Non-current liabilities</b>							
Long-term payables		-	-	-	-	40,036	-
Net defined benefit liabilities-noncurrent	4, 6(16)	756,089	-	755,371	-	954,626	1
Deposits received	7	169,316	-	169,738	-	119,698	-
Deferred tax liabilities	4, 6(24)	2,030,439	1	1,814,256	1	805,608	-
Non-current liabilities-others		169,753	-	156,935	-	135,347	-
Total non-current liabilities		3,125,597	1	2,896,300	1	2,055,315	1
Total liabilities		107,168,027	30	104,162,771	30	110,213,574	30
<b>Equity attributable to owners of the parent</b>							
Share capital	6(17)						
Common stock		15,715,837	4	15,715,837	5	15,714,922	4
Capital collected in advance		-	-	-	-	841	-
Capital surplus	6(17), 6(18), 6(27)	88,321,404	25	88,354,178	25	88,133,136	24
Retained earnings	6(17)						
Legal reserve		32,032,476	9	32,032,476	9	27,392,687	8
Special reserve		-	-	-	-	895,749	-
Undistributed earnings		100,839,284	28	96,476,287	27	115,792,354	32
Other equity	6(17)	6,128,979	2	7,904,918	2	5,268,545	2
Treasury shares	6(17)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		242,982,010	68	240,427,726	68	253,142,264	70
<b>Non-controlling interests</b>	6(17), 6(28)	6,855,102	2	6,659,159	2	477,761	-
Total equity		249,837,112	70	247,086,885	70	253,620,025	70
<b>Total liabilities and equity</b>		<u>\$ 357,005,139</u>	<u>100</u>	<u>\$ 351,249,656</u>	<u>100</u>	<u>\$ 363,833,599</u>	<u>100</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

## MEDIATEK INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31, 2016 and 2015

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

Description	Notes	Three Months Ended March 31			
		2016	%	2015	%
<b>Net sales</b>	6(19), 7	\$ 55,905,486	100	\$ 47,536,221	100
<b>Operating costs</b>	6(8), 6(20), 7	(34,598,088)	(62)	(25,037,623)	(53)
<b>Gross profit</b>		21,307,398	38	22,498,598	47
<b>Operating expenses</b>	6(20), 7				
Selling expenses		(1,995,893)	(3)	(2,168,569)	(4)
Administrative expenses		(1,491,247)	(3)	(1,806,860)	(4)
Research and development expenses		(13,417,166)	(24)	(10,851,192)	(23)
Total operating expenses		(16,904,306)	(30)	(14,826,621)	(31)
<b>Operating income</b>		4,403,092	8	7,671,977	16
<b>Non-operating income and expenses</b>					
Other income	6(21), 7	772,867	1	883,834	2
Other gains and losses	6(22)	108,560	-	(336,314)	(1)
Finance costs	6(23)	(134,483)	-	(155,030)	-
Share of profit of associates accounted for using the equity method	6(9)	128,151	-	77,716	-
Total non-operating income and expenses		875,095	1	470,206	1
<b>Net income before income tax</b>		5,278,187	9	8,142,183	17
<b>Income tax expense</b>	4, 6(24)	(805,200)	(1)	(891,186)	(2)
<b>Net income</b>		4,472,987	8	7,250,997	15
<b>Other comprehensive income</b>	6(9), 6(17), 6(24)				
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations		(1,865,958)	(3)	(809,109)	(2)
Unrealized gains (losses) from available-for-sale financial assets		99,652	-	(533,496)	(1)
Share of other comprehensive income of associates accounted for using the equity method		13,562	-	1,489	-
Income tax relating to those items to be reclassified profit or loss		(18,822)	-	-	-
<b>Other comprehensive income, net of tax</b>		(1,771,566)	(3)	(1,341,116)	(3)
<b>Total comprehensive income</b>		<u>\$ 2,701,421</u>	<u>5</u>	<u>\$ 5,909,881</u>	<u>12</u>
<b>Net income for the periods attributable to :</b>					
Owners of the parent	6(25)	\$ 4,362,997		\$ 7,225,621	
Non-controlling interests	6(17), 6(28)	109,990		25,376	
		<u>\$ 4,472,987</u>		<u>\$ 7,250,997</u>	
<b>Total comprehensive income for the periods attributable to :</b>					
Owners of the parent		\$ 2,587,058		\$ 5,888,053	
Non-controlling interests	6(17), 6(28)	114,363		21,828	
		<u>\$ 2,701,421</u>		<u>\$ 5,909,881</u>	
Basic Earnings Per Share (in New Taiwan Dollars)	6(25)	<u>\$ 2.79</u>		<u>\$ 4.62</u>	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(25)	<u>\$ 2.79</u>		<u>\$ 4.61</u>	

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

## MEDIATEK INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2016 and 2015

(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent										Non-controlling interests	Total equity
	Share capital		Capital surplus	Retained earnings			Other equity		Treasury shares	Equity attributable to owners of the parent		
	Common stock	Capital collected in advance		Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from available-for-sale financial assets				
Balance as of January 1, 2015	\$ 15,714,455	\$ 467	\$ 88,047,914	\$ 27,392,687	\$ 895,749	\$ 108,566,733	\$ 4,218,292	\$ 2,387,821	\$ (55,970)	\$ 247,168,148	\$ 437,599	\$ 247,605,747
Profit for the three months ended March 31, 2015	-	-	-	-	-	7,225,621	-	-	-	7,225,621	25,376	7,250,997
Other comprehensive income for the three months ended March 31, 2015	-	-	-	-	-	-	(804,072)	(533,496)	-	(1,337,568)	(3,548)	(1,341,116)
Total comprehensive income	-	-	-	-	-	7,225,621	(804,072)	(533,496)	-	5,888,053	21,828	5,909,881
Share-based payment transactions	467	374	16,760	-	-	-	-	-	-	17,601	-	17,601
Changes in ownership interests in subsidiaries	-	-	41,097	-	-	-	-	-	-	41,097	18,334	59,431
Changes in other capital surplus	-	-	27,365	-	-	-	-	-	-	27,365	-	27,365
Balance as of March 31, 2015	<u>\$ 15,714,922</u>	<u>\$ 841</u>	<u>\$ 88,133,136</u>	<u>\$ 27,392,687</u>	<u>\$ 895,749</u>	<u>\$ 115,792,354</u>	<u>\$ 3,414,220</u>	<u>\$ 1,854,325</u>	<u>\$ (55,970)</u>	<u>\$ 253,142,264</u>	<u>\$ 477,761</u>	<u>\$ 253,620,025</u>
Balance as of January 1, 2016	\$ 15,715,837	\$ -	\$ 88,354,178	\$ 32,032,476	\$ -	\$ 96,476,287	\$ 6,503,595	\$ 1,401,323	\$ (55,970)	\$ 240,427,726	\$ 6,659,159	\$ 247,086,885
Profit for the three months ended March 31, 2016	-	-	-	-	-	4,362,997	-	-	-	4,362,997	109,990	4,472,987
Other comprehensive income for the three months ended March 31, 2016	-	-	-	-	-	-	(1,859,990)	84,051	-	(1,775,939)	4,373	(1,771,566)
Total comprehensive income	-	-	-	-	-	4,362,997	(1,859,990)	84,051	-	2,587,058	114,363	2,701,421
Share-based payment transactions	-	-	6,801	-	-	-	-	-	-	6,801	-	6,801
Changes in ownership interests in subsidiaries	-	-	(39,575)	-	-	-	-	-	-	(39,575)	81,580	42,005
Balance as of March 31, 2016	<u>\$ 15,715,837</u>	<u>\$ -</u>	<u>\$ 88,321,404</u>	<u>\$ 32,032,476</u>	<u>\$ -</u>	<u>\$ 100,839,284</u>	<u>\$ 4,643,605</u>	<u>\$ 1,485,374</u>	<u>\$ (55,970)</u>	<u>\$ 242,982,010</u>	<u>\$ 6,855,102</u>	<u>\$ 249,837,112</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the three months ended March 31, 2016 and 2015**  
(Amounts in thousands of New Taiwan Dollars)

Description	2016	2015
<b>Cash flows from operating activities :</b>		
Profit before tax from continuing operations	\$ 5,278,187	\$ 8,142,183
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	725,781	414,281
Amortization	933,013	640,440
Bad debt (reversal) provision	(228,457)	44,311
Gains on financial assets and liabilities at fair value through profit or loss	(10,966)	(78,395)
Interest expenses	134,483	155,030
Interest income	(617,646)	(815,708)
Dividend income	(102,902)	(48,394)
Share-based payment expenses	10,505	16,760
Share of profit of associates accounted for using the equity method	(128,151)	(77,716)
Losses on disposal of property, plant and equipment	3,428	481
Gains on disposal of investments	(17,846)	(10,039)
Impairment of financial assets	5,257	56,200
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	268,464	1,770,021
Trade receivables	679,234	(888,098)
Other receivables	312,356	2,350,299
Inventories	(2,879,132)	(5,643,225)
Prepayments	(153,872)	(137,005)
Other current assets	345,415	(126,987)
Other non-current assets-others	78,429	-
Trade payables	6,900,736	5,189,687
Trade payables to related parties	(34,354)	(144,874)
Other payables	(3,337,896)	(4,986,432)
Other current liabilities	(520,113)	(165,633)
Long-term payables	(15,052)	(10,340)
Net defined benefit liabilities	718	13,630
Non-current liabilities-others	12,818	(11,529)
Cash generated from operating activities:		
Interest received	579,926	694,732
Dividend received	115,249	63,295
Interest paid	(145,755)	(132,980)
Income tax paid	(233,420)	(274,025)
Net cash provided by operating activities	7,958,437	5,999,970
<b>Cash flows from investing activities :</b>		
Acquisition of available-for-sale financial assets	(984,108)	(1,384,012)
Proceeds from disposal of available-for-sale financial assets	596,545	855,847
Acquisition of debt instrument investments for which no active market exists	(893,491)	(691,197)
Proceeds from disposal of debt instrument investments for which no active market exists	328,482	1,063,731
Acquisition of held-to-maturity financial assets	-	(753,422)
Acquisition of financial assets measured at cost	(362,437)	(75,048)
Proceeds from disposal of financial assets measured at cost	-	24,219
Proceeds from capital return of financial assets measured at cost	-	7,338
Acquisition of investments accounted for using the equity method	(48,423)	(40,331)
Proceeds from capital return of investments accounted for using the equity method	-	20,725
Acquisition of property, plant and equipment	(1,874,280)	(4,510,686)
Proceeds from disposal of property, plant and equipment	56,046	2,793
(Increase) decrease in refundable deposits	(50,579)	9,086
Acquisition of intangible assets	(121,655)	(1,451,687)
Acquisition of investment property	(731)	-
Decrease (increase) in long-term prepaid rent	3,907	(32,657)
Net cash used in investing activities	(3,350,724)	(6,955,301)
<b>Cash flows from financing activities :</b>		
Increase in short-term borrowings	66,178	4,773,129
Decrease in deposits received	(422)	(1,945)
Proceeds from exercise of employee stock options	-	28,076
Change in non-controlling interests	40,813	59,431
Net cash provided by financing activities	106,569	4,858,691
Effect of changes in exchange rate on cash and cash equivalents	(2,031,141)	(557,715)
Net increase in cash and cash equivalents	2,683,141	3,345,645
Cash and cash equivalents at the beginning of the period	153,279,687	192,797,506
Cash and cash equivalents at the end of the period	\$ 155,962,828	\$ 196,143,151

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. Organization and Operation**

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

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

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on April 29, 2016.

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

Standards or interpretations issued by International Standards Board (“IASB”) but not yet endorsed by Financial Supervisory Commission (“FSC”) at the date of issuance of MTK and its subsidiaries’ (“the Company”) 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
(To be continued)		



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(Continued)

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
Improvements to International Financial Reporting Standards (2011-2013 cycle) :		
IFRS 1	“First-time Adoption of International Financial Reporting Standards”	July 1, 2014
IFRS 3	“Business Combinations”	July 1, 2014
IFRS 13	“Fair Value Measurement”	July 1, 2014
IAS 40	“Investment Property”	July 1, 2014
IFRS 14	“Regulatory Deferral Accounts”	January 1, 2016
IFRS 11	“Joint Arrangements”- Joint operation (Amendment)	January 1, 2016
IAS 16 and IAS 38	“Property, Plant and Equipment” and “Intangible Assets” (Amendment) - Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
IFRS 15	“Revenue from Contracts with Customers”	January 1, 2018
IAS 16 and IAS 41	“Agriculture: Bearer Plants” (Amendment)	January 1, 2016
IFRS 9	“Financial Instruments”	January 1, 2018
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
(To be continued)		

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(Continued)

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IAS 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
IFRS 15	“Revenue from Contracts with Customers” (Amendment)	January 1, 2018

**A. IAS 36 “Impairment of Assets” (Amendment)**

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement.

**B. Improvements to International Financial Reporting Standards (2011-2013 cycle):**

**IFRS 13 “Fair Value Measurement”**

The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” or IFRS 9 “Financial Instruments”, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 “Financial Instruments: Presentation”.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**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).

**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 a requirement that ‘own credit risk’ adjustments are not recognized in profit or loss.

**Impairment:** Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

**Hedge accounting:** Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**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.

**G. IFRS 15 “Revenue from Contracts with Customers” (Amendment)**

The amendment clarifies how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a license should be recognized at a point in time or over time.

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**4. Summary of Significant Accounting Policies**

*Statement of Compliance*

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

*Basis of Preparation*

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

*Basis of Consolidation*

Preparation principle of consolidated financial statement

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

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

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

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

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

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

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

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2016	December 31, 2015	March 31, 2015	
MTK	Hsu-Ta Investment Corp.	General investing	100%	100%	100%	-
MTK	MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100%	100%	100%	-
MTK	MediaTek Investment Singapore Pte. Ltd.	General investing	100%	100%	100%	-
MTK	T-Rich Technology (Cayman) Corp.	General investing	100%	100%	100%	-
MTK	MStar Semiconductor Inc.	Research, manufacturing and sales	100%	100%	100%	-
MTK	Hsu-Chuang Investment Corp.	General investing	100%	100%	100%	1
MTK	HFI Innovation Inc.	Intellectual Property Right Management	100%	-	-	2
Hsu-Ta Investment Corp.	Core Tech Resources Inc.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Capital Corp.	General investing	100%	100%	100%	-
Hsu-Ta Investment Corp.	MediaTek Bangalore Private Limited	Research	0%	0%	0%	-
Hsu-Ta Investment Corp.	Hsu-Si Investment Corp.	General investing	100%	100%	-	3

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2016	December 31, 2015	March 31, 2015	
MediaTek Capital Corp.	RollTech Technology Co., Ltd.	Software development	67%	67%	67%	-
MediaTek Capital Corp.	E-Vehicle Semiconductor Technology Co., Ltd.	Research, manufacturing and sales	51%	51%	59%	-
MediaTek Capital Corp.	Alpha Imaging Technology Corp.	Research, manufacturing and sales	-	-	-	4
MediaTek Capital Corp.	Chingis Technology Corp.	Research	100%	100%	-	5
MediaTek Capital Corp.	Nephos (Taiwan) Inc.	Research	100%	100%	-	6
MediaTek Capital Corp.	Velocenet Inc.	Research	100%	100%	-	6
Core Tech Resources Inc.	MediaTek India Technology Pvt. Ltd.	Research	0%	0%	0%	-
Hsu-Si Investment Corp.	Richtek Technology Corp.	Research, manufacturing and sales	51%	51%	-	3
Richtek Technology Corp	Richstar Group Co., Ltd.	General investing	100%	100%	-	3
Richtek Technology Corp	Ironman Overseas Co., Ltd.	General investing	100%	100%	-	3
Richtek Technology Corp	Richtek Europe Holding B.V.	General investing	100%	100%	-	3
Richtek Technology Corp	Richtek Holding International Limited	General investing	100%	100%	-	3
Richtek Technology Corp	Richpower Microelectronics Corp.	Manufacturing and sales	100%	100%	-	3
Richtek Technology Corp	Li-Yu Investment Corp.	General investing	100%	100%	-	3
Richtek Technology Corp	Richnex Microelectronics Corp.	Research, manufacturing and sales	77%	77%	-	3
Richtek Technology Corp	Richtek Global Marketing Co., Ltd.	General investing	100%	100%	-	3

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2016	December 31, 2015	March 31, 2015	
Richstar Group Co., Ltd.	RichTek USA Inc.	Sales and marketing service	100%	100%	-	3
Ironman Overseas Co., Ltd.	Cosmic-Ray Technology Limited	General investing	100%	100%	-	3
Richtek Europe Holding B.V.	Richtek Europe B.V.	Marketing service	100%	100%	-	3
Cosmic-Ray Technology Limited	Li-We Technology Corp.	Marketing service	100%	100%	-	3
Richpower Microelectronics Corp.	Richpower Microelectronics Corporation	Management service	100%	100%	-	3
Richpower Microelectronics Corp.	Richpower Microelectronics Co., Ltd.	Marketing service	100%	100%	-	3
Li-Yu Investment Corp.	Corporate Event Limited	Marketing service	51%	51%	-	3
Richtek Global Marketing Co., Ltd	Richtek Korea LLC.	Sales and marketing service	100%	100%	-	3
Gaintech Co. Limited	MediaTek China Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	MTK Wireless Limited (UK)	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek Japan Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek India Technology Pvt. Ltd.	Research	100%	100%	100%	-
Gaintech Co. Limited	MediaTek Korea Inc.	Research	100%	100%	100%	-
Gaintech Co. Limited	Hesine Technologies International Worldwide Inc.	General investing	52%	52%	52%	-
Gaintech Co. Limited	Gold Rich International (Samoa) Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Smarthead Limited	General investing	100%	100%	100%	-
Gaintech Co. Limited	Lepower Limited	General investing	-	-	100%	7
Gaintech Co. Limited	Ralink Technology (Samoa) Corp.	General investing	100%	100%	100%	-
Gaintech Co. Limited	EcoNet (Cayman) Inc.	General investing	88%	88%	88%	-

(To be continued)



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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2016	December 31, 2015	March 31, 2015	
Gaintech Co. Limited	MediaTek Wireless FZ-LLC	Technology services	100%	100%	100%	-
Gaintech Co. Limited	Digital Lord Limited	General investing	100%	100%	-	8
Gaintech Co. Limited	Hsu Chia (Samoa) Investment Ltd.	General investing	100%	100%	-	8
Gaintech Co. Limited	Hsu Fa (Samoa) Investment Ltd.	General investing	100%	100%	-	8
Gaintech Co. Limited	Hsu Kang (Samoa) Investment Ltd.	General investing	100%	100%	-	8
Gaintech Co. Limited	Nephos Pte. Ltd.	Research	100%	100%	-	9
Gaintech Co. Limited	Nephos Inc.	Research	100%	100%	-	9
Gaintech Co. Limited	Nephos Cayman Co. Limited	General investing	100%	100%	-	10
MediaTek China Limited	MediaTek (Hefei) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Beijing) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Shenzhen) Inc.	Research and Technology services	100%	100%	100%	-
MediaTek China Limited	MediaTek (Chengdu) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	MediaTek (Wuhan) Inc.	Research	100%	100%	100%	-
MediaTek China Limited	Xuxin Investment (Shanghai) Inc.	General investing	100%	100%	100%	11
MediaTek China Limited	MediaTek (Shanghai) Inc.	Research and Technology services	100%	100%	100%	12
MTK Wireless Limited (UK)	MediaTek Sweden AB	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek USA Inc.	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Denmark Aps	Research	100%	100%	100%	-
MTK Wireless Limited (UK)	MediaTek Wireless Finland Oy	Research	100%	100%	100%	-
Hesine Technologies International Worldwide Inc.	Hesine Technologies, Inc.	Technology services	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2016	December 31, 2015	March 31, 2015	
Gold Rich International (Samoa) Limited	Gold Rich International (HK) Limited	General investing	100%	100%	100%	-
Lepower Limited	Lepower (HK) Limited	General investing	-	-	100%	7
Digital Lord Limited	Lepower (HK) Limited	General investing	100%	100%	-	7
Lepower (HK) Limited	Lepower Technologies (Beijing), Inc.	Research, manufacturing and sales	91%	91%	91%	-
E-Vehicle Semiconductor Technology Co., Ltd.	E-Vehicle Holdings Corp.	General investing	100%	100%	100%	-
E-Vehicle Holdings Corp.	E-Vehicle Investment Limited	General investing	100%	100%	100%	-
E-Vehicle Investment Limited	E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	100%	100%	100%	-
EcoNet (Cayman) Inc.	Shadow Investment Limited	General investing	100%	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	Research and sales	100%	100%	100%	-
EcoNet (HK) Limited	EcoNet (Suzhou) Limited	Research, manufacturing and sales	100%	100%	100%	-
Shadow Investment Limited	MediaTek (Suzhou) Inc.	Research	100%	100%	100%	-
Shadow Investment Limited	MediaTek (Nanjing) Inc.	Research	100%	100%	100%	-
Ralink Technology (Samoa) Corp.	AutoChips Inc.	Research, manufacturing and sales	83%	86%	89%	-
MediaTek Investment Singapore Pte. Ltd.	MStar Semiconductor B.V.	General investing	100%	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	Lightup International Corp.	General investing	100%	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	MediaTek Bangalore Private Limited	Research	100%	100%	100%	-
MediaTek Investment Singapore Pte. Ltd.	Gaintech Co. Limited	General investing	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2016	December 31, 2015	March 31, 2015	
MediaTek Investment Singapore Pte. Ltd.	Cloud Ranger Limited	General investing	100%	100%	100%	13
MStar Semiconductor B.V.	White Dwarf Limited	General investing	100%	100%	100%	-
MStar Semiconductor, Inc.	MStar France SAS	Software development	100%	100%	100%	-
MStar Semiconductor, Inc.	Shunfonger Investment Holding Limited	General investing	100%	100%	100%	-
MStar Semiconductor, Inc.	IStar Technology Ltd.	General investing and sales	100%	100%	100%	-
MStar Semiconductor, Inc.	MStar Co., Ltd.	General investing	100%	100%	100%	-
MStar Semiconductor, Inc.	Digimoc Holdings Limited	General investing	100%	100%	100%	-
MStar Semiconductor, Inc.	MStar Semiconductor UK Ltd.	Software and customer development	100%	100%	100%	-
MStar Semiconductor, Inc.	Mrise Technology Inc.	Research, manufacturing and sales	100%	100%	-	14
MStar Semiconductor, Inc.	MSilicon Technology Inc.	Research, manufacturing and sales	-	-	-	4
MStar Semiconductor, Inc.	AIT Holding Ltd.	General investing	100%	100%	-	4
MStar Semiconductor, Inc.	MStar Technology Pte. Ltd.	Customer development	100%	-	-	15
MStar Semiconductor, Inc.	MShining International Corporation	Selling of electronic parts	100%	-	-	15
MSilicon Technology Inc.	Alpha Imaging Technology Corp.	Research, manufacturing and sales	-	-	-	4
Alpha Imaging Technology Corp.	AIT Holding Ltd.	General investing	-	-	-	4
AIT Holding Ltd.	AIT Management Ltd.	General investing	100%	100%	-	4
IStar Technology Ltd.	IStar (HK) Technology Ltd.	General investing and sales	-	-	100%	16

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			March 31, 2016	December 31, 2015	March 31, 2015	
MStar Co. Ltd.	MStar Software R&D (Shenzhen), Ltd.	Software and customer development	100%	100%	100%	-
Digimoc Holdings Limited	Bubbly Bay Holdings Limited	General investing	100%	100%	100%	-
MStar Software R&D (Shenzhen), Ltd.	MStar Chen Xi Software Shanghai Ltd.	Software and customer development	100%	100%	-	17

1. MTK established Hsu-Chuang Investment Corp. in January 2015.
2. MTK established HFI Innovation Inc. in February 2016.
3. Hsu-Ta Investment Corp. established Hsu-Si Investment Corp. ("Hsu-Si Investment") in September 2015 and accomplished the take-over bid process to acquire 51% shares of Richtek Technology Corp. ("Richtek"). Hsu-Si Investment obtained control over Richtek. Subsidiaries of Richtek were included in the consolidated entities thereafter.
4. MStar Semiconductor, Inc. established MSilicon Technology Inc. ("MSilicon") in April 2015 and accomplished the take-over bid process to acquire 82% shares of Alpha Imaging Technology Corp. ("Alpha Tech."). Subsidiaries of Alpha Tech. were included in the consolidated entities thereafter. MSilicon acquired the remaining 18% ownership of Alpha Tech. by paying cash in October 2015. After that, Alpha Tech. was dissolved and MSilicon renamed as Alpha Imaging Technology Corp. ("Alpha Tech."). Moreover, for the purpose of reorganization, Alpha Tech. was dissolved due to the merger with MStar Semiconductor, Inc. in December 2015. The 100% ownership of AIT Holding Ltd., which was previously owned by Alpha Tech., was therefore assumed by MStar Semiconductor, Inc.
5. MediaTek Capital Corp. accomplished the acquisition of 100% shares of Chingis Technology Corp. in September 2015.
6. MediaTek Capital Corp. established Nephos (Taiwan) Inc. and Velocenet Inc. in November 2015.
7. For the purpose of reorganization, the 100% ownership of Lepower (HK) Limited which was previously owned by Lepower Limited, was transferred to Digital Lord Limited in August 2015. Lepower Limited has been liquidated in November 2015.
8. Gaintech Co. Limited established Digital Lord Limited, Hsu Chia (Samoa) Investment Ltd., Hsu Fa (Samoa) Investment Ltd. and Hsu Kang (Samoa) Investment Ltd. in August 2015.
9. Gaintech Co. Limited established Nephos Pte. Ltd. and Nephos Inc. in November 2015.
10. Gaintech Co. Limited established Nephos Cayman Co. Limited in December 2015.
11. MediaTek (Shanghai) Inc. was renamed Xuxin Investment (Shanghai) Inc. in March 2016.
12. MStar Chen Si Electronics Technology (Shanghai) Co., Ltd. was renamed MediaTek (Shanghai) Inc. in November 2015.
13. MediaTek Investment Singapore Pte. Ltd. established Cloud Ranger Limited in February 2015.
14. MStar Semiconductor, Inc. established Mrise Technology Inc. in July 2015.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

15. MStar Semiconductor, Inc. established MStar Technology Pte. Ltd. and MShining International Corporation in March 2016.
16. IStar (HK) Technology Ltd. has been dissolved in July 2015.
17. MStar Software R&D (Shenzhen), Ltd. established MStar Chen Xi Software Shanghai Ltd. in April 2015.

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

Except for the accounting policies listed below, the same accounting policies have been followed in this consolidated financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2015. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2015.

- A. Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.
- B. Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

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

The same significant accounting judgments, estimates and assumptions have been followed in this consolidated financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2015. For the summary of significant accounting judgments, estimates and assumptions, please refer to the consolidated financial statements for the year ended December 31, 2015.

**6. Contents of Significant Accounts**

(1) Cash and cash equivalents

	March 31, 2016	December 31, 2015	March 31, 2015
Cash on hand and petty cash	\$ 6,616	\$ 8,449	\$ 3,881
Checking and savings accounts	25,624,124	32,471,167	25,866,599
Time deposits	130,332,088	120,800,071	170,272,671
Total	<u>\$ 155,962,828</u>	<u>\$ 153,279,687</u>	<u>\$ 196,143,151</u>

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

Cash and cash equivalents were not pledged.

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

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

	March 31, 2016	December 31, 2015	March 31, 2015
<u>Current</u>			
<u>Held for trading financial assets</u>			
Stocks	\$ 4,751	\$ 4,569	\$ 7,783
Forward exchange contracts	-	232	4,319
Cross currency swap contracts	-	-	7,481
Subtotal	4,751	4,801	19,583
 <u>Financial assets designated upon initial recognition at fair value through profit or loss</u>			
Credit-linked deposits	2,845,156	1,928,967	295,128
Exchange rate-linked deposits	1,359,814	1,057,352	771,795
Bonds	1,157,358	590,278	-
Index-linked deposits	250,287	254,605	253,250
Interest rate-linked deposits	-	-	314,601
Subtotal	5,612,615	3,831,202	1,634,774
Total	\$ 5,617,366	\$ 3,836,003	\$ 1,654,357
 <u>Held for trading financial liabilities</u>			
Forward exchange contracts	\$ -	\$ 32,194	\$ 5,009
 <u>Noncurrent</u>			
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>			
Credit-linked deposits	\$ 1,976,746	\$ 2,994,699	\$ 1,538,905
Index-linked deposits	902,463	939,650	916,984
Bonds	534,078	1,121,994	62,959
Interest rate-linked deposits	290,538	297,594	282,609
Exchange rate-linked deposits	-	613,364	1,359,786
Total	\$ 3,703,825	\$ 5,967,301	\$ 4,161,243

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

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

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

	March 31, 2016	December 31, 2015	March 31, 2015
<u>Current</u>			
Bonds	\$ 3,710,938	\$ 3,326,824	\$ 268,244
Funds	3,326,150	2,708,760	1,508,586
Stocks	1,508,000	1,692,605	4,571,211
Depository receipts	29,135	34,942	30,259
Subtotal	8,574,223	7,763,131	6,378,300
<u>Noncurrent</u>			
Funds	4,049,283	4,101,097	3,641,373
Bonds	3,579,919	4,133,564	2,274,913
Stocks	582,538	464,201	131,082
Subtotal	8,211,740	8,698,862	6,047,368
Total	\$ 16,785,963	\$ 16,461,993	\$ 12,425,668

The Company assessed and concluded its available-for-sale financial assets were partially impaired, and recorded an impairment loss of NT\$32,190 thousand for the three months ended March 31, 2015.

Available-for-sale financial assets were not pledged.

## (4) Financial assets measured at cost

	March 31, 2016	December 31, 2015	March 31, 2015
<u>Available-for-sale financial</u>			
<u>assets-noncurrent</u>			
Capital	\$ 4,041,578	\$ 3,768,448	\$ 2,541,330
Non-publicly traded stocks	1,110,974	1,132,564	1,174,081
Total	\$ 5,152,552	\$ 4,901,012	\$ 3,715,411

The Company assessed and concluded its Financial assets measured at cost were partially impaired, and recorded an impairment loss of NT\$5,257 thousand and NT\$24,010 thousand for the three months ended March 31, 2016 and 2015, respectively.

Financial assets measured at cost were not pledged.

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

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

	March 31, 2016	December 31, 2015	March 31, 2015
<u>Current</u>			
Bonds	\$ 1,253,951	\$ 1,257,437	\$ 282,609
<u>Noncurrent</u>			
Bonds	260,179	266,498	879,935
Total	<u>\$ 1,514,130</u>	<u>\$ 1,523,935</u>	<u>\$ 1,162,544</u>

Held-to-maturity financial assets were not pledged.

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

	March 31, 2016	December 31, 2015	March 31, 2015
<u>Current</u>			
Bonds	\$ 1,304,355	\$ 682,340	\$ 435,590
Time deposits	9,180	78,942	57,669
Subtotal	<u>1,313,535</u>	<u>761,282</u>	<u>493,259</u>
<u>Noncurrent</u>			
Preferred stock	3,204	3,312	-
Time deposits	263,173	257,756	210,401
Subtotal	<u>266,377</u>	<u>261,068</u>	<u>210,401</u>
Total	<u>\$ 1,579,912</u>	<u>\$ 1,022,350</u>	<u>\$ 703,660</u>

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

## (7) Trade receivables

	March 31, 2016	December 31, 2015	March 31, 2015
Trade receivables	\$ 20,883,390	\$ 22,768,327	\$ 21,860,903
Less: allowance for doubtful debts	(134,215)	(363,564)	(206,237)
Less: allowance for sales returns and discounts	(5,151,147)	(6,209,445)	(8,307,949)
Total	<u>\$ 15,598,028</u>	<u>\$ 16,195,318</u>	<u>\$ 13,346,717</u>

Trade receivables were not pledged.



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

Trade receivables are generally on 30-75 day terms. The movements in the provision for impairment of trade receivables are as follows (please refer to Note 12 for credit risk disclosure):

	Individually impaired	Collectively impaired	Total
As of January 1, 2016	\$ -	\$ 363,564	\$ 363,564
Reversal for current period	-	(228,457)	(228,457)
Exchange differences	-	(892)	(892)
As of March 31, 2016	\$ -	\$ 134,215	\$ 134,215

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

Aging analysis of trade receivables were as follows:

As of	Neither past due nor impaired	Past due but not impaired		Total
		1 to 90 days	More than 91 days	
March 31, 2016	\$ 15,034,735	\$ 548,141	\$ 15,152	\$ 15,598,028
December 31, 2015	\$ 14,774,185	\$ 1,408,388	\$ 12,745	\$ 16,195,318
March 31, 2015	\$ 12,155,476	\$ 1,191,241	\$ -	\$ 13,346,717

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\$740,240 thousand, NT\$1,114,983 thousand, and NT\$908,339 thousand as of March 31, 2016, December 31, 2015, and March 31, 2015, respectively.

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

As of March 31, 2016, December 31, 2015, and March 31, 2015, trade receivables derecognized were as follows:

**A. As of March 31, 2016:**

The Factor (Transferee)	Interest rate	Trade receivables	Cash	Unutilized (US\$'000)	Credit line (US\$'000)
		derecognized (US\$'000)	withdrawn (US\$'000)		
Taishin International Bank	-	\$ 12,378	\$ -	\$ 12,378	\$ 128,549
BNP Paribas	-	7,139	-	7,139	85,000
HSBC	-	-	-	-	1,000
TC Bank	-	3,413	-	3,413	15,750
ING Bank	-	-	-	-	100,000
Total		\$ 22,930	\$ -	\$ 22,930	\$ 330,299

**B. 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	-	\$ 22,851	\$ -	\$ 22,851	\$ 134,512
BNP Paribas	-	9,855	-	9,855	85,000
HSBC	-	-	-	-	1,000
TC Bank	-	1,014	-	1,014	15,750
ING Bank	-	-	-	-	100,000
Total		\$ 33,720	\$ -	\$ 33,720	\$ 336,262

**C. As of March 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	-	\$ 24,285	\$ -	\$ 24,285	\$ 137,502
BNP Paribas	-	-	-	-	110,000
HSBC	-	139	-	139	800
TC Bank	-	4,503	-	4,503	16,500
Total		\$ 28,927	\$ -	\$ 28,927	\$ 264,802

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

	March 31, 2016	December 31, 2015	March 31, 2015
Raw materials	\$ 2,448,730	\$ 1,542,303	\$ 1,245,355
Work in progress	15,406,338	10,937,902	17,374,772
Finished goods	9,172,031	11,650,139	9,464,614
Net amount	<u>\$ 27,027,099</u>	<u>\$ 24,130,344</u>	<u>\$ 28,084,741</u>

For the three months ended March 31, 2016 and 2015, the cost of inventories recognized in expenses amounted to NT\$34,598,088 thousand and NT\$25,037,623 thousand, including the write-down of inventories of NT\$247,737 thousand and NT\$44,882 thousand for the three months ended March 31, 2016 and 2015, respectively.

Inventories were not pledged.

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

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

	March 31, 2016		December 31, 2015		March 31, 2015	
	Carrying	Percentage	Carrying	Percentage	Carrying	Percentage
Investees	amount	of ownership (%)	amount	of ownership (%)	amount	of ownership (%)
Shenzhen Huiding						
Technology Co., Ltd.	\$ 1,473,549	24	\$ 1,372,733	24	\$ 1,114,623	24
Airoha Technology						
Corp.	543,536	24	538,751	24	544,981	27
Alpha Imaging						
Technology Corp.	-	-	-	-	135,411	15
Others	821,416	-	807,506	-	426,182	-
Total	<u>\$ 2,838,501</u>		<u>\$ 2,718,990</u>		<u>\$ 2,221,197</u>	

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

MSilicon Technology Inc. ("MSilicon") acquired 45,585,967 shares (approximately 82% of Alpha Imaging Technology Corp. ("Alpha Tech.") issued shares) of Alpha Tech. through a tender offer. The price of the tender offer was NT\$37 per share and the total amount paid in cash amounted to NT\$1,686,681 thousand. MSilicon obtained control over Alpha Tech. in May 2015 and Alpha Tech. was included in the consolidation entities thereafter. Please refer to Note 6. (26) for more details.

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

	Three months ended March 31	
	2016	2015
Profit from continuing operations	\$ 92,262	\$ 111,701
Other comprehensive income (post-tax)	(442)	(214)
Total comprehensive income	<u>\$ 91,820</u>	<u>\$ 111,487</u>

The associates had no contingent liabilities or capital commitments and investment in the associates were not pledged as of March 31, 2016, December 31, 2015, and March 31, 2015.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(10) Property, plant and equipment

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:								
As of January 1, 2016	\$ 5,123,337	\$ 15,806,035	\$ 788,085	\$ 4,351,303	\$ 5,989,356	\$ 2,014,817	\$ 9,351,757	\$ 43,424,690
Additions-acquired separately	11,405	44,188	60,790	347,380	197,924	170,576	1,378,478	2,210,741
Disposals	-	(52,174)	(235,077)	(104,604)	(22,724)	(114,724)	-	(529,303)
Transfers	(2,867)	12,658	-	2,732	198,903	-	(224,690)	(13,264)
Exchange differences	-	(97,359)	(718)	(42,534)	(64,168)	(23,199)	(145,912)	(373,890)
As of March 31, 2016	<u>\$ 5,131,875</u>	<u>\$ 15,713,348</u>	<u>\$ 613,080</u>	<u>\$ 4,554,277</u>	<u>\$ 6,299,291</u>	<u>\$ 2,047,470</u>	<u>\$ 10,359,633</u>	<u>\$ 44,718,974</u>
As of January 1, 2015	\$ 3,393,510	\$ 10,941,518	\$ 77,459	\$ 2,919,794	\$ 4,513,002	\$ 1,279,050	\$ 7,793,385	\$ 30,917,718
Additions-acquired separately	-	59,017	649	267,088	180,559	91,505	3,910,890	4,509,708
Disposals	-	(167)	(280)	(77,323)	(39,709)	(2,733)	-	(120,212)
Transfers	6,825	13,735	(2,034)	2,534	126,453	1,998	(150,717)	(1,206)
Exchange differences	56,550	(11,312)	(3,456)	(15,138)	(67,181)	(35,800)	(13,522)	(89,859)
As of March 31, 2015	<u>\$ 3,456,885</u>	<u>\$ 11,002,791</u>	<u>\$ 72,338</u>	<u>\$ 3,096,955</u>	<u>\$ 4,713,124</u>	<u>\$ 1,334,020</u>	<u>\$ 11,540,036</u>	<u>\$ 35,216,149</u>

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

	Land	Buildings and facilities	Machinery equipment	Computer and telecommunication equipment	Testing equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Depreciation and impairment:								
As of January 1, 2016	\$ -	\$ 2,491,917	\$ 80,014	\$ 2,326,856	\$ 3,178,509	\$ 957,317	\$ -	\$ 9,034,613
Depreciation	-	117,951	41,514	203,864	215,649	146,488	-	725,466
Disposals	-	-	(233,939)	(102,568)	(20,609)	(112,713)	-	(469,829)
Transfers	-	(530)	(483)	-	-	483	-	(530)
Exchange differences	-	(5,195)	(714)	(26,570)	(49,410)	(19,691)	-	(101,580)
As of March 31, 2016	<u>\$ -</u>	<u>\$ 2,604,143</u>	<u>\$ (113,608)</u>	<u>\$ 2,401,582</u>	<u>\$ 3,324,139</u>	<u>\$ 971,884</u>	<u>\$ -</u>	<u>\$ 9,188,140</u>
As of January 1, 2015	\$ -	\$ 2,110,031	\$ 14,033	\$ 1,930,859	\$ 2,722,355	\$ 845,885	\$ -	\$ 7,623,163
Depreciation	-	83,434	6,577	109,146	149,933	65,191	-	414,281
Disposals	-	(91)	(280)	(74,948)	(39,247)	(2,372)	-	(116,938)
Transfers	-	(234)	482	105	(242)	163	-	274
Exchange differences	-	4,372	69	(10,040)	(10,987)	(22,081)	-	(38,667)
As of March 31, 2015	<u>\$ -</u>	<u>\$ 2,197,512</u>	<u>\$ 20,881</u>	<u>\$ 1,955,122</u>	<u>\$ 2,821,812</u>	<u>\$ 886,786</u>	<u>\$ -</u>	<u>\$ 7,882,113</u>
Net carrying amount as of:								
March 31, 2016	<u>\$ 5,131,875</u>	<u>\$13,109,205</u>	<u>\$ 726,688</u>	<u>\$ 2,152,695</u>	<u>\$ 2,975,152</u>	<u>\$ 1,075,586</u>	<u>\$ 10,359,633</u>	<u>\$ 35,530,834</u>
December 31, 2015	<u>\$ 5,123,337</u>	<u>\$13,314,118</u>	<u>\$ 708,071</u>	<u>\$ 2,024,447</u>	<u>\$ 2,810,847</u>	<u>\$ 1,057,500</u>	<u>\$ 9,351,757</u>	<u>\$ 34,390,077</u>
March 31, 2015	<u>\$ 3,456,885</u>	<u>\$ 8,805,279</u>	<u>\$ 51,457</u>	<u>\$ 1,141,833</u>	<u>\$ 1,891,312</u>	<u>\$ 447,234</u>	<u>\$ 11,540,036</u>	<u>\$ 27,334,036</u>

Property, plant and equipment were not pledged.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(11) Investment property**

	Land	Buildings	Total
Cost:			
As of January 1, 2016	\$ 218,885	\$ 56,857	\$ 275,742
Additions	475	256	731
Transfers	2,881	7,983	10,864
As of March 31, 2016	<u>\$ 222,241</u>	<u>\$ 65,096</u>	<u>\$ 287,337</u>
Depreciation and impairment:			
As of January 1, 2016	\$ -	\$ 152	\$ 152
Depreciation	-	315	315
Transfers	-	530	530
As of March 31, 2016	<u>\$ -</u>	<u>\$ 997</u>	<u>\$ 997</u>
Net carrying amount as of:			
March 31, 2016	<u>\$ 222,241</u>	<u>\$ 64,099</u>	<u>\$ 286,340</u>
December 31, 2015	<u>\$ 218,885</u>	<u>\$ 56,705</u>	<u>\$ 275,590</u>

There were no investment properties for the three months ended March 31, 2015.

	Three months ended March 31, 2016
Rental income from investment properties	\$ 2,168
Less:	
Direct operating expenses from investment properties generating rental income	(315)
Total	<u>\$ 1,853</u>

Investment properties were not pledged.

The fair value of investment properties were NT\$279,041 thousand as of December 31, 2015. The Company's management assessed that the fair value of its investment properties did not change significantly in the three months ended March 31, 2016.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(12) Intangible assets

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Cost:						
As of January 1, 2016	\$ 772,487	\$ 1,780,819	\$ 5,106,265	\$ 8,560,262	\$ 63,402,900	\$ 79,622,733
Additions-acquired separately	-	102,533	-	19,122	-	121,655
Transfers	-	2,400	-	-	-	2,400
Exchange differences	-	111	-	(35,831)	(14,300)	(50,020)
As of March 31, 2016	<u>\$ 772,487</u>	<u>\$ 1,885,863</u>	<u>\$ 5,106,265</u>	<u>\$ 8,543,553</u>	<u>\$ 63,388,600</u>	<u>\$ 79,696,768</u>
As of January 1, 2015	\$ 422,914	\$ 1,273,257	\$ 2,621,937	\$ 6,603,476	\$ 54,136,415	\$ 65,057,999
Additions-acquired separately	-	49,131	-	2,918,595	-	2,967,726
Disposals	-	-	-	(3,060,890)	-	(3,060,890)
Transfers	-	57,747	-	(56,267)	-	1,480
Exchange differences	(2,032)	(63,690)	(13,409)	(135,937)	(5,841)	(220,909)
As of March 31, 2015	<u>\$ 420,882</u>	<u>\$ 1,316,445</u>	<u>\$ 2,608,528</u>	<u>\$ 6,268,977</u>	<u>\$ 54,130,574</u>	<u>\$ 64,745,406</u>



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

	Trademarks	Software	Customer relationship	Patents, IPs and others	Goodwill	Total
Amortization and impairment:						
As of January 1, 2016	\$ 166,996	\$ 1,138,028	\$ 801,037	\$ 2,085,999	\$ -	\$ 4,192,060
Amortization	28,150	119,467	159,817	625,579	-	933,013
Exchange differences	-	778	-	(15,760)	-	(14,982)
As of March 31, 2016	<u>\$ 195,146</u>	<u>\$ 1,258,273</u>	<u>\$ 960,854</u>	<u>\$ 2,695,818</u>	<u>\$ -</u>	<u>\$ 5,110,091</u>
As of January 1, 2015	\$ 90,032	\$ 856,677	\$ 329,940	\$ 3,023,524	\$ -	\$ 4,300,173
Amortization	16,271	58,355	93,641	472,173	-	640,440
Disposals	-	-	-	(3,060,890)	-	(3,060,890)
Transfers	-	56,172	-	(56,172)	-	-
Exchange differences	-	(54,546)	-	(86,487)	-	(141,033)
As of March 31, 2015	<u>\$ 106,303</u>	<u>\$ 916,658</u>	<u>\$ 423,581</u>	<u>\$ 292,148</u>	<u>\$ -</u>	<u>\$ 1,738,690</u>
Net carrying amount as of:						
March 31, 2016	<u>\$ 577,341</u>	<u>\$ 627,590</u>	<u>\$ 4,145,411</u>	<u>\$ 5,847,735</u>	<u>\$ 63,388,600</u>	<u>\$ 74,586,677</u>
December 31, 2015	<u>\$ 605,491</u>	<u>\$ 642,791</u>	<u>\$ 4,305,228</u>	<u>\$ 6,474,263</u>	<u>\$ 63,402,900</u>	<u>\$ 75,430,673</u>
March 31, 2015	<u>\$ 314,579</u>	<u>\$ 399,787</u>	<u>\$ 2,184,947</u>	<u>\$ 5,976,829</u>	<u>\$ 54,130,574</u>	<u>\$ 63,006,716</u>

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

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

**(14) Short-term borrowings**

	March 31, 2016	December 31, 2015	March 31, 2015
Unsecured bank loans	\$ 48,025,807	\$ 49,123,477	\$ 50,933,722
Interest rates	0.75% ~ 2.22%	0.68% ~ 2.22%	0.58% ~ 1.83%

**(15) Other payables**

	March 31, 2016	December 31, 2015	March 31, 2015
Accrued salaries and bonuses	\$ 12,767,255	\$ 17,157,719	\$ 13,724,416
Accrued royalties	1,572,831	1,252,298	1,858,287
Others	14,208,340	13,148,604	13,734,935
Total	\$ 28,548,426	\$ 31,558,621	\$ 29,317,638

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

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Pension expenses under the defined contribution plan for the three months ended March 31, 2016 and 2015 were NT\$379,349 thousand and NT\$324,523 thousand, respectively.

Defined benefits plan

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

Pension expenses under the defined benefits plan for the three months ended March 31, 2016 and 2015 were NT\$5,961 thousand and NT\$6,603 thousand, respectively.

(17) Equity

A. Share capital

MTK's authorized capital as of March 31, 2016, December 31, 2015, and March 31, 2015 was NT\$20,000,000 thousand, divided into 2,000,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options at each period), each at a par value of NT\$10. MTK's issued capital was NT\$15,715,837 thousand, NT\$15,715,837 thousand, and NT\$15,714,922 thousand, divided into 1,571,583,686 shares, 1,571,583,686 shares, and 1,571,492,244 shares as of March 31, 2016, December 31, 2015, and March 31, 2015, respectively. Each share has one voting right and a right to receive dividends.

MTK issued 46,700 new shares during the three months ended March 31, 2015, at par value of NT\$10 for employee stock options exercised. As of March 31, 2015, 84,103 shares (NT\$841 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance.

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

	March 31, 2016	December 31, 2015	March 31, 2015
Additional paid-in capital	\$ 85,867,533	\$ 85,867,533	\$ 85,838,316
Treasury share transactions	1,369,971	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	142,643	149,965
Changes in ownership interests in subsidiaries	237,267	276,842	256,377
Donated assets	1,261	1,261	1,261
From share of changes in net assets of associates	81,858	81,858	68,058
Employee stock options	509,857	503,056	482,537
Others	111,014	111,014	138,120
Total	<u>\$ 88,321,404</u>	<u>\$ 88,354,178</u>	<u>\$ 88,133,136</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 March 31, 2016, December 31, 2015, and March 31, 2015, 7,794,085 shares of MTK's common shares amounting to NT\$55,970 thousand were held by the subsidiary, MediaTek Capital Corp. These shares held by MediaTek Capital Corp. were acquired for the purpose of financing before the amendment of the Company Act on November 12, 2001.

As of March 31, 2016, December 31, 2015, and March 31, 2015, MTK did not hold any other treasury shares.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**D. Retained earnings and dividend policy**

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

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

However, according to the addition of Article 235-1 of the Company Act announced on May 20, 2015, the Company shall provide a fixed amount or percentage of the profit for the year to be distributed as "employees' compensation", after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employees' compensation may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Furthermore, the Articles of Incorporation may stipulate that the employees' compensation could be distributed to employees of affiliated enterprises meeting certain criteria. The Company expects to amend the related Articles of Incorporation in the shareholders' general meeting in 2016.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

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

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

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

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

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

The appropriations of earnings for 2015 were resolved by the board of directors' meeting on April 29, 2016, subject to the resolution of general shareholders' meeting which will be held on June 24, 2016. The appropriations of earning for 2014 were resolved by the general shareholders' meeting on June 12, 2015. The details of the distribution are as follows:

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

	Appropriation of earnings		Dividend per share (NT\$)	
	2015	2014	2015	2014
Legal reserve	\$ 2,595,843	\$ 4,639,789	-	-
Special reserve reversal	-	(895,749)	-	-
Cash dividends-common stock	17,287,421	34,574,697	\$ 11.00	\$ 22.00
Total	<u>\$ 19,883,264</u>	<u>\$ 38,318,737</u>		

Please refer to Note 6. (20) for relevant information on estimation basis and recognized amounts of employees' compensations (bonuses) and remunerations to directors and supervisors.

**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, 2016	\$ 6,503,595	\$ 1,401,323	\$ 7,904,918
To be reclassified to profit or loss in subsequent periods			
Exchange differences resulting from translating the financial statements of foreign operations	(1,873,552)	-	(1,873,552)
Unrealized gains from available-for-sale financial assets	-	117,265	117,265
Unrealized losses reclassified to profit or loss from available-for-sale financial assets	-	(17,846)	(17,846)
Share of other comprehensive income of associates accounted for using equity method	13,562	-	13,562
Tax effect	-	(15,368)	(15,368)
As of March 31, 2016	<u>\$ 4,643,605</u>	<u>\$ 1,485,374</u>	<u>\$ 6,128,979</u>

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (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	(805,561)	-	(805,561)
Unrealized losses from available-for-sale financial assets	-	(562,138)	(562,138)
Unrealized gains reclassified to profit or loss from available-for-sale financial assets	-	28,642	28,642
Share of other comprehensive income of associates accounted for using equity method	1,489	-	1,489
Tax effect	-	-	-
As of March 31, 2015	\$ 3,414,220	\$ 1,854,325	\$ 5,268,545

**F. Non-controlling interests**

	Three months ended March 31	
	2016	2015
Beginning balance	\$ 6,659,159	\$ 437,599
Gains attributable to non-controlling interests	109,990	25,376
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	7,594	(3,548)
Unrealized losses from available-for-sale financial assets	(3,221)	-
Changes in ownership interests in subsidiaries	81,580	18,334
Ending balance	\$ 6,855,102	\$ 477,761



**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(18) Share-based payment plans**

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

Share-based payment plans in MTK

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

Detail information relevant to the share-based payment plan as of March 31, 2016 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	274,180	274,180	\$ 358.0
2008.08.28	1,640,285	467,088	467,088	344.5
2009.08.18	1,382,630	554,698	554,698	429.5
2010.08.27	1,605,757	684,523	684,523	404.8
2010.11.04	65,839	14,634	14,634	377.0
2011.08.24	2,109,871	1,179,852	1,179,852	277.4
2012.08.14	1,346,795	947,792	551,576	286.8
2013.08.22	1,436,343	1,174,795	357,760	368.0

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

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

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

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

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

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

Employee Stock Option	Three months ended March 31			
	2016		2015	
	Options	Weighted-average Exercise Price per Share (NT\$)	Options	Weighted-average Exercise Price per Share (NT\$)
	(Unit)		(Unit)	
Outstanding at beginning of period	5,457,731	\$ 341.8	5,754,998	\$ 341.4
Granted	-	-	-	-
Exercised	-	-	(84,103)	333.8
Forfeited (Expired)	(160,169)	337.6	(30,723)	320.7
Outstanding at end of period	<u>5,297,562</u>	341.9	<u>5,640,172</u>	341.7
Exercisable at end of period	<u>4,084,311</u>		<u>2,970,375</u>	
Weighted-average fair value of options granted during the period (in NT\$)	<u>\$ -</u>		<u>\$ -</u>	

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

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

The information on the outstanding share-based payment plan as of March 31, 2016 and 2015 is as follows:

		Three months ended March 31			
		2016		2015	
		Outstanding stock options		Outstanding stock options	
		Weighted- average Expected Remaining	Weighted- average Exercise Price per Share	Weighted- average Expected Remaining	Weighted- average Exercise Price per Share
Date of grant	Range of Exercise Price (NT\$)	Years	(NT\$)	Years	(NT\$)
2007.12.19	\$ 344.5~358.0	-	\$ 349.5	-	\$ 349.5
2009.07.27	429.5	-	429.5	0.88	429.5
2010.05.10	377.0~404.8	0.92	404.2	1.92	404.2
2011.08.09	277.4	1.92	277.4	2.92	277.4
2012.08.09	286.8	2.88	286.8	3.88	286.8
2013.08.09	368.0	3.92	368.0	4.92	368.0

Share-based payment plans of Subsidiaries

In November 2014, board of directors of EcoNet (Cayman) Inc. resolved to issue employee stock options with a total number of 1,235,388 units, each unit eligible to subscribe for one common share of EcoNet (Cayman) Inc. The options may be granted to qualified employees of EcoNet (Cayman) Inc. and its subsidiaries. 788,244 units and 152,682 units of stock options were granted on December 31, 2014 and January 31, 2015, respectively. The total numbers of outstanding stock options were 872,036 units and 940,926 units as of March 31, 2016 and 2015, respectively.

Subsidiaries Cash-settled Share-based Payment Transactions

The Company acquired 51% shares of Richtek on October 7, 2015 and Richtek was included in the consolidated entities thereafter. On March 24, 2014, the board of directors of Richtek resolved to issue a cash-settled share-based payment plan (share appreciation rights plan). The options may be granted to certain qualified employees of Richtek and its domestic and foreign subsidiaries. The options are valid for three years and are exercisable at an accumulated percentage subsequent to the grant date. Richtek will pay the intrinsic value in cash once the employees exercise the options.

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

Relevant information on share appreciation rights plan is disclosed as followed:

	<u>2014 Share appreciation right plan</u>
Grant date	May 2, 2014
Total number granted (in thousand)	1,200
Contractual term	3 years
Exercise price at grant date	\$ 174

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

	Unit (in thousand)	Weighted-average exercise price per Share (NT\$)
January 1, 2016	916	\$ 160
Granted	-	-
Exercised	(4)	160
Forfeited (Expired)	(7)	160
Outstanding at end of period	905	160
Exercisable at end of period (NT\$/per share)	905	

The abovementioned exercised price would be adjusted in accordance with the plan when the issuance of cash dividend and the appropriations of earnings happened.

On April 29, 2016, subsidiary of Hsu-Si Investment paid NT\$195 in cash per share for the rest of Richtek's outstanding shares. After Hsu-Si Investment acquired 100% of Richtek's shares, Richtek would be delisted from TWSE. On November 9, 2015, the board of directors of Richtek resolved to revise the share appreciation rights plan. The revision of content was to acquire employee's stocks by paying NT\$195 per share on the date Richtek was delisted from TWSE to substitute for paying intrinsic value of closing price at the date of exercise. The Company measured the fair value of share appreciation rights at NT\$195 per share for the three months ended March 31, 2016. Please refer to Note 6. (26) for relevant information for the merger with Richtek Technology Corp.

Richtek recognized expense due to the share appreciation rights plan in the amount of NT\$2,512 thousand for the three months ended March 31, 2016. As of March 31, 2016, related liabilities recognized amounted to NT\$31,676 thousand. The vested intrinsic value of share appreciation rights was NT\$9,907 thousand.

Share-based compensation expenses recognized for employee services received for the three months ended March 31, 2016 and 2015, are shown in the following table:

	<u>Three months ended March 31</u>	
	2016	2015
Total equity-settled transactions	\$ 7,993	\$ 16,760
Share appreciation rights plan	\$ 2,512	\$ -

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

	Three months ended March 31	
	2016	2015
Sale of goods	\$ 62,955,310	\$ 54,410,553
Other operating revenues	352,668	320,921
Less: Sales returns and discounts	(7,402,492)	(7,195,253)
Net sales	<u>\$ 55,905,486</u>	<u>\$ 47,536,221</u>

**(20) Summary statement of employee benefits, depreciation and amortization expenses by function for the three months ended March 31, 2016 and 2015:**

	Three months ended March 31					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 4,198	\$ 381,112	\$ 385,310	\$ 4,008	\$ 327,118	\$ 331,126
Others	\$ 155,926	\$ 9,193,597	\$ 9,349,523	\$ 78,917	\$ 8,955,723	\$ 9,034,640
Depreciation	\$ 31,654	\$ 694,127	\$ 725,781	\$ 795	\$ 413,486	\$ 414,281
Amortization	\$ 174	\$ 932,839	\$ 933,013	\$ -	\$ 640,440	\$ 640,440

A resolution was passed at a Board of Directors meeting of MTK 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. However, the Company's accumulated losses shall have been covered (if any). MTK 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 can be obtained from the "Market Observation Post System" on the website of the TWSE.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Base on profit of the three months ended March 31, 2016, MTK estimated the amounts of the employees' compensation and remuneration to directors to be NT\$57,653 thousand and NT\$7,783 thousand, respectively, recognized as salary expense. If the board of directors resolved to distribute employees' compensation in the form of stocks, then the number of stocks distributed was calculated based on the closing price one day earlier than the date of resolution. If the estimated amounts differ from the actual distribution resolved by the board of directors, MTK will recognize the change as an adjustment to income of next year.

MTK estimated the amounts of the employee bonuses and remuneration to directors and supervisors for the three months ended March 31, 2015 to be NT\$90,573 thousand and NT\$13,043 thousand, respectively. The employees' bonuses were estimated based on a specific rate of net income for the three months ended March 31, 2015 (excluding the impact of employees' bonuses) while the remunerations to directors and supervisors were estimated based on MTK's Articles of Incorporation. The estimated employee's bonuses and remuneration to directors and supervisors for the three months ended March 31, 2015 are recognized as operating expenses for the period.

MTK accrued employees' compensation and remuneration to directors 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, MTK will recognize the change as an adjustment to income of next year. 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. There were no material difference between the aforementioned approved amounts and the amounts charged against earnings in 2015.

The employees' bonuses were estimated based on a specific rate of net income for the year ended December 31, 2014 (excluding the impact of employees' bonuses) while the remunerations to directors and supervisors were estimated based on MTK's Articles of Incorporation. The estimated employees' bonuses and remunerations to directors and supervisors were expensed in current period. If the Board modifies the estimates significantly in the subsequent periods, MTK shall recognize the change as an adjustment to current income. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, MTK shall recognize the change as an adjustment to income of next year. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of shares on the day preceding the shareholders' meeting. During the 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. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

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

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

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

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

**(21) Other income**

	Three months ended March 31	
	2016	2015
Interest income	\$ 617,646	\$ 815,708
Dividend income	102,902	48,394
Rental income	12,749	7,873
Others	39,570	11,859
Total	<u>\$ 772,867</u>	<u>\$ 883,834</u>

**(22) Other gains and losses**

	Three months ended March 31	
	2016	2015
Losses on disposal of property, plant and equipment	\$ (3,428)	\$ (481)
Gains on disposal of investments		
Available-for-sale financial assets	17,846	3,548
Financial assets measured at cost	-	6,491
Foreign exchange gains (losses)	71,310	(343,730)
Impairment losses		
Available-for-sale financial assets	-	(32,190)
Financial assets measured at cost	(5,257)	(24,010)
Gains on financial assets at fair value through profit or loss	19,711	148,247
Losses on financial liabilities at fair value through profit or loss	-	(5,009)
Others	8,378	(89,180)
Total	<u>\$ 108,560</u>	<u>\$ (336,314)</u>

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(23) Finance costs

	Three months ended March 31	
	2016	2015
Interest expenses on short-term borrowings	\$ 134,483	\$ 155,030

(24) Income tax

The major components of income tax expense are as follows:

	Three months ended March 31	
	2016	2015
Current income tax	\$ 745,724	\$ 695,980
Deferred tax expenses	61,226	199,011
Others	(1,750)	(3,805)
Income tax expense recognized in profit or loss	\$ 805,200	\$ 891,186

Income tax recognized in other comprehensive income

	Three months ended March 31	
	2016	2015
Deferred tax expenses:		
Unrealized gains on available-for-sale financial assets	\$ 18,822	\$ -

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

	Three months ended March 31	
	2016	2015
Accounting profit before tax from continuing operations	\$ 5,278,187	\$ 8,142,183
Tax at the domestic rates applicable to profits in the country concerned	\$ 1,842,800	\$ 1,853,267
Tax effect of revenues exempt from taxation	(565,241)	(550,373)
Tax effect of expenses not deductible for tax purposes	6,109	15,881
Tax effect of deferred tax assets/liabilities	(553,333)	(487,094)
Others	74,865	59,505
Total income tax expense recognized in profit or loss	\$ 805,200	\$ 891,186



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Integrated income tax information

	March 31, 2016	December 31, 2015	March 31, 2015
Balance of the imputation credit account	\$ 9,546,658	\$ 9,546,658	\$ 7,839,262

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

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

The assessment of income tax returns

As of March 31, 2016, the assessment of the income tax returns of MTK and its material subsidiaries are as follows:

	The assessment of income tax returns	Notes
MTK	Assessed and approved up to 2012	(Note)
Subsidiary-MStar Semiconductor Inc.	Assessed and approved up to 2013	
Subsidiary- Hsu-Ta Investment Corp.	Assessed and approved up to 2014	
Subsidiary- MediaTek Capital Corp.	Assessed and approved up to 2013	

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

(25) Earnings per share

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

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

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

	Three months ended March 31	
	2016	2015
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 4,362,997	\$ 7,225,621
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,789,601	1,563,746,061
Basic earnings per share (NT\$)	\$ 2.79	\$ 4.62
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 4,362,997	\$ 7,225,621
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,789,601	1,563,746,061
Effect of dilution:		
Employees' compensation	1,395,144	1,583,346
Employee stock options (share)	(Note)	1,318,855
Weighted average number of ordinary shares outstanding after dilution (share)	1,565,184,745	1,566,648,262
Diluted earnings per share (NT\$)	\$ 2.79	\$ 4.61

Note: There were no dilutive employee stock options for the three months ended March 31, 2016.

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.

**(26) Business combinations****The Acquisition for Alpha Imaging Technology Corp. ("Alpha Tech.")**

Subsidiary MStar Taiwan established MSilicon in April 2015. On April 9, 2015, the board of directors of MStar Taiwan approved a tender offer by MSilicon for shares of Alpha Tech. The terms of the offer was for NT\$37 in cash for each common share of Alpha Tech outstanding stock. MSilicon completed the tender offer and paid NT\$1,686,681 thousand in cash to acquire 82% of the shares of Alpha Tech. on May 8, 2015. The original 15% interest of Alpha Tech. acquired before the acquisition of de facto control was remeasured at fair value and the difference was recognized as a gain.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

On August 26, 2015, the board of directors of MSilicon approved a merger with Alpha Tech. with the effective merger date set for October 2, 2015. MSilicon, the surviving company, was renamed Alpha Imaging Technology Corp. after the merger. Thereafter, the board of directors of MStar Taiwan approved a merger with Alpha Tech. (originally MSilicon). The effective merger date was December 31, 2015. Alpha Tech. was dissolved thereafter and MStar Taiwan was the surviving company.

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

The Company has measured the non-controlling interest in Alpha Tech. at fair value. The fair value was determined based on market approach. The significant inputs were the share price of Alpha Tech. as of the acquisition date.

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

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Goodwill of Alpha Tech. is as follows:	Amount
Cash consideration (Note)	\$ 1,454,635
Fair value of equity interest in Alpha Tech. originally held by the Company	314,460
Add: non-controlling interest at fair value	266,458
Less: identifiable net assets at fair value	(1,095,400)
Goodwill	<u>\$ 940,153</u>

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

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

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

If the combination had taken place on January 1, 2015, revenues and net income of the Company for the three months ended March 31, 2015 would have been NT\$47,709,138 thousand and NT\$7,226,637 thousand, respectively.

The merger with Chingis Technology Corp.

In August 2015, the board of directors of MediaTek Capital Corp. ("MediaTek Capital"), approved to acquire shares of Chingis Technology Corp. ("Chingis Tech."). MediaTek Capital paid NT\$887,932 thousand in cash to acquire 100% shares of Chingis Tech on September 10, 2015.

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$ 97,290
Current assets	415,172
Property, plant and equipment	38,735
Intangible assets- core techniques	563,000
Other non-current assets	14,560
	<u>1,128,757</u>
Current liabilities	(140,131)
Other liabilities	(106,985)
	<u>(247,116)</u>
Fair value of identifiable net assets	<u>\$ 881,641</u>

Goodwill of Chingis Tech. is as follows:

	Amount
Cash consideration	\$ 887,932
Less: identifiable net assets at fair value	(881,641)
Goodwill	<u>\$ 6,291</u>

Cash flows on acquisition:

	Amount
Net cash acquired from the subsidiary	\$ 97,290
Transaction costs attributable to cash paid	(887,932)
Net cash flow-out on acquisition	<u>\$ (790,642)</u>

The goodwill of NT\$6,291 thousand comprises the value of expected synergies arising from acquisition.

If the combination had taken place on January 1, 2015, revenues and net income of the Company for the three months ended March 31, 2015 would have been NT\$47,687,492 thousand and NT\$7,234,569 thousand, respectively.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

The merger with Richtek Technology Corp.

Subsidiary Hsu-Ta Investment Corp. established Hsu-Si Investment in September 2015. On September 7, 2015, the board of directors of Hsu-Si Investment approved a tender offer for shares of Richtek Technology Corp ("Richtek"). The terms of the offer was NT\$195 in cash for each common share of Richtek. Hsu-Si Investment completed the tender offer and paid NT\$14,770,046 thousand in cash to acquire 51% of the shares of Richtek on October 7, 2015. The share-swap agreement was approved by the extraordinary shareholders' meeting of Richtek and the board of directors of Hsu-Si Investment (on behalf of its shareholders' meeting) on March 3, 2016. Hsu-Si Investment would pay NT\$195 in cash per share for the rest of Richtek's outstanding shares, and Richtek would become a wholly owned subsidiary of Hsu-Si Investment after the completion of share-swap. On April 29, 2016, the share-swap date, Richtek was delisted from the TWSE.

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

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

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

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$ 1,743,522
Current assets	5,636,680
Funds and investments	116,005
Property, plant and equipment	3,596,739
Intangible assets- patent, IP and customer relationship	3,943,375
Other non-current assets	464,122
	<hr/> 15,500,443 <hr/>

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

	Fair value recognized on the acquisition date
Current liabilities	(2,758,580)
Other non-current liabilities	(48,120)
	(2,806,700)
Fair value of identifiable net assets	\$ 12,693,743

Goodwill of Richtek is as follows:	Amount
Cash consideration	\$ 14,770,046
Add: non-controlling interest	6,219,934
Less: identifiable net assets at fair value	(12,693,743)
Goodwill	\$ 8,296,237

Cash flows on acquisition:	Amount
Net cash acquired from the subsidiary	\$ 1,743,522
Transaction costs attributable to cash paid	(14,770,046)
Net cash flow-out on acquisition	\$ (13,026,524)

The identifiable net assets recognized in the consolidated financial statements as of March 31, 2016 were based on a provisional assessment of fair value as the Company had sought an independent valuation for the net assets owned by Richtek. The results of this valuation had not been received at the issuance date of the financial statements. There could be adjustments on the assessment upon finalizing the valuation report.

The goodwill of NT\$8,296,237 thousand comprises the value of expected synergies arising from acquisition.

If the combination had taken place on January 1, 2015, revenues and net income of the Company for the three months ended March 31, 2015 would have been NT\$50,705,695 thousand and NT\$7,627,972 thousand, respectively.

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

Changes in ownership of subsidiaries

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

AutoChips Inc. increased its capital by cash in the three-month period ended March 31, 2016, and the Company did not subscribe new shares in proportionate to its original ownership interest. Consequently, the ownership interest in AutoChips Inc. changed but control over it remained. The difference between the fair value of purchased equity investments and the increase in the non-controlling interest was NT\$39,575 thousand and was recorded in equity.

E-Vehicle Semiconductor Technology Co., Ltd., Hesine Technologies International Worldwide Inc. and AutoChips Inc. issued new shares in 2015 and the Company did not subscribe the new shares in proportionate to its original ownership interest. Consequently, the ownership interest in these companies changed but control over these companies remained. The differences between the fair value of purchased equity investments and the increase in the non-controlling interest for the three months ended March 31, 2015 and the year ended December 31, 2015 were NT\$41,097 thousand and NT\$61,562 thousand, respectively, and were recorded in equity.

**(28) Subsidiaries that have material non-controlling interests**

Financial information of subsidiaries that have material non-controlling interests are provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of Incorporation and operation	March 31, 2016
Richtek Technology Corp.	Taiwan	49%

Accumulated balances of material non-controlling interest:

	March 31, 2016
Richtek Technology Corp.	\$ 6,102,261

Profit allocated to material non-controlling interest:

	Three months ended March 31, 2016
Richtek Technology Corp.	\$ 89,445



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

The summarized financial information of these subsidiaries are provided below. This information is based on amounts after inter-company eliminations.

Summarized information of profit or loss for the three months ended March 31, 2016:

	Richtek Technology Corp.
Operating revenue	\$ 3,037,741
Profit for the period from continuing operations	\$ 183,154
Total comprehensive income for the period	\$ 164,630

Summarized information of assets and liabilities as of March 31, 2016:

	Richtek Technology Corp.
Current assets	\$ 7,145,724
Non-current assets	\$ 8,094,624
Current liabilities	\$ 2,705,622
Non-current liabilities	\$ 79,597

Summarized information of cash flow for the three months ended March 31, 2016:

	Richtek Technology Corp.
Operating activities	\$ 670,205
Investing activities	\$ (174,971)
Financing activities	\$ (17,064)
Net increase in cash and cash equivalents	\$ 478,170

**7. Related Party Transactions**

**(1) Significant transactions with related parties**

**A. Sales**

	Three months ended March 31	
	2016	2015
Associates	\$ -	\$ 1,740

For the three months ended March 31, 2016 and 2015, respectively, the trade credit term for associates were both 45 to 60 days. The trade credit term for third-party customers was 30 to 75 days, or may pay their accounts in advance.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

	Three months ended March 31	
	2016	2015
Other related parties	\$ 624,610	\$ 536,770

For the three months ended March 31, 2016 and 2015, respectively, the trade credit term for related parties and third-party customers were both 60 to 75 days.

C. License expenses

	Three months ended March 31	
	2016	2015
Other related parties	\$ -	\$ 18,518

D. Purchases

	Three months ended March 31	
	2016	2015
Associates	\$ 1,946	\$ -

For the three months ended March 31, 2016 and 2015, respectively, the trade credit term for associates was 30 days. The trade credit term for third-party customers was 30 to 60 days.

E. Rental income

	Three months ended March 31	
	2016	2015
Associates	\$ 143	\$ 214
Other related parties	1,594	2,336
Total	\$ 1,737	\$ 2,550

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

F. Acquisition of intangible assets

	Three months ended March 31	
	2016	2015
Other related parties	\$ -	\$ 9,944

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

## G. Other receivables from related parties

	March 31, 2016	December 31, 2015	March 31, 2015
Other related parties	\$ -	\$ 75	\$ 150

## H. Trade payables to related parties

	March 31, 2016	December 31, 2015	March 31, 2015
Other related parties	\$ 610,766	\$ 645,120	\$ 532,322

## I. Key management personnel compensation

	Three months ended March 31	
	2016	2015
Short-term employee benefits (Note)	\$ 190,180	\$ 501,908
Post-employment benefits	1,156	565
Share-based payment	681	-
Total	\$ 192,017	\$ 502,473

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

**8. Assets Pledged as Collateral**

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

Assets pledged as collateral	Carrying amount			Purpose of pledge
	March 31, 2016	December 31, 2015	March 31, 2015	
Debt instrument investments for which no active market exists-current	\$ 9,180	\$ 9,180	\$ 3,142	Customs clearance deposits
Debt instrument investments for which no active market exists-current	-	15,714	15,434	Land lease guarantee
Debt instrument investments for which no active market exists-current	-	1,439	1,353	Credit guarantee

(To be continued)

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

(Continued)

Assets pledged as collateral	Carrying amount			Purpose of pledge
	March 31, 2016	December 31, 2015	March 31, 2015	
Debt instrument investments for which no active market exists-current	-	50,000	-	Wafer capacity guarantee
Debt instrument investments for which no active market exists-current	-	2,609	-	Import guarantee
Debt instrument investments for which no active market exists-current	-	-	37,740	Project performance deposits
Debt instrument investments for which no active market exists-noncurrent	3,152	3,139	-	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	551	564	570	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	122	125	126	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	200,000	200,000	200,000	Project performance deposits
Debt instrument investments for which no active market exists-noncurrent	9,705	9,705	9,705	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	10,000	20,000	-	Court Pledged
Debt instrument investments for which no active market exists-noncurrent	23,929	24,223	-	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	15,714	-	-	Land lease guarantee
Total	<u>\$ 272,353</u>	<u>\$ 336,698</u>	<u>\$ 268,070</u>	

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**9. Contingencies and Off Balance Sheet Commitments**

**(1) Operating lease commitments-the Company as lessee**

The Company has entered into commercial lease contracts with an average life of three to fifty years.

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

	March 31, 2016	December 31, 2015	March 31, 2015
Not later than one year	\$ 517,697	\$ 675,534	\$ 459,319
Later than one year but not later than five years	1,243,845	1,394,772	1,175,329
Later than five years	508,570	589,696	401,769
Total	<u>\$ 2,270,112</u>	<u>\$ 2,660,002</u>	<u>\$ 2,036,417</u>

Operating lease expenses are as follows:

	Three months ended March 31	
	2016	2015
Minimum lease payments	<u>\$ 224,360</u>	<u>\$ 192,535</u>

**(2) Legal claim contingency**

A. Optical Devices, LLC (“Optical Devices”) filed a complaint with the U.S. International Trade Commission (the “Commission”) against MTK and subsidiary MediaTek USA Inc. on September 3, 2013 alleging infringement of United States Patent No. 8,416,651. Optical Devices alleged that MTK’s optical disc drive chips infringe its patent and sought to prevent the accused products from being imported into the United States. The Commission issued an Initial Determination on July 17, 2014 finding that Optical Devices failed to meet the domestic industry requirement and terminating the investigation. On September 3, 2014, the Commission vacated the Initial Determination and remanded the case for further proceedings. On October 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 MTK for further proceedings. On April 27, 2015, the Commission issued an Initial Determination terminate the investigation on the ground of Optical Devices’ lack of standing. The Commission issued notice to affirm the Initial Determination with modified reasoning and terminated the investigation on June 9, 2015.

Also on September 3, 2013, Optical Devices filed a complaint in the United States District Court for the District of Delaware against MTK and subsidiary MediaTek USA Inc., alleging that MTK’s optical disc drive chips infringe the above referenced patent. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

- B. 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 court dismissed the claims with prejudice against MediaTek USA pursuant to the parties' joint stipulation on March 2, 2016.
- C. Innovatio IP Ventures, LLC ("Innovatio") filed a complaint in the United States District Court for the Northern District of Illinois against subsidiary MediaTek USA Inc. on March 16, 2015, alleging infringement of United States Patent Nos. 6,697,415, 5,844,893, 5,740,366, 7,916,747, 6,665,536, 7,013,138, 7,107,052, 5,546,397, 7,710,907, 7,710,935, 6,714,559, 7,457,646 and 6,374,311. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- D. Mariner IC Inc. ("Mariner") filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc. on April 25, 2016, alleging infringement of United States Patent Nos. 5,560,666 and 5,846,874. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.
- E. Semcon IP Inc. ("Semcon") filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiary MediaTek USA Inc. on April 25, 2016, alleging infringement of United States Patent Nos. 7,100,061, 7,596,708, 8,566,627 and 8,806,247. The operations of MTK and subsidiary MediaTek USA Inc. would not be materially affected by this case.

The Company will handle these cases carefully.

**10. Losses due to Major Disasters**

None

**11. Significant Subsequent Events**

The merge of Mrise Technology Inc. ("Mrise Tech.") and ILI Technology Corp. ("ILI Tech.") was approved by the extraordinary shareholders' meeting of ILI Tech. and the board of directors of Mrise Tech. (on behalf of its shareholders' meeting) on October 26, 2015. The terms of the offer would be NT\$51 in cash for each common share of ILI Tech. Mrise Tech. would be the surviving company, and renamed ILI Technology Corp. after the merger. In April 2016, the merger had been approved by the Ministry of Commerce of the People's Republic of China. In addition, on April 14, 2016, both companies' board of directors had approved the merger date to be June 1, 2016.

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

	March 31, 2016	December 31, 2015	March 31, 2015
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$ 4,751	\$ 4,801	\$ 19,583
Financial assets designated upon initial recognition at fair value through profit or loss	9,316,440	9,798,503	5,796,017
Subtotal	9,321,191	9,803,304	5,815,600
Available-for-sale financial assets	16,785,963	16,461,993	12,425,668
Financial assets measured at cost	5,152,552	4,901,012	3,715,411
Held-to-maturity financial assets	1,514,130	1,523,935	1,162,544
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand and petty cash)	155,956,212	153,271,238	196,139,270
Debt instrument investments for which no active market exists	1,579,912	1,022,350	703,660
Trade receivables	15,598,028	16,195,318	13,346,717
Other receivables	2,714,131	2,996,512	3,069,152
Subtotal	175,848,283	173,485,418	213,258,799
Total	\$ 208,622,119	\$ 206,175,662	\$ 236,378,022

Financial liabilities

	March 31, 2016	December 31, 2015	March 31, 2015
Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$ -	\$ 32,194	\$ 5,009
Financial liabilities at amortized cost:			
Short-term borrowings	48,025,807	49,123,477	50,933,722
Trade payables (including related parties)	23,022,634	16,156,252	19,649,973
Other payables	28,548,426	31,558,621	29,317,638
Long-term payables (including current portion)	41,160	56,212	81,642
Subtotal	99,638,027	96,894,562	99,982,975
Total	\$ 99,638,027	\$ 96,926,756	\$ 99,987,984

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**B. Fair values of financial instruments**

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

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

- (a) The carrying amount of cash and cash equivalents, trade receivables, other receivable, short-term borrowings, trade payables (including related parties) and other payables approximate their fair value due to their short maturities.
- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds) at the reporting date.
- (c) The fair value of derivative financial instrument is based on market quotations. For unquoted derivatives that are not options, the fair value is determined based on discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the option pricing model.
- (d) The fair value of other financial assets and liabilities is determined using discounted cash flow analysis; the interest rate and discount rate are selected with reference to those of similar financial instruments.

**b. Fair value of financial instruments measured at amortized cost**

Other than those listed in the table below, the carrying amount of the Company's financial assets and liabilities measured at amortized cost approximate their fair value:

	Carrying amount as of		
	March 31, 2016	December 31, 2015	March 31, 2015
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ 1,514,130	\$ 1,523,935	\$ 1,162,544



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

	Fair value as of		
	March 31, 2016	December 31, 2015	March 31, 2015
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ 1,499,399	\$ 1,507,295	\$ 1,161,883

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:

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**As of March 31, 2016

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value				
through profit or loss				
Stocks	\$ 4,751	\$ -	\$ -	\$ 4,751
Bonds	-	-	1,691,436	1,691,436
Linked deposits	-	2,803,102	4,821,902	7,625,004
Available-for-sale financial assets				
Depository receipts	29,135	-	-	29,135
Stocks	1,930,999	126,838	32,701	2,090,538
Bonds	6,181,565	-	1,109,292	7,290,857
Funds	5,536,825	-	1,838,608	7,375,433
Total	<u>\$ 13,683,275</u>	<u>\$ 2,929,940</u>	<u>\$ 9,493,939</u>	<u>\$ 26,107,154</u>

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				
Stocks	\$ 4,569	\$ -	\$ -	\$ 4,569
Bonds	-	-	1,712,272	1,712,272
Derivative financial instruments	-	232	-	232
Linked deposits	-	3,162,565	4,923,666	8,086,231
Available-for-sale financial assets				
Depository receipts	34,942	-	-	34,942
Stocks	1,996,275	127,830	32,701	2,156,806
Bonds	6,327,276	-	1,133,112	7,460,388
Funds	5,560,767	-	1,249,090	6,809,857
Total	<u>\$ 13,923,829</u>	<u>\$ 3,290,627</u>	<u>\$ 9,050,841</u>	<u>\$ 26,265,297</u>

Financial liabilities:

Financial liabilities at fair value

through profit or loss

Derivative financial instruments	\$ -	\$ 32,194	\$ -	\$ 32,194
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**MEDIATEK INC. AND SUBSIDIARIES**

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

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

As of March 31, 2015

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

Financial liabilities:

Financial liabilities at fair value

through profit or loss

Derivative financial instruments	<u>\$ -</u>	<u>\$ 5,009</u>	<u>\$ -</u>	<u>\$ 5,009</u>
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For the three months ended March 31, 2016 and 2015, 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:

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

	Financial assets at fair value through profit or loss		Available-for-sale financial assets			
	Linked					
	Bonds	deposits	Bonds	Funds	Stocks	Total
As of January 1, 2016	\$ 1,712,272	\$ 4,923,666	\$ 1,133,112	\$ 1,249,090	\$ 32,701	\$ 9,050,841
Amount recognized in profit or loss	20,085	(43,721)	2,279	243	-	(21,114)
Amount recognized in OCI	-	-	866	-	-	866
Amount recognized in OCI- exchange differences	(40,921)	(84,008)	(26,965)	(21,326)	-	(173,220)
Acquisitions	-	40,000	-	660,758	-	700,758
Settlements	-	(14,035)	-	(50,157)	-	(64,192)
As of March 31, 2016	<u>\$ 1,691,436</u>	<u>\$ 4,821,902</u>	<u>\$ 1,109,292</u>	<u>\$ 1,838,608</u>	<u>\$ 32,701</u>	<u>\$ 9,493,939</u>

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		
	Linked				
	Bonds	deposits	Bonds	Funds	Total
As of January 1, 2015	\$ 63,199	\$ 1,692,128	\$ 216,868	\$ 470,350	\$ 2,442,545
Amount recognized in profit or loss	63	(1,563)	-	699	(801)
Amount recognized in OCI	-	-	-	-	-
Amount recognized in OCI- exchange differences	(303)	(11,032)	(2,167)	(4,370)	(17,872)
Acquisitions	-	154,500	-	50,650	205,150
Settlements	-	-	-	(347,652)	(347,652)
As of March 31, 2015	<u>\$ 62,959</u>	<u>\$ 1,834,033</u>	<u>\$ 214,701</u>	<u>\$ 169,677</u>	<u>\$ 2,281,370</u>

Total profits or losses recognized for the three months ended March 31, 2016 and 2015 contained losses related to bonds, funds and linked deposits on hand as of March 31, 2016 and 2015 in the amount of NT\$28,733 thousand and NT\$1,500 thousand, respectively.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

The significant unobservable inputs to valuations of recurring fair value measurements categorized within Level 3 of the fair value hierarchy are shown below:

As of March 31, 2016:

	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of the inputs to fair value
Stock	Market Approach	Price-Book ratio of similar entities	6.87 ~ 27.01	The higher the Price-Book ratio of similar entities, the higher the fair value estimated number	10% increase (decrease) in the Price-Book ratio of similar entities would result in an increase (decrease) in profit or loss by NT\$3,570 thousand.

As of December 31, 2015:

	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of the inputs to fair value
Stock	Market Approach	Price-Book ratio of similar entities	15.08 ~ 21.17	The higher the Price-Book ratio of similar entities, the higher the fair value estimated number	10% increase (decrease) in the Price-Book ratio of similar entities would result in an increase (decrease) in profit or loss by NT\$3,539 thousand.

As of March 31, 2015:

None

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

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Company's 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.

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 March 31, 2016

	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	\$ 1,499,399	\$ -	\$ -	\$ 1,499,399
Investment property	\$ -	\$ -	\$ 279,040	\$ 279,040

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	\$ 1,507,295	\$ -	\$ -	\$ 1,507,295
Investment property	\$ -	\$ -	\$ 279,040	\$ 279,040

As of March 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	\$ 1,161,883	\$ -	\$ -	\$ 1,161,883

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

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

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

The Company had no outstanding forward exchange contracts and cross currency swap contracts as of March 31, 2016.

Forward exchange contracts	Currency	Contract amount ( '000)	Maturity
As of December 31, 2015	TWD to USD	Sell USD146,000	January 2016
As of March 31, 2015	TWD to USD	Sell USD80,000	April 2015
As of March 31, 2015	CNY to USD	Sell USD1,800	September 2015

Cross currency swap contracts	Contracts amount('000)	Maturity	Interest rate paid interval	Interest rate received interval
As of March 31, 2015	USD16,991	April 2015	-	-

The Company entered into forward foreign exchange contracts and cross currency swap 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. AND SUBSIDIARIES**

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

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

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

When NTD appreciates or depreciates against USD by 0.1 %, the profit for the three months ended March 31, 2016 and 2015 would decrease/increase by NT\$1,117 thousand and NT\$4,480 thousand, respectively, while equity would decrease/increase by NT\$9,119 thousand and NT\$40,064 thousand, respectively.



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

When NTD appreciates or depreciates against CNY by 0.1 %, the profit for the three months ended March 31, 2016 and 2015 would decrease/increase by NT\$52 thousand and NT\$5,497 thousand, respectively, while equity would decrease/increase by NT\$3,969 thousand and NT\$1,419 thousand, respectively.

**b. Interest rate risk**

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

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, including investments with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause the profit for the three months ended March 31, 2016 and 2015 to increase/decrease by NT\$6,397 thousand and NT\$1,988 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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

A change of 1% in the price of the listed equity securities classified under available-for-sale could cause the other comprehensive income for the three months ended March 31, 2016 and 2015 to increase/decrease by NT\$74,970 thousand and NT\$97,128 thousand, respectively.

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

**B. Credit risk management**

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

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

As of March 31, 2016, December 31, 2015, and March 31, 2015, receivables from top ten customers represented 66.89%, 74.52% and 62.59% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

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

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

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

**C. Liquidity risk management**

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

**Non-derivative financial instruments**

	Less than 1 year	1 to 5 years	Total
<u>As of March 31, 2016</u>			
Borrowings	\$ 48,066,716	\$ -	\$ 48,066,716
Trade payables (including related parties)	23,022,634	-	23,022,634
Other payables	28,532,267	-	28,532,267
Long-term payables	41,160	-	41,160
Total	<u>\$ 99,662,777</u>	<u>\$ -</u>	<u>\$ 99,662,777</u>

**As of December 31, 2015**

Borrowings	\$ 49,177,323	\$ -	\$ 49,177,323
Trade payables (including related parties)	16,156,252	-	16,156,252
Other payables	31,531,189	-	31,531,189
Long-term payables	56,212	-	56,212
Total	<u>\$ 96,920,976</u>	<u>\$ -</u>	<u>\$ 96,920,976</u>

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

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

Derivative financial instrumentsAs of March 31, 2016

None

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<u>As of December 31, 2015</u>			
Net settlement			
Forward exchange contracts	<u>\$ (33,996)</u>	<u>\$ -</u>	<u>\$ (33,996)</u>

As of March 31, 2015

## Gross settlement

## Forward exchange contracts

Inflow	\$ 1,877,185	\$ -	\$ 1,877,185
Outflow	(1,884,060)	-	(1,884,060)
Net	<u>\$ (6,875)</u>	<u>\$ -</u>	<u>\$ (6,875)</u>

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

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

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

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

March 31, 2016			
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
<b>Financial assets</b>			
Monetary item:			
USD	\$ 2,308,207	32.282	\$ 74,513,516
CNY	\$ 10,602	5.00574	\$ 53,074
Non-monetary item:			
USD	\$ 588,685	32.282	\$ 19,003,915
CNY	\$ 792,967	5.00574	\$ 3,969,388
<b>Financial liabilities</b>			
Monetary item:			
USD	\$ 2,579,786	32.282	\$ 83,280,478
CNY	\$ 313	5.00574	\$ 1,639
<b>December 31, 2015</b>			
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
<b>Financial assets</b>			
Monetary item:			
USD	\$ 2,288,875	33.066	\$ 75,683,947
CNY	\$ 27,334	5.092	\$ 139,187
Non-monetary item:			
USD	\$ 570,775	33.066	\$ 18,873,241
CNY	\$ 715,035	5.092	\$ 3,641,023
<b>Financial liabilities</b>			
Monetary item:			
USD	\$ 2,323,707	33.066	\$ 76,763,931
CNY	\$ 10,078	5.092	\$ 51,319

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

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

The Company's entities functional currency are various, and hence is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange gain (loss) were NT\$71,310 thousand and NT\$(343,730) thousand for the three months ended March 31, 2016 and 2015, respectively.

**(4) Capital management**

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

**13. Segment Information**

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