

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

**MEDIATEK INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**WITH**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**FOR THE SIX MONTHS ENDED**

**JUNE 30, 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 June 30, 2016 and June 30, 2015, the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2016 and 2015, and consolidated statements of changes in equity and cash flows for the six months ended June 30, 2016 and 2015. 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  
August 3, 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 June 30, 2016, December 31, 2015, and June 30, 2015

(June 30, 2016 and 2015 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	June 30, 2016	%	December 31, 2015	%	June 30, 2015	%
<b>Current assets</b>							
Cash and cash equivalents	6(1)	\$ 159,213,927	42	\$ 153,279,687	44	\$ 195,824,210	53
Financial assets at fair value through profit or loss-current	6(2)	4,743,188	1	3,836,003	1	668,505	-
Available-for-sale financial assets-current	6(3)	6,027,064	2	7,763,131	2	5,522,326	2
Held-to-maturity financial assets-current	6(5)	1,176,968	-	1,257,437	-	354,724	-
Debt instrument investments for which no active market exists-current	6(6), 8	922,893	-	761,282	-	754,466	-
Trade receivables, net	6(7)	21,013,897	6	16,195,318	4	12,250,444	3
Other receivables	6(7), 7	3,174,050	1	2,996,512	1	3,183,007	1
Current tax assets		497,647	-	319,202	-	278,640	-
Inventories, net	6(8)	34,013,847	9	24,130,344	7	33,653,896	9
Prepayments		2,547,295	1	2,192,349	1	2,709,002	1
Non-current assets held for sale	4, 6(28)	3,014,727	1	-	-	-	-
Other current assets		2,108,778	-	2,141,910	1	941,954	-
Total current assets		238,454,281	63	214,873,175	61	256,141,174	69
<b>Non-current assets</b>							
Financial assets at fair value through profit or loss-noncurrent	6(2)	3,696,326	1	5,967,301	2	4,285,966	1
Available-for-sale financial assets-noncurrent	6(3)	9,194,418	3	8,698,862	3	7,908,335	2
Held-to-maturity financial assets-noncurrent	6(5)	-	-	266,498	-	1,304,738	-
Financial assets measured at cost-noncurrent	6(4)	5,349,022	1	4,901,012	1	3,695,796	1
Debt instrument investments for which no active market exists-noncurrent	6(6), 8	270,958	-	261,068	-	210,379	-
Investments accounted for using the equity method	6(9)	4,442,644	1	2,718,990	1	2,363,381	1
Property, plant and equipment	6(10), 6(27), 8	36,981,213	10	34,390,077	10	28,299,971	8
Investment property	6(11)	225,888	-	275,590	-	-	-
Intangible assets	6(12), 6(13), 6(27), 7	73,805,889	20	75,430,673	21	63,907,154	17
Deferred tax assets	4, 6(25)	3,471,457	1	2,997,362	1	2,891,779	1
Refundable deposits		325,103	-	239,755	-	196,473	-
Long-term prepaid rent		142,347	-	150,864	-	150,350	-
Other non-current assets-others		-	-	78,429	-	-	-
Total non-current assets		137,905,265	37	136,376,481	39	115,214,322	31
<b>Total assets</b>		<u>\$ 376,359,546</u>	<u>100</u>	<u>\$ 351,249,656</u>	<u>100</u>	<u>\$ 371,355,496</u>	<u>100</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

## MEDIATEK INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

As of June 30, 2016, December 31, 2015, and June 30, 2015

(June 30, 2016 and 2015 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	June 30, 2016	%	December 31, 2015	%	June 30, 2015	%
<b>Current liabilities</b>							
Short-term borrowings	6(14)	\$ 60,849,295	16	\$ 49,123,477	14	\$ 57,490,882	16
Financial liabilities at fair value through profit or loss-current	6(2)	-	-	32,194	-	5,145	-
Trade payables		29,056,169	8	15,511,132	4	18,102,087	5
Trade payables to related parties	7	1,049,412	-	645,120	-	703,913	-
Other payables	6(15)	51,537,363	14	31,558,621	9	63,786,495	17
Current tax liabilities	4, 6(25)	3,027,218	1	2,269,892	1	2,573,237	1
Liabilities directly associated with non-current assets held for sale	4, 6(28), 7	531,839	-	-	-	-	-
Other current liabilities		2,974,982	1	2,069,823	1	987,133	-
Current portion of long-term liabilities		27,443	-	56,212	-	45,052	-
Total current liabilities		149,053,721	40	101,266,471	29	143,693,944	39
<b>Non-current liabilities</b>							
Long-term borrowings	6(16), 8	584,800	-	-	-	-	-
Long-term payables		-	-	-	-	26,409	-
Net defined benefit liabilities-noncurrent	4, 6(17)	759,465	-	755,371	-	950,073	-
Deposits received	7	180,068	-	169,738	-	118,702	-
Deferred tax liabilities	4, 6(25)	2,038,346	1	1,814,256	1	990,838	-
Non-current liabilities-others		160,527	-	156,935	-	137,696	-
Total non-current liabilities		3,723,206	1	2,896,300	1	2,223,718	-
Total liabilities		152,776,927	41	104,162,771	30	145,917,662	39
<b>Equity attributable to owners of the parent</b>							
Share capital	6(18)						
Common stock		15,715,837	4	15,715,837	5	15,715,763	4
Capital collected in advance		-	-	-	-	55	-
Capital surplus	6(18), 6(19), 6(29)	88,185,393	24	88,354,178	25	88,191,328	24
Retained earnings	6(18)						
Legal reserve		34,628,319	9	32,032,476	9	32,032,476	9
Undistributed earnings		79,540,242	21	96,476,287	27	83,823,840	23
Other equity	6(18)	4,796,953	1	7,904,918	2	4,874,709	1
Treasury shares	6(18)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		222,810,774	59	240,427,726	68	224,582,201	61
<b>Non-controlling interests</b>	6(18)	771,845	-	6,659,159	2	855,633	-
Total equity		223,582,619	59	247,086,885	70	225,437,834	61
<b>Total liabilities and equity</b>		<u>\$ 376,359,546</u>	<u>100</u>	<u>\$ 351,249,656</u>	<u>100</u>	<u>\$ 371,355,496</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 six months ended June 30, 2016 and 2015

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

Description	Notes	Three Months Ended June 30				Six Months Ended June 30			
		2016	%	2015	%	2016	%	2015	%
<b>Net sales</b>	6(20), 7	\$ 72,527,311	100	\$ 47,044,056	100	\$ 128,432,797	100	\$ 94,580,277	100
<b>Operating costs</b>	6(8), 6(21), 7	(46,974,155)	(65)	(25,447,682)	(54)	(81,572,243)	(64)	(50,485,305)	(54)
<b>Gross profit</b>		<u>25,553,156</u>	<u>35</u>	<u>21,596,374</u>	<u>46</u>	<u>46,860,554</u>	<u>36</u>	<u>44,094,972</u>	<u>46</u>
<b>Operating expenses</b>	6(21), 7								
Selling expenses		(3,210,590)	(4)	(1,654,870)	(3)	(5,206,483)	(4)	(3,823,439)	(4)
Administrative expenses		(1,631,884)	(2)	(2,177,881)	(5)	(3,123,131)	(2)	(3,984,741)	(4)
Research and development expenses		(13,641,491)	(19)	(10,897,246)	(23)	(27,058,657)	(21)	(21,748,438)	(23)
Total operating expenses		<u>(18,483,965)</u>	<u>(25)</u>	<u>(14,729,997)</u>	<u>(31)</u>	<u>(35,388,271)</u>	<u>(27)</u>	<u>(29,556,618)</u>	<u>(31)</u>
<b>Operating income</b>		<u>7,069,191</u>	<u>10</u>	<u>6,866,377</u>	<u>15</u>	<u>11,472,283</u>	<u>9</u>	<u>14,538,354</u>	<u>15</u>
<b>Non-operating income and expenses</b>									
Other income	6(22), 7	881,125	1	1,119,616	2	1,653,992	1	2,003,450	2
Other gains and losses	6(23)	(139,685)	-	(620,213)	(1)	(31,125)	-	(956,527)	(1)
Finance costs	6(24)	(126,035)	-	(99,632)	-	(260,518)	-	(254,662)	-
Share of profit of associates accounted for using the equity method	6(9)	66,892	-	141,004	-	195,043	-	218,720	-
Total non-operating income and expenses		<u>682,297</u>	<u>1</u>	<u>540,775</u>	<u>1</u>	<u>1,557,392</u>	<u>1</u>	<u>1,010,981</u>	<u>1</u>
<b>Net income before income tax</b>		<u>7,751,488</u>	<u>11</u>	<u>7,407,152</u>	<u>16</u>	<u>13,029,675</u>	<u>10</u>	<u>15,549,335</u>	<u>16</u>
<b>Income tax expense</b>	4, 6(25)	<u>(1,161,769)</u>	<u>(2)</u>	<u>(1,029,745)</u>	<u>(2)</u>	<u>(1,966,969)</u>	<u>(2)</u>	<u>(1,920,931)</u>	<u>(2)</u>
<b>Net income</b>		<u>6,589,719</u>	<u>9</u>	<u>6,377,407</u>	<u>14</u>	<u>11,062,706</u>	<u>8</u>	<u>13,628,404</u>	<u>14</u>
<b>Other comprehensive income</b>	6(9), 6(18), 6(25)								
To be reclassified to profit or loss in subsequent periods									
Exchange differences resulting from translating the financial statements of foreign operations		(1,120,755)	(2)	(641,217)	(1)	(2,986,713)	(2)	(1,450,326)	(2)
Unrealized (losses) gains from available-for-sale financial assets		(218,796)	-	262,236	-	(119,144)	-	(271,260)	-
Share of other comprehensive income of associates accounted for using the equity method		(45,739)	-	(491)	-	(32,177)	-	998	-
Income tax relating to those items to be reclassified profit or loss		5,969	-	-	-	(12,853)	-	-	-
<b>Other comprehensive income, net of tax</b>		<u>(1,379,321)</u>	<u>(2)</u>	<u>(379,472)</u>	<u>(1)</u>	<u>(3,150,887)</u>	<u>(2)</u>	<u>(1,720,588)</u>	<u>(2)</u>
<b>Total comprehensive income</b>		<u>\$ 5,210,398</u>	<u>7</u>	<u>\$ 5,997,935</u>	<u>13</u>	<u>\$ 7,911,819</u>	<u>6</u>	<u>\$ 11,907,816</u>	<u>12</u>
<b>Net income for the periods attributable to :</b>									
Owners of the parent	6(26)	\$ 6,499,546		\$ 6,350,223		\$ 10,862,543		\$ 13,575,844	
Non-controlling interests	6(18)	<u>90,173</u>		<u>27,184</u>		<u>200,163</u>		<u>52,560</u>	
		<u>\$ 6,589,719</u>		<u>\$ 6,377,407</u>		<u>\$ 11,062,706</u>		<u>\$ 13,628,404</u>	
<b>Total comprehensive income for the periods attributable to :</b>									
Owners of the parent		\$ 5,167,520		\$ 5,956,387		\$ 7,754,578		\$ 11,844,440	
Non-controlling interests	6(18)	<u>42,878</u>		<u>41,548</u>		<u>157,241</u>		<u>63,376</u>	
		<u>\$ 5,210,398</u>		<u>\$ 5,997,935</u>		<u>\$ 7,911,819</u>		<u>\$ 11,907,816</u>	
Basic Earnings Per Share (in New Taiwan Dollars)	6(26)	<u>\$ 4.16</u>		<u>\$ 4.06</u>		<u>\$ 6.95</u>		<u>\$ 8.68</u>	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(26)	<u>\$ 4.15</u>		<u>\$ 4.05</u>		<u>\$ 6.94</u>		<u>\$ 8.67</u>	

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

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

**For the six months ended June 30, 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
Appropriation and distribution of 2014 earnings:												
Legal reserve	-	-	-	4,639,789	-	(4,639,789)	-	-	-	-	-	-
Special reserve	-	-	-	-	(895,749)	895,749	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(34,574,697)	-	-	-	(34,574,697)	-	(34,574,697)
Total	-	-	-	4,639,789	(895,749)	(38,318,737)	-	-	-	(34,574,697)	-	(34,574,697)
Profit for the six months ended June 30, 2015	-	-	-	-	-	13,575,844	-	-	-	13,575,844	52,560	13,628,404
Other comprehensive income for the six months ended June 30, 2015	-	-	-	-	-	-	(1,460,144)	(271,260)	-	(1,731,404)	10,816	(1,720,588)
Total comprehensive income	-	-	-	-	-	13,575,844	(1,460,144)	(271,260)	-	11,844,440	63,376	11,907,816
Share-based payment transactions	1,308	(412)	33,096	-	-	-	-	-	-	33,992	-	33,992
Changes in ownership interests in subsidiaries	-	-	78,948	-	-	-	-	-	-	78,948	55,541	134,489
Changes in other capital surplus	-	-	31,370	-	-	-	-	-	-	31,370	-	31,370
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	299,117	299,117
Balance as of June 30, 2015	\$ 15,715,763	\$ 55	\$ 88,191,328	\$ 32,032,476	\$ -	\$ 83,823,840	\$ 2,758,148	\$ 2,116,561	\$ (55,970)	\$ 224,582,201	\$ 855,633	\$ 225,437,834
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
Appropriation and distribution of 2015 earnings:												
Legal reserve	-	-	-	2,595,843	-	(2,595,843)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(17,287,421)	-	-	-	(17,287,421)	-	(17,287,421)
Total	-	-	-	2,595,843	-	(19,883,264)	-	-	-	(17,287,421)	-	(17,287,421)
Profit for the six months ended June 30, 2016	-	-	-	-	-	10,862,543	-	-	-	10,862,543	200,163	11,062,706
Other comprehensive income for the six months ended June 30, 2016	-	-	-	-	-	-	(2,975,968)	(131,997)	-	(3,107,965)	(42,922)	(3,150,887)
Total comprehensive income	-	-	-	-	-	10,862,543	(2,975,968)	(131,997)	-	7,754,578	157,241	7,911,819
Share-based payment transactions	-	-	13,523	-	-	-	-	-	-	13,523	-	13,523
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)	-	-	(7,915,324)	-	-	-	(8,057,967)	-	(8,057,967)
Changes in ownership interests in subsidiaries	-	-	(39,665)	-	-	-	-	-	-	(39,665)	81,580	41,915
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	(6,126,135)	(6,126,135)
Balance as of June 30, 2016	\$ 15,715,837	\$ -	\$ 88,185,393	\$ 34,628,319	\$ -	\$ 79,540,242	\$ 3,527,627	\$ 1,269,326	\$ (55,970)	\$ 222,810,774	\$ 771,845	\$ 223,582,619

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

## MEDIATEK INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 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	\$ 13,029,675	\$ 15,549,335
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	1,469,592	836,576
Amortization	1,905,743	1,335,519
Bad debt reversal	(177,444)	(28,018)
Losses (Gains) on financial assets and liabilities at fair value through profit or loss	36,433	(55,570)
Interest expenses	260,518	254,662
Interest income	(1,265,290)	(1,623,035)
Dividend income	(209,503)	(298,173)
Share-based payment expenses	18,919	33,096
Share of profit of associates accounted for using the equity method	(195,043)	(218,720)
Losses on disposal of property, plant and equipment	4,281	5,841
Losses (Gains) on disposal of investments	70,640	(419,467)
Impairment of financial assets	71,172	851,478
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	1,110,785	2,554,711
Trade receivables	(3,590,835)	417,241
Other receivables	(118,429)	2,019,155
Inventories	(8,456,650)	(11,021,248)
Prepayments	(318,190)	(454,293)
Other current assets	(174,753)	(165,823)
Other non-current assets-others	78,429	-
Trade payables	13,231,234	4,090,420
Trade payables to related parties	414,541	26,717
Other payables	2,634,966	(5,128,998)
Other current liabilities	909,627	308,164
Long-term payables	(28,769)	(20,521)
Net defined benefit liabilities	(447)	8,506
Non-current liabilities-others	3,592	(9,180)
Cash generated from operating activities:		
Interest received	1,105,540	1,722,405
Dividend received	209,503	378,389
Interest paid	(271,020)	(189,678)
Income tax paid	(1,590,140)	(6,205,072)
Net cash provided by operating activities	20,168,677	4,554,419
<b>Cash flows from investing activities :</b>		
Acquisition of available-for-sale financial assets	(3,100,913)	(3,457,035)
Proceeds from disposal of available-for-sale financial assets	3,174,149	1,872,910
Acquisition of debt instrument investments for which no active market exists	(1,369,394)	(1,330,601)
Proceeds from disposal of debt instrument investments for which no active market exists	320,300	1,497,320
Acquisition of held-to-maturity financial assets	-	(1,254,664)
Proceeds from redemption of held-to-maturity financial assets	318,904	-
Acquisition of financial assets measured at cost	(627,484)	(379,335)
Proceeds from disposal of financial assets measured at cost	-	23,964
Proceeds from capital return of financial assets measured at cost	-	27,547
Acquisition of investments accounted for using the equity method	(1,630,443)	(285,047)
Proceeds from capital return of investments accounted for using the equity method	12,348	20,506
Net cash outflow from acquisition of subsidiaries	(2,406,378)	(1,105,005)
Acquisition of property, plant and equipment	(4,038,815)	(5,976,486)
Proceeds from disposal of property, plant and equipment	57,370	3,861
(Increase) decrease in refundable deposits	(65,537)	3,121
Acquisition of intangible assets	(231,743)	(1,766,624)
Acquisition of investment property	(731)	-
Decrease (increase) in long-term prepaid rent	8,517	(30,430)
Net cash used in investing activities	(9,579,850)	(12,135,998)
<b>Cash flows from financing activities :</b>		
Increase in short-term borrowings	11,301,823	11,330,289
Proceeds from long-term borrowings	290,000	-
Increase (decrease) deposits received	10,330	(2,941)
Proceeds from exercise of employee stock options	-	29,624
Acquisition of subsidiaries	(14,184,102)	-
Change in non-controlling interests	39,031	134,489
Net cash (used) provided by financing activities	(2,542,918)	11,491,461
Effect of changes in exchange rate on cash and cash equivalents	(1,396,106)	(883,178)
Net increase in cash and cash equivalents	6,649,803	3,026,704
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	\$ 159,929,490	\$ 195,824,210
Reconciliation of the balances of cash and cash equivalents at the end of the period:		
Cash and cash equivalents on the consolidated balance sheets	\$ 159,213,927	\$ 195,824,210
Cash and cash equivalents included in non-current assets held for sale	715,563	-
Cash and cash equivalents at the end of the period	\$ 159,929,490	\$ 195,824,210

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

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. Organization and Operation**

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

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

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on August 3, 2016.

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

(1) Standards or interpretations issued, revised or amended, which are recognized and not applied by Financial Supervisory Commission ("FSC"), but not yet adopted by MTK and its subsidiaries ("the Company") at the date of issuance of the Company's financial statements are listed below:

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IAS 36	"Impairment of Assets" (Amendment)	January 1, 2014
IFRIC 21	"Levies"	January 1, 2014
IAS 39	"Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IAS 19	"Employee Benefits" (Amendment) - Defined benefit plans: employee contributions	July 1, 2014
Improvements to International Financial Reporting Standards (2010-2012 cycle) :		
IFRS 2	"Share-based Payment"	July 1, 2014
IFRS 3	"Business Combinations"	July 1, 2014
IFRS 8	"Operating Segments"	July 1, 2014
IFRS 13	"Fair Value Measurement"	July 1, 2014
IAS 16	"Property, Plant and Equipment"	July 1, 2014
IAS 24	"Related Party Disclosures"	July 1, 2014
IAS 38	"Intangible Assets"	July 1, 2014
(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
IAS 16 and IAS 41	“Agriculture: Bearer Plants” (Amendment)	January 1, 2016
IAS 27	“Separate Financial Statements” - Equity Method in Separate Financial Statements (Amendment)	January 1, 2016
Improvements to International Financial Reporting Standards (2012-2014 cycle) :		
IFRS 5	“Non-current Assets Held for Sale and Discontinued Operations”	January 1, 2016
IFRS 7	“Financial Instruments : Disclosures”	January 1, 2016
IAS 19	“Employee Benefits”	January 1, 2016
IAS 34	“Interim Financial Reporting”	January 1, 2016
IAS 1	“Presentation of Financial Statements”- Disclosure Initiative	January 1, 2016
IFRS 10, IFRS 12 and IAS 28	“Investment Entities”- Applying the Consolidation Exception	January 1, 2016

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**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”.

**C. 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.

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

The abovementioned standards and interpretations issued by International Accounting Standards Board (“IASB”) and recognized by FSC so that they are applicable for annual periods beginning on or after January 1, 2017. Apart from item A to C which would have the potential impact on the Company, the remaining standards and interpretations have no material impact on the Company.

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

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 15	“Revenue from Contracts with Customers”	January 1, 2018
IFRS 9	“Financial Instruments”	January 1, 2018
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
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) - Disclosure Initiative	January 1, 2017
IFRS 15	“Revenue from Contracts with Customers” (Amendment)	January 1, 2018
IFRS 2	“Shared-Based Payment” (Amendment)	January 1, 2018

**A. 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:

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

- 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.

**B. 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.

**C. 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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**D. 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.

**E. IFRS 2 “Shared-Based Payment” - (Amendment)**

The amendment contains (1) clarifying that vesting conditions (service or non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (2) clarifying if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee’s tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and (3) clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognized in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognized on that date. Any difference between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss.

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**4. Summary of Significant Accounting Policies**

*Statement of Compliance*

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

*Basis of Preparation*

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

*Basis of Consolidation*

Preparation principle of consolidated financial statement

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

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

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

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

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

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

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

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

If loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			June 30, 2016	December 31, 2015	June 30, 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%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			June 30, 2016	December 31, 2015	June 30, 2015	
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
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%	51%	-
MediaTek Capital Corp.	Alpha Imaging Technology Corp.	Research, manufacturing and sales	-	-	4%	4
MediaTek Capital Corp.	Chingis Technology Corp.	Research	100%	100%	-	5
MediaTek Capital Corp.	Velocenet Inc.	Research	100%	100%	-	6
MediaTek Capital Corp.	Nephos (Taiwan) 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	100%	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

(To be continued)



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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			June 30, 2016	December 31, 2015	June 30, 2015	
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
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%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			June 30, 2016	December 31, 2015	June 30, 2015	
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%	-
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
Gaintech Co. Limited	Dynamic Presence Limited	General investing	100%	-	-	11
Gaintech Co. Limited	White Dwarf Limited	General investing	100%	-	-	12
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%	13

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			June 30, 2016	December 31, 2015	June 30, 2015	
MediaTek China Limited	MediaTek (Shanghai) Inc.	Research and Technology services	100%	100%	100%	14
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%	-
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%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			June 30, 2016	December 31, 2015	June 30, 2015	
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%	-
MediaTek Investment Singapore Pte. Ltd.	Cloud Ranger Limited	General investing	100%	100%	100%	15
MStar Semiconductor B.V.	White Dwarf Limited	General investing	-	100%	100%	12
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.	ILI Technology Corporation	Research, manufacturing and sales	100%	100%	-	16
MStar Semiconductor, Inc.	MSilicon Technology Inc.	Research, manufacturing and sales	-	-	100%	4

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			June 30, 2016	December 31, 2015	June 30, 2015	
MStar Semiconductor, Inc.	AIT Holding Ltd.	General investing	100%	100%	100%	4
MStar Semiconductor, Inc.	MStar Technology Pte. Ltd.	Customer development	100%	-	-	17
MStar Semiconductor, Inc.	MShining International Corporation	Selling of electronic parts	100%	-	-	17
MSilicon Technology Inc.	Alpha Imaging Technology Corp.	Research, manufacturing and sales	-	-	82%	4
Alpha Imaging Technology Corp.	AIT Holding Ltd.	General investing	-	-	100%	4
AIT Holding Ltd.	AIT Management Ltd.	General investing	100%	100%	100%	4
IStar Technology Ltd.	IStar (HK) Technology Ltd.	General investing and sales	-	-	100%	18
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%	100%	19
MStar Semiconductor UK Ltd.	MSilicon Technology Corp.	Research and technology services	100%	100%	-	20
MStar Technology Pte. Ltd.	MStar Semiconductor India Private Limited	Research and technology services	100%	-	-	21
IStar Technology Ltd.	MStar Chen Xin Technology (Beijing), Ltd.	Research and technology services	100%	-	-	22
ILI Technology Corporation	ILITEK Holding Inc.	General investing	100%	-	-	16
ILITEK Holding Inc.	ILI Technology(SZ) LTD.	Technology services	100%	-	-	16
MediaTek (Shenzhen) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	2%	-	-	23
MediaTek (Shanghai) Inc.	Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership)	General investing	2%	-	-	23

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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. In April 2016, Hsu-Si Investment acquired the remaining 49% ownership of Richtek.
4. MStar Semiconductor, Inc. ("MStar Taiwan") 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 Alpha Imaging Technology Corp. ("Alpha Tech."). Moreover, for the purpose of reorganization, Alpha Tech. was dissolved due to the merger with MStar Taiwan in December 2015. The 100% ownership of AIT Holding Ltd., which was previously owned by Alpha Tech., was therefore assumed by MStar Taiwan.
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. Gaintech Co. Limited established Dynamic Presence Limited in April 2016.
12. For the purpose of reorganization, the 100% ownership of White Dwarf Limited which was previously owned by MStar Semiconductor B.V., was transferred to Gaintech Co. Limited in April 2016.
13. MediaTek (Shanghai) Inc. was renamed Xuxin Investment (Shanghai) Inc. in March 2016.
14. MStar Chen Si Electronics Technology (Shanghai) Co., Ltd. was renamed MediaTek (Shanghai) Inc. in November 2015.
15. MediaTek Investment Singapore Pte. Ltd. established Cloud Ranger Limited in February 2015.
16. MStar Taiwan established Mrise Technology Inc. ("Mrise") in July 2015 and accomplished the acquisition of 100% shares of ILI Technology Corporation ("ILI Tech.") in June 2016. After that, ILI Tech. was dissolved and Mrise renamed ILI Technology Corporation ("ILI Tech."). Subsidiaries of ILI Tech. were included in the consolidated entities thereafter. As of August 3, 2016, related registration processes have not been completed.
17. MStar Taiwan established MStar Technology Pte. Ltd. and MShining International Corporation in March 2016.
18. IStar (HK) Technology Ltd. has been dissolved in July 2015.
19. MStar Software R&D (Shenzhen), Ltd. established MStar Chen Xi Software Shanghai Ltd. in April 2015.
20. MStar Semiconductor UK Ltd. established MSilicon Technology Corp. in July 2015.
21. MStar Technology Pte. Ltd. established MStar Semiconductor India Private Limited in March 2016.
22. IStar Technology Ltd. established MStar Chen Xin Technology (Beijing), Ltd. in May 2016.
23. MediaTek (Shenzhen) Inc. and MediaTek (Shanghai) Inc. established Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership) in February 2016.

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

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

Except for the accounting policies listed below, the same accounting policies have been followed in this consolidated financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 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.
- C. Non-current assets held for sale  
Non-current assets or disposal groups are classified as held for sale if they are available for immediate sale in their present condition subject only to terms that are usual and customary for sale of such assets or disposal group and that are highly probable to complete within one year. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

**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**

	June 30, 2016	December 31, 2015	June 30, 2015
Cash on hand and petty cash	\$ 5,652	\$ 8,449	\$ 5,878
Checking and savings accounts	22,882,319	32,471,167	24,023,165
Time deposits	136,325,956	120,800,071	171,795,167
Total	<u>\$ 159,213,927</u>	<u>\$ 153,279,687</u>	<u>\$ 195,824,210</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

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Current</u>			
<u>Held for trading financial assets</u>			
Stocks	\$ -	\$ 4,569	\$ 5,418
Forward exchange contracts	-	232	1,693
Subtotal	-	4,801	7,111
 <u>Financial assets designated upon initial recognition at fair value through profit or loss</u>			
Credit-linked deposits	2,811,824	1,928,967	114,540
Exchange rate-linked deposits	1,342,446	1,057,352	296,330
Bonds	290,574	590,278	-
Index-linked deposits	298,344	254,605	250,524
Subtotal	4,743,188	3,831,202	661,394
Total	<u>\$ 4,743,188</u>	<u>\$ 3,836,003</u>	<u>\$ 668,505</u>
 <u>Held for trading financial liabilities</u>			
Forward exchange contracts	<u>\$ -</u>	<u>\$ 32,194</u>	<u>\$ 5,145</u>
 <u>Noncurrent</u>			
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>			
Credit-linked deposits	\$ 1,777,844	\$ 2,994,699	\$ 1,707,561
Bonds	766,393	1,121,994	62,750
Index-linked deposits	591,475	939,650	895,980
Interest rate-linked deposits	560,614	297,594	279,630
Exchange rate-linked deposits	-	613,364	1,340,045
Total	<u>\$ 3,696,326</u>	<u>\$ 5,967,301</u>	<u>\$ 4,285,966</u>

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

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Current</u>			
Bonds	\$ 3,085,315	\$ 3,326,824	\$ 266,653
Funds	2,119,060	2,708,760	1,578,748
Stocks	796,566	1,692,605	3,634,114
Depository receipts	26,123	34,942	42,811
Subtotal	6,027,064	7,763,131	5,522,326
<u>Noncurrent</u>			
Bonds	4,745,731	4,133,564	3,562,646
Funds	3,840,292	4,101,097	4,165,103
Stocks	608,395	464,201	180,586
Subtotal	9,194,418	8,698,862	7,908,335
Total	\$ 15,221,482	\$ 16,461,993	\$ 13,430,661

The Company assessed and concluded its available-for-sale financial assets were partially impaired, and recorded an impairment loss of NT\$457,503 thousand and NT\$489,693 thousand for the three months and six months ended June 30, 2015.

Available-for-sale financial assets were not pledged.

## (4) Financial assets measured at cost

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Available-for-sale financial</u>			
<u>assets-noncurrent</u>			
Capital	\$ 4,073,218	\$ 3,768,448	\$ 2,796,223
Non-publicly traded stocks	1,275,804	1,132,564	899,573
Total	\$ 5,349,022	\$ 4,901,012	\$ 3,695,796

The Company assessed and concluded its financial assets measured at cost were partially impaired, and recorded an impairment loss of NT\$65,915 thousand and NT\$337,775 thousand for the three months ended June 30, 2016 and 2015, respectively. The Company recorded an impairment loss of NT\$71,172 thousand and NT\$361,785 thousand for the six months ended June 30, 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**

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Current</u>			
Bonds	\$ 1,176,968	\$ 1,257,437	\$ 354,724
<u>Noncurrent</u>			
Bonds	-	266,498	1,304,738
Total	\$ 1,176,968	\$ 1,523,935	\$ 1,659,462

Held-to-maturity financial assets were not pledged.

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

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Current</u>			
Bonds	\$ 904,008	\$ 682,340	\$ 676,415
Time deposits	18,885	78,942	78,051
Subtotal	922,893	761,282	754,466
<u>Noncurrent</u>			
Time deposits	267,754	257,756	210,379
Preferred stock	3,204	3,312	-
Subtotal	270,958	261,068	210,379
Total	\$ 1,193,851	\$ 1,022,350	\$ 964,845

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

**(7) Trade receivables**

	June 30, 2016	December 31, 2015	June 30, 2015
Trade receivables	\$ 26,709,037	\$ 22,768,327	\$ 17,574,984
Less: allowance for doubtful debts	(241,802)	(363,564)	(133,854)
Less: allowance for sales returns and discounts	(5,453,338)	(6,209,445)	(5,190,686)
Total	\$ 21,013,897	\$ 16,195,318	\$ 12,250,444

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 30-150 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	-	(177,444)	(177,444)
Acquired through business combinations	-	66,452	66,452
Exchange differences	-	(10,770)	(10,770)
As of June 30, 2016	\$ -	\$ 241,802	\$ 241,802

	Individually impaired	Collectively impaired	Total
As of January 1, 2015	\$ -	\$ 162,112	\$ 162,112
Charge for the current period	-	(28,018)	(28,018)
Exchange differences	-	(240)	(240)
As of June 30, 2015	\$ -	\$ 133,854	\$ 133,854

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	
June 30, 2016	\$ 19,716,801	\$ 1,296,454	\$ 642	\$ 21,013,897
December 31, 2015	\$ 14,774,185	\$ 1,408,388	\$ 12,745	\$ 16,195,318
June 30, 2015	\$ 11,945,287	\$ 305,157	\$ -	\$ 12,250,444

The Company entered into several factoring agreements without recourse with financial institutions. According to those agreements, the Company does not take the risk of uncollectible trade receivables, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related trade receivables after deducting the estimated value of commercial disputes. Receivables from banks due to factoring agreement were NT\$1,784,435 thousand, NT\$1,114,983 thousand, and NT\$1,324,095 thousand as of June 30, 2016, December 31, 2015, and June 30, 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 June 30, 2016, December 31, 2015, and June 30, 2015, trade receivables derecognized were as follows:

**A. As of June 30, 2016:**

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 28,166	\$ -	\$ 28,166	\$ 128,549
BNP Paribas	-	19,683	-	19,683	85,000
HSBC	-	55	-	55	1,000
TC Bank	-	7,365	-	7,365	15,750
ING Bank	-	1	-	1	100,000
Total		<u>\$ 55,270</u>	<u>\$ -</u>	<u>\$ 55,270</u>	<u>\$ 330,299</u>

**B. As of December 31, 2015:**

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 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		<u>\$ 33,720</u>	<u>\$ -</u>	<u>\$ 33,720</u>	<u>\$ 336,262</u>

**C. As of June 30, 2015:**

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 28,478	\$ -	\$ 28,478	\$ 137,519
BNP Paribas	-	8,780	-	8,780	110,000
HSBC	-	62	-	62	1,000
TC Bank	-	5,297	-	5,297	16,500
Total		<u>\$ 42,617</u>	<u>\$ -</u>	<u>\$ 42,617</u>	<u>\$ 265,019</u>

**(8) Inventories**

	June 30, 2016	December 31, 2015	June 30, 2015
Raw materials	\$ 4,013,857	\$ 1,542,303	\$ 901,932
Work in progress	19,891,181	10,937,902	20,499,599
Finished goods	10,108,809	11,650,139	12,252,365
Net amount	<u>\$ 34,013,847</u>	<u>\$ 24,130,344</u>	<u>\$ 33,653,896</u>

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

For the three months ended June 30, 2016 and 2015, the cost of inventories recognized in expenses amounted to NT\$46,974,155 thousand and NT\$25,447,682 thousand, including the reversal gain of the write-down of inventories of NT\$353,643 thousand for the three months ended June 30, 2016 because of circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed and the write down of inventories of NT\$401,293 thousand for the three months ended June 30, 2015.

For the six months ended June 30, 2016 and 2015, the cost of inventories recognized in expenses amounted to NT\$81,572,243 thousand and NT\$50,485,305 thousand, including the reversal gain of the write-down of inventories of NT\$105,906 thousand for the six months ended June 30, 2016 because of circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed and the write down of inventories of NT\$446,175 thousand for the six months ended June 30, 2015.

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:

Investees	June 30, 2016		December 31, 2015		June 30, 2015	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in associates:						
Shenzhen Huiding Technology Co., Ltd.	\$ 1,481,960	24	\$ 1,372,733	24	\$ 1,130,268	24
Airoha Technology Corp.	560,505	24	538,751	24	582,369	27
Others	1,108,739	-	807,506	-	650,744	-
Subtotal	3,151,204		2,718,990		2,363,381	
Investments in jointly controlled entities:						
Yuan Ke (Pingtan) Investment Fund Limited Partnership	1,291,440	73	-	-	-	-
Subtotal	1,291,440		-		-	
Total	\$ 4,442,644		\$ 2,718,990		\$ 2,363,381	

**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. (27) for more details.

The Company invested in Yuan Ke (Pingtan) Investment Fund Limited Partnership in 2016. Yuan Ke (Pingtan) Investment Fund Limited Partnership is accounted for using equity method as the Company has no control over it.

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

	Six months ended June 30	
	2016	2015
Profit from continuing operations	\$ 376,346	\$ 246,882
Other comprehensive income (post-tax)	(5,132)	983
Total comprehensive income	<u>\$ 371,214</u>	<u>\$ 247,865</u>

The associates had no contingent liabilities or capital commitments and investment in the associates were not pledged as of June 30, 2016, December 31, 2015, and June 30, 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	626,012	87,449	598,467	367,971	274,911	1,880,880	3,847,095
Additions-acquired through business combinations	142,453	607,570	134,893	-	54,211	30,528	16,080	985,735
Disposals	-	(50,618)	(4,109)	(114,909)	(30,135)	(62,455)	-	(262,226)
Transfers	(162,057)	283,936	-	(31,076)	188,350	(41,503)	(254,557)	(16,907)
Exchange differences	3	(270,760)	(910)	(92,530)	(124,070)	(46,836)	(398,093)	(933,196)
As of June 30, 2016	<u>\$ 5,115,141</u>	<u>\$ 17,002,175</u>	<u>\$ 1,005,408</u>	<u>\$ 4,711,255</u>	<u>\$ 6,445,683</u>	<u>\$ 2,169,462</u>	<u>\$ 10,596,067</u>	<u>\$ 47,045,191</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	-	112,951	9,589	609,218	562,170	156,160	4,524,296	5,974,384
Additions-acquired through business combinations	-	-	-	1,689	3,791	50,009	2,327	57,816
Disposals	-	(162)	(1,289)	(91,656)	(100,666)	(13,706)	-	(207,479)
Transfers	6,825	19,406	(2,002)	40,288	193,022	7,942	(266,753)	(1,272)
Exchange differences	56,550	(35,828)	(8,972)	(32,546)	(28,692)	(52,262)	(143,792)	(245,542)
As of June 30, 2015	<u>\$ 3,456,885</u>	<u>\$ 11,037,885</u>	<u>\$ 74,785</u>	<u>\$ 3,446,787</u>	<u>\$ 5,142,627</u>	<u>\$ 1,427,193</u>	<u>\$ 11,909,463</u>	<u>\$ 36,495,625</u>

**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	-	238,285	89,492	413,040	437,103	291,114	-	1,469,034
Disposals	-	-	(3,005)	(111,749)	(25,537)	(60,284)	-	(200,575)
Transfers	-	13	(483)	(12,536)	(4,765)	(23,420)	-	(41,191)
Exchange differences	-	(11,171)	(469)	(59,906)	(87,329)	(39,028)	-	(197,903)
As of June 30, 2016	\$ -	\$ 2,719,044	\$ 165,549	\$ 2,555,705	\$ 3,497,981	\$ 1,125,699	\$ -	\$ 10,063,978
As of January 1, 2015	\$ -	\$ 2,110,031	\$ 14,033	\$ 1,930,859	\$ 2,722,355	\$ 845,885	\$ -	\$ 7,623,163
Depreciation	-	165,121	12,175	232,701	305,921	120,658	-	836,576
Disposals	-	(88)	(1,289)	(88,613)	(99,000)	(8,787)	-	(197,777)
Transfers	-	(231)	475	101	(241)	161	-	265
Exchange differences	-	2,611	(184)	(21,917)	(16,114)	(30,969)	-	(66,573)
As of June 30, 2015	\$ -	\$ 2,277,444	\$ 25,210	\$ 2,053,131	\$ 2,912,921	\$ 926,948	\$ -	\$ 8,195,654
Net carrying amount as of:								
June 30, 2016	\$ 5,115,141	\$ 14,283,131	\$ 839,859	\$ 2,155,550	\$ 2,947,702	\$ 1,043,763	\$ 10,596,067	\$ 36,981,213
December 31, 2015	\$ 5,123,337	\$ 13,314,118	\$ 708,071	\$ 2,024,447	\$ 2,810,847	\$ 1,057,500	\$ 9,351,757	\$ 34,390,077
June 30, 2015	\$ 3,456,885	\$ 8,760,441	\$ 49,575	\$ 1,393,656	\$ 2,229,706	\$ 500,245	\$ 11,909,463	\$ 28,299,971

Please refer to Note 8 for more details on property, plant and equipment under pledge.

Please refer to Note 6. (28) for more details on property, plant and equipment reclassifying to non-current assets held for sale.



**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**

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost:			
As of January 1, 2016	\$ 218,885	\$ 56,857	\$ 275,742
Additions	475	256	731
Transfers	(26,203)	(23,685)	(49,888)
As of June 30, 2016	<u>\$ 193,157</u>	<u>\$ 33,428</u>	<u>\$ 226,585</u>
Depreciation and impairment:			
As of January 1, 2016	\$ -	\$ 152	\$ 152
Depreciation	-	558	558
Transfers	-	(13)	(13)
As of June 30, 2016	<u>\$ -</u>	<u>\$ 697</u>	<u>\$ 697</u>
Net carrying amount as of:			
June 30, 2016	<u>\$ 193,157</u>	<u>\$ 32,731</u>	<u>\$ 225,888</u>
December 31, 2015	<u>\$ 218,885</u>	<u>\$ 56,705</u>	<u>\$ 275,590</u>

There were no investment properties for the six months ended June 30, 2015.

	<u>Three months ended</u> <u>June 30, 2016</u>	<u>Six months ended</u> <u>June 30, 2016</u>
Rental income from investment properties	\$ 1,486	\$ 3,654
Less:		
Direct operating expenses from investment properties generating rental income	(243)	(558)
Total	<u>\$ 1,243</u>	<u>\$ 3,096</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 six months ended June 30, 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	-	192,253	-	39,490	-	231,743
Additions-acquired through business combinations	-	23,297	-	73,618	161	97,076
Disposals	-	(1,678)	-	(1,333)	-	(3,011)
Transfers	-	473	7,881	(1,920)	(238)	6,196
Exchange differences	-	(1,665)	-	(65,192)	(14,921)	(81,778)
As of June 30, 2016	<u>\$ 772,487</u>	<u>\$ 1,993,499</u>	<u>\$ 5,114,146</u>	<u>\$ 8,604,925</u>	<u>\$ 63,387,902</u>	<u>\$ 79,872,959</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	-	311,307	-	2,953,158	-	3,264,465
Additions-acquired through business combinations	-	6,121	228,226	120,631	942,674	1,297,652
Disposals	-	-	-	(3,060,717)	-	(3,060,717)
Transfers	-	57,747	-	(56,267)	-	1,480
Exchange differences	(2,031)	(63,911)	(13,409)	(129,453)	(11,962)	(220,766)
As of June 30, 2015	<u>\$ 420,883</u>	<u>\$ 1,584,521</u>	<u>\$ 2,836,754</u>	<u>\$ 6,430,828</u>	<u>\$ 55,067,127</u>	<u>\$ 66,340,113</u>

**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	56,300	229,157	320,224	1,300,062	-	1,905,743
Disposals	-	(1,678)	-	(1,333)	-	(3,011)
Transfers	-	(61)	-	(421)	-	(482)
Exchange differences	-	1,299	-	(28,539)	-	(27,240)
As of June 30, 2016	<u>\$ 223,296</u>	<u>\$ 1,366,745</u>	<u>\$ 1,121,261</u>	<u>\$ 3,355,768</u>	<u>\$ -</u>	<u>\$ 6,067,070</u>
As of January 1, 2015	\$ 90,032	\$ 856,677	\$ 329,940	\$ 3,023,524	\$ -	\$ 4,300,173
Amortization	32,543	121,062	187,281	994,633	-	1,335,519
Disposals	-	-	-	(3,060,717)	-	(3,060,717)
Transfers	-	56,172	-	(56,172)	-	-
Exchange differences	-	(52,343)	-	(89,673)	-	(142,016)
As of June 30, 2015	<u>\$ 122,575</u>	<u>\$ 981,568</u>	<u>\$ 517,221</u>	<u>\$ 811,595</u>	<u>\$ -</u>	<u>\$ 2,432,959</u>
Net carrying amount as of:						
June 30, 2016	<u>\$ 549,191</u>	<u>\$ 626,754</u>	<u>\$ 3,992,885</u>	<u>\$ 5,249,157</u>	<u>\$ 63,387,902</u>	<u>\$ 73,805,889</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>
June 30, 2015	<u>\$ 298,308</u>	<u>\$ 602,953</u>	<u>\$ 2,319,533</u>	<u>\$ 5,619,233</u>	<u>\$ 55,067,127</u>	<u>\$ 63,907,154</u>

Please refer to Note 6. (28) for more details on intangible assets reclassifying to non-current assets held for sale.

**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 cash-generating group of 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**

	June 30, 2016	December 31, 2015	June 30 2015
Unsecured bank loans	\$ 60,849,295	\$ 49,123,477	\$ 57,490,882
Interest rates	0.82%~2.22%	0.68% ~ 2.22%	0.64%~4.05%

**(15) Other payables**

	June 30, 2016	December 31, 2015	June 30 2015
Accrued salaries and bonuses	\$ 16,195,694	\$ 17,157,719	\$ 16,484,245
Dividend payables	17,287,421	-	34,574,697
Accrued royalties	2,801,841	1,252,298	1,062,454
Others	15,252,407	13,148,604	11,665,099
Total	\$ 51,537,363	\$ 31,558,621	\$ 63,786,495

**(16) Long-term borrowings**

Details of long-term loans as of June 30, 2016 are as follows:

Lenders	As of June 30, 2016	Interest Rate (%)	Maturity date and terms of repayment
Secured Long-Term Loan from Mega International Commercial Bank	\$ 290,000	1.86%	Effective from June 15, 2016 to June 15, 2023. Principle is repaid in 21 quarterly payments with monthly interest payment.
Secured Long-Term Loan from Shin Kong Bank	294,800	1.47%	Effective from April 30, 2015 to April 30, 2025. Principle is repaid in 16 semi-annually payments with monthly interest payment.
Total	\$ 584,800		

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Details of long-term loans as of December 31, 2015 and June 30, 2015 are as follows:

None

Please refer to Note 8 for more details on long-term loans under pledge.

**(17) 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.

Pension expenses under the defined contribution plan for the three months ended June 30, 2016 and 2015 were NT\$412,380 thousand and NT\$341,436 thousand, respectively. Pension expenses under the defined contribution plan for the six months ended June 30, 2016 and 2015 were NT\$791,729 thousand and NT\$665,959 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 June 30, 2016 and 2015 were NT\$6,446 thousand and NT\$6,544 thousand, respectively. Pension expenses under the defined benefits plan for the six months ended June 30, 2016 and 2015 were NT\$12,407 thousand and NT\$13,147 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)****(18) Equity****A. Share capital**

MTK's authorized capital as of June 30, 2016, December 31, 2015, and June 30, 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\$15,715,763 thousand, divided into 1,571,583,686 shares, 1,571,583,686 shares, and 1,571,576,347 shares as of June 30, 2016, December 31, 2015, and June 30, 2015, respectively. Each share has one voting right and a right to receive dividends.

MTK issued 130,803 new shares during the six months ended June 30, 2015, at par value of NT\$10 for employee stock options exercised. As of June 30, 2015, 5,533 shares (NT\$55 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance.

**B. Capital surplus**

	June 30, 2016	December 31, 2015	June 30, 2015
Additional paid-in capital	\$ 85,867,533	\$ 85,867,533	\$ 85,865,551
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	149,965
Changes in ownership interests in subsidiaries	237,177	276,842	294,228
Donated assets	1,261	1,261	1,261
From share of changes in net assets of associates	81,858	81,858	70,569
Employee stock options	516,579	503,056	498,873
Others	111,014	111,014	112,379
Total	<u>\$ 88,185,393</u>	<u>\$ 88,354,178</u>	<u>\$ 88,191,328</u>

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

According to the Company Act, the capital surplus shall not be used except for offset the deficit of the company. When a company incurs no loss, it may distribute the capital surplus generated from the excess of the issuance price over the par value of share capital (including the shares issued for mergers and the surplus from treasury shares transactions) and donations. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

**C. Treasury shares**

As of June 30, 2016, December 31, 2015, and June 30, 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 June 30, 2016, December 31, 2015, and June 30, 2015, MTK did not hold any other treasury shares.

**D. Retained earnings and dividend policy**

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

- a. Reserve for tax payments;
- b. Offset losses in previous years, if any;
- c. Legal reserve, which is 10% of leftover profits. However, this restriction does not apply in the event that the amount of the accumulated legal reserve equals or exceeds the Company's total capital stock;
- d. Allocation or reverse of special reserves as required by law or government authorities;
- e. Remuneration for directors and supervisors, at a maximum of 0.5% of remaining net profits after deducting item (a) to (d). The remuneration for directors and supervisors shall be paid in cash;
- f. The remaining net profits and the retained earnings from previous years will be allocated as employees' bonus and shareholders' dividend. Except for setting aside certain portion of it for distribution in the future, the guideline for distribution is that the amount of employees' bonus shall not be lower than 1% of the sum of employees' bonus and shareholders' dividends. Employees' bonus may be paid in cash or in stock. When the bonus is made in the form of stock, the qualified employees may include employees from affiliates companies who meet certain qualification. The board of directors is authorized to determine the qualification of such employees.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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 profit for the current year to be distributed as “employees’ compensation.” MTK’s shareholders’ meeting held on June 24, 2016 passed the resolution of amending the Articles of Incorporation, according to the revised Articles of Incorporations, current year’s earnings, if any, shall be distributed in the following order:

- a. Reserve for tax payments
- b. Offset accumulated losses in previous years, if any;
- c. Legal reserve, which is 10% of leftover profits. However, this restriction does not apply in the event that the amount of the accumulated legal reserve equals or exceeds the Company’s total capital stock;
- d. Allocation or reverse of special reserves as required by law or government authorities;
- e. The remaining net profits and the retained earnings from previous years will be allocated as shareholders’ dividend. The Board of Directors will prepare a distribution proposal and submit the same to the shareholders’ meeting for review and approval by a resolution.

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.



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

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

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

Details of the 2015 and 2014 earnings distribution and dividends per share as resolved by general shareholders' meeting on June 24, 2016 and June 12, 2015, respectively, are as follows:

	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. (21) for relevant information on estimation basis and recognized amounts of employees' compensations and remunerations to directors and supervisors.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****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	(2,943,791)	-	(2,943,791)
Unrealized gains from available-for-sale financial assets	-	(172,203)	(172,203)
Unrealized losses reclassified to profit or loss from available-for-sale financial assets	-	53,059	53,059
Share of other comprehensive income of associates accounted for using equity method	(32,177)	-	(32,177)
Tax effect	-	(12,853)	(12,853)
As of June 30, 2016	\$ 3,527,627	\$ 1,269,326	\$ 4,796,953
	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	(1,461,142)	-	(1,461,142)
Unrealized losses from available-for-sale financial assets	-	(611)	(611)
Unrealized gains reclassified to profit or loss from available-for-sale financial assets	-	(270,649)	(270,649)
Share of other comprehensive income of associates accounted for using equity method	998	-	998
Tax effect	-	-	-
As of June 30, 2015	\$ 2,758,148	\$ 2,116,561	\$ 4,874,709

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

## F. Non-controlling interests

	Six months ended June 30	
	2016	2015
Beginning balance	\$ 6,659,159	\$ 437,599
Gains attributable to non-controlling interests	200,163	52,560
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	(42,922)	10,816
Changes in ownership interests in subsidiaries	81,580	55,541
Acquisitions through business combinations	-	299,117
Acquisition of additional interest in a subsidiary	(6,126,135)	-
Ending balance	\$ 771,845	\$ 855,633

## (19) 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 FSC, 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 June 30, 2016 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)**

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	929,789	550,276	286.8
2013.08.22	1,436,343	1,156,984	355,612	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.

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:

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

Employee Stock Option	Six months ended June 30			
	2016		2015	
	Weighted-average		Weighted-average	
	Options	Exercise Price per	Options	Exercise Price per
	(Unit)	Share (NT\$)	(Unit)	Share (NT\$)
Outstanding at beginning of period	5,457,731	\$ 341.8	5,754,998	\$ 341.4
Granted	-	-	-	-
Exercised	-	-	(89,636)	330.5
Forfeited (Expired)	(195,983)	335.6	(70,941)	332.9
Outstanding at end of period	5,261,748	342.0	5,594,421	341.7
Exercisable at end of period	4,080,863		2,955,646	
Weighted-average fair value of options granted during the period (in NT\$)	\$ -		\$ -	

The weighted average share price at the date of exercise of those options were NT\$485.6 for the six months ended June 30, 2015.

The information on the outstanding share-based payment plan as of June 30, 2016 and 2015 is as follows:

As of June 30					
2016			2015		
Outstanding stock options			Outstanding stock options		
Date of grant	Range of Exercise Price (NT\$)	Weighted-average	Weighted-average	Weighted-average	Weighted-average
		Expected	Exercise Price	Expected	Exercise Price
		Remaining	per Share	Remaining	per Share
		Years	(NT\$)	Years	(NT\$)
2007.12.19	\$ 344.5~358.0	-	\$ 349.5	-	\$ 349.5
2009.07.27	429.5	-	429.5	0.63	429.5
2010.05.10	377.0~404.8	0.67	404.2	1.67	404.2
2011.08.09	277.4	1.67	277.4	2.67	277.4
2012.08.09	286.8	2.63	286.8	3.63	286.8
2013.08.09	368.0	3.67	368.0	4.67	368.0

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**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 867,058 units and 939,901 units as of June 30, 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.

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

	<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	(882)	195
Forfeited (Expired)	(7)	160
Outstanding at end of period	<u>27</u>	195
Exercisable at end of period	<u>27</u>	

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

The 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 six months ended June 30, 2016. Please refer to Note 6. (27) 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 six months ended June 30, 2016. As of June 30, 2016, related liabilities recognized amounted to NT\$931 thousand. The vested intrinsic value of share appreciation rights was NT\$931 thousand.

Share-based compensation expenses recognized for employee services received for the six months ended June 30, 2016 and 2015, are shown in the following table:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Total equity-settled transactions	\$ 8,414	\$ 16,336	\$ 16,407	\$ 33,096
Share appreciation rights plan	-	-	2,512	-
Total	\$ 8,414	\$ 16,336	\$ 18,919	\$ 33,096

**(20) Sales**

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Sale of goods	\$ 82,487,778	\$ 51,316,129	\$ 145,443,088	\$ 105,726,682
Other operating revenues	569,619	240,445	922,287	561,366
Less: Sales returns and discounts	(10,530,086)	(4,512,518)	(17,932,578)	(11,707,771)
Net sales	\$ 72,527,311	\$ 47,044,056	\$ 128,432,797	\$ 94,580,277

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

(21) Summary statement of employee benefits, depreciation and amortization expenses by function for the three months and six months ended June 30, 2016 and 2015:

	Three months ended June 30					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 4,715	\$ 414,111	\$ 418,826	\$ 4,232	\$ 343,748	\$ 347,980
Others	\$ 157,326	\$ 9,895,160	\$ 10,052,486	\$ 80,801	\$ 8,860,738	\$ 8,941,539
Depreciation	\$ 39,784	\$ 704,027	\$ 743,811	\$ 861	\$ 421,434	\$ 422,295
Amortization	\$ 409	\$ 972,321	\$ 972,730	\$ -	\$ 695,079	\$ 695,079

	Six months ended June 30					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 8,913	\$ 795,223	\$ 804,136	\$ 8,240	\$ 670,866	\$ 679,106
Others	\$ 313,252	\$ 19,088,757	\$ 19,402,009	\$ 159,573	\$ 17,797,568	\$ 17,957,141
Depreciation	\$ 71,438	\$ 1,398,154	\$ 1,469,592	\$ 1,656	\$ 834,920	\$ 836,576
Amortization	\$ 583	\$ 1,905,160	\$ 1,905,743	\$ -	\$ 1,335,519	\$ 1,335,519

A resolution was passed at a shareholders' general meeting of MTK held on June 24, 2016 to amend the Articles of Incorporation of the Company. According to the amended Articles of Incorporation of MTK, 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, MTK'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. 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)**

MTK accrued employees' compensation and remuneration to directors based on a specific rate of profit for the six months ended June 30, 2016. The amounts of employees' compensation and remunerations to directors were NT\$87,906 thousand and NT\$11,868 thousand for the three months ended June 30, 2016, respectively. The amounts of employees' compensation and remunerations to directors were NT\$145,559 thousand and NT\$19,651 thousand for the six months ended June 30, 2016, respectively. The amounts of employees' compensation and remunerations to directors and supervisors were NT\$79,128 thousand and NT\$8,994 thousand for the three months ended June 30, 2015, respectively. The amounts of employees' compensation and remunerations to directors and supervisors were NT\$169,701 thousand and NT\$22,037 thousand for the six months ended June 30, 2015, respectively. The employees' compensation and remuneration to directors and supervisors 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 as employees' compensation 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.

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.

**(22) Other income**

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Interest income	\$ 647,644	\$ 807,327	\$ 1,265,290	\$ 1,623,035
Dividend income	106,601	249,779	209,503	298,173
Rental income	59,327	7,733	72,076	15,606
Others	67,553	54,777	107,123	66,636
Total	<u>\$ 881,125</u>	<u>\$ 1,119,616</u>	<u>\$ 1,653,992</u>	<u>\$ 2,003,450</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) Other gains and losses**

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Losses on disposal of property, plant and equipment	\$ (853)	\$ (5,360)	\$ (4,281)	\$ (5,841)
(Losses) gains on disposal of investments				
Available-for-sale financial assets	(70,905)	215,496	(53,059)	219,044
Financial assets measured at cost	(1,000)	(151)	(1,000)	6,340
Investments accounted for using the equity method	-	194,083	-	194,083
Held-to-maturity financial assets	(16,581)	-	(16,581)	-
Foreign exchange gains (losses)	42,738	(235,003)	114,048	(578,733)
Impairment losses				
Available-for-sale financial assets	-	(457,503)	-	(489,693)
Financial assets measured at cost	(65,915)	(337,775)	(71,172)	(361,785)
(Losses) gains on financial assets at fair value through profit or loss	(8,560)	(19,036)	11,151	129,211
Losses on financial liabilities at fair value through profit or loss	-	(136)	-	(5,145)
Others	(18,609)	25,172	(10,231)	(64,008)
Total	<u>\$ (139,685)</u>	<u>\$ (620,213)</u>	<u>\$ (31,125)</u>	<u>\$ (956,527)</u>

**(24) Finance costs**

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Interest expenses on borrowings	<u>\$ 126,035</u>	<u>\$ 99,632</u>	<u>\$ 260,518</u>	<u>\$ 254,662</u>

**(25) Income tax**

The major components of income tax expense are as follows:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Current income tax	\$ 1,546,428	\$ 486,063	\$ 2,292,152	\$ 1,182,043
Deferred tax (incomes) expenses	(324,084)	484,930	(262,858)	683,941
Others	(60,575)	58,752	(62,325)	54,947
Income tax expense recognized in profit or loss	<u>\$ 1,161,769</u>	<u>\$ 1,029,745</u>	<u>\$ 1,966,969</u>	<u>\$ 1,920,931</u>

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Deferred tax (incomes) expenses:				
Unrealized gains on				
available-for-sale financial				
assets	\$ (5,969)	\$ -	\$ 12,853	\$ -

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Accounting profit before tax from				
continuing operations	\$ 7,751,488	\$ 7,407,152	\$ 13,029,675	\$ 15,549,335
Tax at the domestic rates applicable to				
profits in the country concerned	\$ 2,603,093	\$ 1,809,685	\$ 4,445,893	\$ 3,662,952
Tax effect of revenues exempt from				
taxation	(828,652)	(172,143)	(1,393,893)	(722,516)
Tax effect of expenses not deductible for				
tax purposes	(31,151)	79,001	(25,042)	94,882
Investment tax credits	(194,609)	(566,932)	(194,609)	(566,932)
Tax effect of deferred tax assets/liabilities	(1,188,320)	(972,154)	(1,741,653)	(1,459,248)
10% surtax on undistributed retained				
earnings	634,503	807,915	634,503	807,915
Others	166,905	44,373	241,770	103,878
Total income tax expense recognized in				
profit or loss	\$ 1,161,769	\$ 1,029,745	\$ 1,966,969	\$ 1,920,931

Integrated income tax information

	June 30, 2016	December 31, 2015	June 30, 2015
Balance of the imputation credit account	\$ 10,322,643	\$ 9,546,658	\$ 12,619,653

The actual creditable ratio for 2015 and 2014 were 10.66% and 11.55%, respectively. MTK's earnings generated prior to December 31, 1997 have been fully appropriated.

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

As of June 30, 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 2013	(Note 1, 2)
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 1: 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.

Note 2: Ralink Technology Corp. has applied for administrative appeal of the tax return of 2013. 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.

**(26) Earnings per share**

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

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
A. Basic earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 6,499,546	\$ 6,350,223	\$ 10,862,543	\$ 13,575,844
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,789,601	1,563,783,068	1,563,789,601	1,563,764,663
Basic earnings per share (NT\$)	\$ 4.16	\$ 4.06	\$ 6.95	\$ 8.68

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
B. Diluted earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 6,499,546	\$ 6,350,223	\$ 10,862,543	\$ 13,575,844
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,789,601	1,563,783,068	1,563,789,601	1,563,764,663
Effect of dilution:				
Employees' compensation	624,718	1,784,914	1,205,583	1,784,914
Employee stock options (share)	(Note)	730,602	(Note)	1,007,218
Weighted average number of ordinary shares outstanding after dilution (share)	1,564,414,319	1,566,298,584	1,564,995,184	1,566,556,795
Diluted earnings per share (NT\$)	\$ 4.15	\$ 4.05	\$ 6.94	\$ 8.67

Note: There were no dilutive employee stock options for the three months and six months ended June 30, 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.

**(27) 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.

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.

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

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 merger would enhance the Company's competitive advantage by expansion of product 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
	<u>1,197,774</u>
Current liabilities	(99,704)
Other liabilities	(2,670)
	<u>(102,374)</u>
Fair value of identifiable net assets	<u>\$ 1,095,400</u>

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	<u>(1,095,400)</u>
Goodwill	<u>\$ 940,153</u>

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

**Cash flows on acquisition:**

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

The 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 six months ended June 30, 2015 would have been NT\$94,753,194 thousand and NT\$13,561,406 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 merger would enhance the Company's competitive advantage by strengthening research and development capabilities. In the long term, the Company expects there would be positive effect on consolidated net worth per share and earnings per share.

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

**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
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 six months ended June 30, 2015 would have been NT\$94,849,769 thousand and NT\$13,564,003 thousand, respectively.



**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**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 49% shares of Richtek. Consequently, the ownership interest in Richtek changed but control over it remained. The difference between the cash payment to the non-controlling shareholders' common shares and the carrying amount of Richtek's 49% shares was recorded in equity. On April 29, 2016, the share-swap date, Richtek was delisted from the TWSE and became a wholly owned subsidiary of Hsu-Si Investment.

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	5,598,331
Funds and investments	116,005
Property, plant and equipment	3,653,938
Intangible assets-computer software, patent, trademark and customer relationship	3,935,255
Other non-current assets	453,858
	<u>15,500,909</u>

**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	\$ 12,694,209
Goodwill of Richtek is as follows:	Amount
Cash consideration	\$ 14,770,046
Add: non-controlling interest	6,220,162
Less: identifiable net assets at fair value	(12,694,209)
Goodwill	\$ 8,295,999
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 June 30, 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\$8,295,999 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 six months ended June 30, 2015 would have been NT\$100,872,155 thousand and NT\$14,366,964 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 ILI Technology Corp.

Subsidiary MStar Taiwan established Mrise Technology Inc. (“Mrise”) in July 2015. The merger of Mrise Tech. and 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 tender offer were NT\$51 in cash for each common share of ILI Tech. Mrise Tech. would be the surviving company after the merger and renamed ILI Technology Corp. In April 2016, the merger was approved by the Ministry of Commerce of the People's Republic of China. In addition, on April 14, 2016, both companies’ board of directors approved the merger date to be June 1, 2016.

ILI Tech. is a TFT-LCD and LTPS driver IC design company. MStar Taiwan mainly engages in TV and monitors SoC business. Post-merger, both companies’ can enhance their competitiveness via increased scale of operations and integration of resources. Longer term, the Company expects there would be positive impact on consolidated net worth per share and earnings per share.

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

	Fair value recognized on the acquisition date
Cash and cash equivalents	\$ 1,236,304
Current assets	3,051,349
Property, plant and equipment	985,735
Intangible assets- patent, trademark and customer relationship	96,915
Other non-current assets	65,218
	<u>5,435,521</u>
Current liabilities	(1,788,459)
Other non-current liabilities	(4,541)
	<u>(1,793,000)</u>
Fair value of identifiable net assets	<u><u>\$ 3,642,521</u></u>

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Goodwill of ILI Tech. is as follows:	Amount
Cash consideration	\$ 3,642,682
Less: identifiable net assets at fair value	(3,642,521)
Goodwill	\$ 161

Cash flows on acquisition:	Amount
Net cash acquired from the subsidiary	\$ 1,236,304
Transaction costs attributable to cash paid	(3,642,682)
Net cash flow-out on acquisition	\$ (2,406,378)

The identifiable net assets recognized in the consolidated financial statements as of June 30, 2016 were based on a provisional assessment of fair value as the Company had sought an independent valuation for the net assets owned by ILI Tech. 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\$161 thousand comprises the value of expected synergies arising from acquisition.

From the acquisition date to June 30, 2016, ILI Tech. has contributed NT\$657,206 thousand of revenue and NT\$6,295 thousand to the net income of the Company.

If the combination had taken place on January 1, 2016, revenues and net income of the Company for the six months ended June 30, 2016 would have been NT\$131,564,147 thousand and NT\$11,122,633 thousand, respectively.

**(28) Non-current assets held for sale**

On May 13, 2016, the Company's board of directors approved to sell the shares of AutoChips Inc. ("AutoChips") to NavInfo Co. Ltd., in the transaction price approximately to US\$497 million dollars. The Company reclassified AutoChips' assets and liabilities to non-current assets held for sale as a disposal group on June 30, 2016. Assets and liabilities reclassified to non-current assets held for sale as a disposal group mainly consisted of:

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

	As of June 30, 2016
Non-current assets held for sale	
Cash and cash equivalents	\$ 715,563
Available-for-sale financial assets-current	718,762
Debt instrument investments for which no active market exists-current	849,888
Trade receivables, net	129,805
Other receivables	161,081
Inventories, net	147,460
Prepayments	21,832
Other current assets	210,919
Property, plant and equipment	51,993
Intangible assets	5,497
Refundable deposits	1,927
	<u>3,014,727</u>
Liabilities directly associated with non-current assets held for sale	
Trade payables	(133,271)
Trade payables to related parties	(10,249)
Other payables	(333,563)
Current tax liabilities	(26,046)
Other current liabilities	(28,710)
	<u>(531,839)</u>
Net carrying amount of the disposal group	<u>\$ 2,482,888</u>

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

Changes in ownership of subsidiaries

AutoChips increased its capital by cash in the six-month period ended June 30, 2016, and the Company did not subscribe new shares in proportionate to its original ownership interest. Consequently, the ownership interest in AutoChips 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\$39,665 thousand and was recorded in equity.

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

E-Vehicle Semiconductor Technology Co., Ltd., Hesine Technologies International Worldwide Inc. and AutoChips 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 six months ended June 30, 2015 and the year ended December 31, 2015 were NT\$78,948 thousand and NT\$61,562 thousand, respectively, and were recorded in equity.

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Associates	\$ -	\$ 1,000	\$ -	\$ 2,740

For the three months and six months ended June 30, 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 150 days, or may pay their accounts in advance.

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Other related parties	\$ 1,054,538	\$ 704,953	\$ 1,679,148	\$ 1,241,723

For the three months and six months ended June 30, 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 June 30		Six months ended June 30	
	2016	2015	2016	2015
Other related parties	\$ -	\$ 2,628	\$ -	\$ 21,146

**D. Purchases**

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Associates	\$ 1,133	\$ 1,834	\$ 3,079	\$ 1,834

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

For the three months and six months ended June 30, 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 June 30		Six months ended June 30	
	2016	2015	2016	2015
Associates	\$ 286	\$ 214	\$ 429	\$ 428
Other related parties	1,593	2,335	3,187	4,671
Total	<u>\$ 1,879</u>	<u>\$ 2,549</u>	<u>\$ 3,616</u>	<u>\$ 5,099</u>

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 June 30		Six months ended June 30	
	2016	2015	2016	2015
Other related parties	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,944</u>

**G. Other receivables from related parties**

	June 30, 2016	December 31, 2015	June 30, 2015
Associates	<u>\$ -</u>	<u>\$ 75</u>	<u>\$ 150</u>

**H. Trade payables to related parties**

	June 30, 2016	December 31, 2015	June 30, 2015
Associates	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 913</u>
Other related parties	<u>1,049,412</u>	<u>645,120</u>	<u>703,000</u>
Total	<u>\$ 1,049,412</u>	<u>\$ 645,120</u>	<u>\$ 703,913</u>

**I. Liabilities directly associated with non-current assets held for sale**

	June 30, 2016	December 31, 2015	June 30, 2015
Other related parties	<u>\$ 10,249</u>	<u>\$ -</u>	<u>\$ -</u>

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

	June 30, 2016	December 31, 2015	June 30, 2015
Other related parties	\$ -	\$ -	\$ 5,282

**K. Key management personnel compensation**

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Short-term employee benefits (Note)	\$ 190,296	\$ 59,338	\$ 380,476	\$ 561,246
Post-employment benefits	1,040	688	2,196	1,253
Termination benefits	1,972	-	1,972	-
Share-based payment	-	-	681	-
Total	\$ 193,308	\$ 60,026	\$ 385,325	\$ 562,499

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
	June 30, 2016	December 31, 2015	June 30, 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	20,918	Land lease guarantee
Debt instrument investments for which no active market exists-current	-	1,439	1,393	Credit guarantee
Debt instrument investments for which no active market exists-current	-	50,000	50,000	Wafer capacity guarantee
Debt instrument investments for which no active market exists-current	-	2,609	2,598	Import 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
	June 30, 2016	December 31, 2015	June 30, 2015	
Debt instrument investments for which no active market exists-current	9,705	-	-	Lease execution 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	540	564	552	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	120	125	122	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	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	23,975	24,223	-	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	22,963	-	-	Land lease guarantee
Debt instrument investments for which no active market exists-noncurrent	7,000	-	-	Land lease guarantee
Property, plant and equipment - buildings	434,115	-	-	Long-term borrowing
Property, plant and equipment - buildings and land	339,113	-	-	Long-term borrowing
Total	<u>\$ 1,059,863</u>	<u>\$ 336,698</u>	<u>\$ 288,430</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:

	June 30, 2016	December 31, 2015	June 30, 2015
Not later than one year	\$ 656,353	\$ 675,534	\$ 448,803
Later than one year but not later than five years	1,218,228	1,394,772	1,124,144
Later than five years	621,915	589,696	335,932
Total	<u>\$ 2,496,496</u>	<u>\$ 2,660,002</u>	<u>\$ 1,908,879</u>

Operating lease expenses are as follows:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Minimum lease payments	<u>\$ 220,241</u>	<u>\$ 195,237</u>	<u>\$ 444,601</u>	<u>\$ 387,772</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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

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**

None

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

	June 30, 2016	December 31, 2015	June 30, 2015
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$ -	\$ 4,801	\$ 7,111
Financial assets designated upon initial recognition at fair value through profit or loss	8,439,514	9,798,503	4,947,360
Subtotal	8,439,514	9,803,304	4,954,471
Available-for-sale financial assets	15,221,482	16,461,993	13,430,661
Financial assets measured at cost	5,349,022	4,901,012	3,695,796
Held-to-maturity financial assets	1,176,968	1,523,935	1,659,462
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand and petty cash)	159,208,275	153,271,238	195,818,332
Debt instrument investments for which no active market exists	1,193,851	1,022,350	964,845
Trade receivables	21,013,897	16,195,318	12,250,444
Other receivables	3,174,050	2,996,512	3,183,007
Subtotal	184,590,073	173,485,418	212,216,628
Total	\$ 214,777,059	\$ 206,175,662	\$ 235,957,018

Financial liabilities

	June 30, 2016	December 31, 2015	June 30, 2015
Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$ -	\$ 32,194	\$ 5,145
Financial liabilities at amortized cost:			
Short-term borrowings	60,849,295	49,123,477	57,490,882
Trade payables (including related parties)	30,105,581	16,156,252	18,806,000
Other payables	51,537,363	31,558,621	63,786,495
Long-term payables (including current portion)	27,443	56,212	71,461
Long-term borrowings	584,800	-	-
Subtotal	143,104,482	96,894,562	140,154,838
Total	\$ 143,104,482	\$ 96,926,756	\$ 140,159,983

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**B. Fair values of financial instruments**

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

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

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

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

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

	Carrying amount as of		
	June 30, 2016	December 31, 2015	June 30, 2015
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ 1,176,968	\$ 1,523,935	\$ 1,659,462

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

	Fair value as of		
	June 30, 2016	December 31, 2015	June 30, 2015
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ 1,176,050	\$ 1,507,295	\$ 1,655,159

## 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 June 30, 2016

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ -	\$ -	\$ 1,056,967	\$ 1,056,967
Linked deposits	-	2,792,879	4,589,668	7,382,547
Available-for-sale financial assets				
Depository receipts	26,123	-	-	26,123
Stocks	1,255,965	116,295	32,701	1,404,961
Bonds	7,060,945	-	770,101	7,831,046
Funds	4,954,056	-	1,005,296	5,959,352
Total	\$ 13,297,089	\$ 2,909,174	\$ 7,454,733	\$ 23,660,996

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	\$ 13,923,829	\$ 3,290,627	\$ 9,050,841	\$ 26,265,297

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 June 30, 2015

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

Financial liabilities:

Financial liabilities at fair value

through profit or loss

Derivative financial instruments	\$ -	\$ 5,145	\$ -	\$ 5,145
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For the six months ended June 30, 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	(717)	(45,373)	3,244	240	-	(42,606)
Amount recognized in OCI	-	-	(4,026)	-	-	(4,026)
Amount recognized in OCI- exchange differences	(18,858)	(83,956)	(13,114)	(55,798)	-	(171,726)
Acquisitions	251,503	40,000	242,825	791,960	-	1,326,288
Settlements	(887,233)	(244,669)	(591,940)	(261,434)	-	(1,985,276)
Reclassified to non-current assets held for sale	-	-	-	(718,762)	-	(718,762)
As of June 30, 2016	\$ 1,056,967	\$ 4,589,668	\$ 770,101	\$ 1,005,296	\$ 32,701	\$ 7,454,733

	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	848	(8,178)	-	825		(6,505)
Amount recognized in OCI	-	-	5,629	-		5,629
Amount recognized in OCI- exchange differences	(1,297)	(12,222)	(4,471)	(9,933)		(27,923)
Acquisitions	-	725,200	-	262,593		987,793
Settlements	-	(574,827)	-	(491,850)		(1,066,677)
As of June 30, 2015	\$ 62,750	\$ 1,822,101	\$ 218,026	\$ 231,985		\$ 2,334,862

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

Total profits or losses recognized for the six months ended June 30, 2016 and 2015 contained losses related to bonds, funds and linked deposits on hand as of June 30, 2016 and 2015 in the amount of NT\$43,304 thousand and NT\$8,157 thousand, respectively.

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 June 30, 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	27.46~ 29.40	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\$2,209 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 June 30, 2015:

None

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

The Company'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.

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 June 30, 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	\$ 1,176,050	\$ -	\$ -	\$ 1,176,050
Investment property	\$ -	\$ -	\$ 279,041	\$ 279,041

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	\$ -	\$ -	\$ 279,041	\$ 279,041

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**As of June 30, 2015

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

**D. Derivative financial instruments**

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

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

The Company had no outstanding forward exchange contracts as of June 30, 2016.

Forward exchange contracts	Currency	Contract amount ( '000)	Maturity
As of December 31, 2015	TWD to USD	Sell USD146,000	January 2016
As of June 30, 2015	TWD to USD	Sell USD30,000	July 2015
As of June 30, 2015	CNY to USD	Sell USD4,800	September 2015

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

**(2) Financial risk management objectives**

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

**A. Market risk**

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

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

**a. Foreign currency risk**

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

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

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:

**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 USD by 0.1%, the profit for the six months ended June 30, 2016 and 2015 would decrease/increase by NT\$2,380 thousand and NT\$3,305 thousand, respectively, while equity would decrease/increase by NT\$57,844 thousand and NT\$40,103 thousand, respectively.

When NTD appreciates or depreciates against CNY by 0.1%, the profit for the six months ended June 30, 2016 and 2015 would decrease/increase by NT\$48 thousand and NT\$5,480 thousand, respectively, while equity would decrease/increase by NT\$5,775 thousand and NT\$1,839 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 and variable interest rates. Moreover, the market value of the Company's investments in credit-linked deposits and interest rate-linked deposits are affected by interest rate. The market value would decrease (even lower than the principal) when the interest rate increases, and vice versa. The market values of exchange rate-linked deposits are affected by interest rates and changes in the value and volatility of the underlying. The following sensitivity analysis focuses on interest rate risk and does not take into account the interdependencies between risk variables.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, including investments with variable interest rates. At the reporting date, an increase/decrease of 10 basis points of interest rate in a reporting period could cause the profit for the six months ended June 30, 2016 and 2015 to increase/decrease by NT\$8,682 thousand and NT\$3,047 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 six months ended June 30, 2016 and 2015 to increase/decrease by NT\$62,361 thousand and NT\$93,694 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 June 30, 2016, December 31, 2015, and June 30, 2015, receivables from top ten customers represented 61.79%, 74.52% and 66.66% 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	Less than 5 years	Total
<u>As of June 30, 2016</u>				
Short-term borrowings	\$ 60,890,222	\$ -	\$ -	\$ 60,890,222
Trade payables				
(including related parties)	30,105,581	-	-	30,105,581
Other payables	51,520,435	-	-	51,520,435
Long-term payables	27,443	-	-	27,443
Long-term borrowings	9,727	385,343	236,481	631,551
Total	<u>\$ 142,553,408</u>	<u>\$ 385,343</u>	<u>\$ 236,481</u>	<u>\$ 143,175,232</u>

As of December 31, 2015

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

Derivative financial instrumentsAs of June 30, 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 June 30, 2015

Gross settlement

Forward exchange contracts

Inflow	\$ 925,454	\$ -	\$ 925,454
Outflow	(932,100)	-	(932,100)
Net	<u>\$ (6,646)</u>	<u>\$ -</u>	<u>\$ (6,646)</u>

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

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

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

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

June 30, 2016			
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
<b>Financial assets</b>			
Monetary item:			
USD	\$ 4,547,220	32.286	\$ 146,811,541
CNY	\$ 10,214	4.8565	\$ 49,603
Non-monetary item:			
USD	\$ 518,273	32.286	\$ 16,732,975
CNY	\$ 1,189,164	4.8565	\$ 5,775,173
<b>Financial liabilities</b>			
Monetary item:			
USD	\$ 3,200,168	32.286	\$ 103,319,593
CNY	\$ 360	4.8565	\$ 1,748
<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)**

	June 30, 2015		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
<b>Financial assets</b>			
Monetary item:			
USD	\$ 3,514,173	31.070	\$ 109,185,343
CNY	\$ 2,945,672	5.010	\$ 14,759,230
Non-monetary item:			
USD	\$ 463,720	31.070	\$ 14,407,783
CNY	\$ 365,647	5.010	\$ 1,832,069
<b>Financial liabilities</b>			
Monetary item:			
USD	\$ 2,580,772	31.070	\$ 80,184,597
CNY	\$ 1,850,480	5.010	\$ 9,271,793

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 gains (losses) were NT\$42,738 thousand and NT\$(235,003) thousand for the three months ended June 30, 2016 and 2015, respectively. The foreign exchange gains (losses) were NT\$114,048 thousand and NT\$(578,733) thousand for the six months ended June 30, 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.