

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

**MEDIATEK INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**WITH**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**FOR THE NINE MONTHS ENDED**

**SEPTEMBER 30, 2016 AND 2015**

English Translation of a Report Originally Issued in Chinese

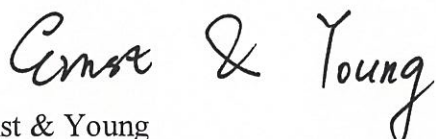
Review Report of Independent Accountants

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 September 30, 2016 and September 30, 2015, the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2016 and 2015, and consolidated statements of changes in equity and cash flows for the nine months ended September 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  
October 28, 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 September 30, 2016, December 31, 2015, and September 30, 2015

(September 30, 2016 and 2015 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	September 30, 2016	%	December 31, 2015	%	September 30, 2015	%
<b>Current assets</b>							
Cash and cash equivalents	6(1)	\$ 143,446,484	39	\$ 153,279,687	44	\$ 159,115,861	46
Financial assets at fair value through profit or loss-current	6(2)	3,311,515	1	3,836,003	1	1,865,355	1
Available-for-sale financial assets-current	6(3)	6,586,239	2	7,763,131	2	6,955,025	2
Held-to-maturity financial assets-current	6(5)	876,371	-	1,257,437	-	330,041	-
Debt instrument investments for which no active market exists-current	6(6), 8	1,463,170	-	761,282	-	701,422	-
Notes receivables, net		44,991	-	-	-	-	-
Trade receivables, net	6(7)	24,286,125	7	16,195,318	4	16,117,231	4
Other receivables	6(7), 7	3,149,472	1	2,996,512	1	3,152,314	1
Current tax assets		641,662	-	319,202	-	349,517	-
Inventories, net	6(8)	36,630,220	10	24,130,344	7	33,980,933	10
Prepayments		2,327,752	-	2,192,349	1	2,425,742	1
Non-current assets held for sale	4, 6(29)	3,099,444	1	-	-	-	-
Other current assets		3,253,999	1	2,141,910	1	1,402,220	-
Total current assets		229,117,444	62	214,873,175	61	226,395,661	65
<b>Non-current assets</b>							
Financial assets at fair value through profit or loss-noncurrent	6(2)	3,497,658	1	5,967,301	2	6,352,189	2
Available-for-sale financial assets-noncurrent	6(3)	10,042,247	3	8,698,862	3	7,734,826	2
Held-to-maturity financial assets-noncurrent	6(5)	-	-	266,498	-	1,573,330	1
Financial assets measured at cost-noncurrent	6(4)	6,218,363	2	4,901,012	1	4,590,569	1
Debt instrument investments for which no active market exists-noncurrent	6(6), 8	271,178	-	261,068	-	210,402	-
Investments accounted for using the equity method	6(9)	5,431,218	1	2,718,990	1	2,442,724	1
Property, plant and equipment	6(10), 6(28), 8	37,011,555	10	34,390,077	10	30,472,999	9
Investment property	6(11)	254,148	-	275,590	-	-	-
Intangible assets	6(12), 6(13), 6(28), 7	72,847,601	20	75,430,673	21	64,071,614	18
Deferred tax assets	4, 6(26)	3,043,840	1	2,997,362	1	3,187,053	1
Refundable deposits		321,309	-	239,755	-	228,353	-
Long-term prepaid rent		136,998	-	150,864	-	155,217	-
Other non-current assets-others		-	-	78,429	-	-	-
Total non-current assets		139,076,115	38	136,376,481	39	121,019,276	35
<b>Total assets</b>		<u>\$ 368,193,559</u>	<u>100</u>	<u>\$ 351,249,656</u>	<u>100</u>	<u>\$ 347,414,937</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

English Translation of Financial Statements Originally Issued in Chinese  
**MEDIATEK INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**As of September 30, 2016, December 31, 2015, and September 30, 2015**  
(September 30, 2016 and 2015 are unaudited)  
(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	September 30, 2016	%	December 31, 2015	%	September 30, 2015	%
<b>Current liabilities</b>							
Short-term borrowings	6(14)	\$ 64,554,725	18	\$ 49,123,477	14	\$ 57,032,937	16
Financial liabilities at fair value through profit or loss-current	6(2)	-	-	32,194	-	13,439	-
Trade payables		29,103,987	8	15,511,132	4	17,887,340	5
Trade payables to related parties	7	1,114,821	-	645,120	-	779,597	-
Other payables	6(15)	34,171,918	9	31,558,621	9	27,960,999	8
Current tax liabilities	4, 6(26)	2,734,493	1	2,269,892	1	2,049,530	1
Liabilities directly associated with non-current assets held for sale	4, 6(29), 7	509,697	-	-	-	-	-
Other current liabilities		1,951,258	-	2,069,823	1	1,642,649	1
Current portion of long-term liabilities		13,331	-	56,212	-	52,176	-
Total current liabilities		134,154,230	36	101,266,471	29	107,418,667	31
<b>Non-current liabilities</b>							
Long-term borrowings	6(16), 8	460,514	-	-	-	-	-
Long-term payables		-	-	-	-	14,079	-
Net defined benefit liabilities-noncurrent	4, 6(17)	763,148	-	755,371	-	1,053,938	1
Deposits received	7	175,089	-	169,738	-	124,198	-
Deferred tax liabilities	4, 6(26)	2,280,917	1	1,814,256	1	1,574,134	-
Non-current liabilities-others		241,202	-	156,935	-	155,267	-
Total non-current liabilities		3,920,870	1	2,896,300	1	2,921,616	1
Total liabilities		138,075,100	37	104,162,771	30	110,340,283	32
<b>Equity attributable to owners of the parent</b>							
Share capital	6(18)						
Common stock		15,821,122	4	15,715,837	5	15,715,819	5
Capital collected in advance		-	-	-	-	18	-
Capital surplus	6(18), 6(19), 6(30)	90,633,276	25	88,354,178	25	88,369,498	26
Retained earnings	6(18)						
Legal reserve		34,628,319	10	32,032,476	9	32,032,476	9
Undistributed earnings		87,332,292	24	96,476,287	27	91,778,287	26
Other equity	6(19)	(41,141)	-	7,904,918	2	8,323,414	2
Treasury shares	6(18)	(55,970)	-	(55,970)	-	(55,970)	-
Equity attributable to owners of the parent		228,317,898	63	240,427,726	68	236,163,542	68
<b>Non-controlling interests</b>	6(18)	1,800,561	-	6,659,159	2	911,112	-
Total equity		230,118,459	63	247,086,885	70	237,074,654	68
<b>Total liabilities and equity</b>		<u>\$ 368,193,559</u>	<u>100</u>	<u>\$ 351,249,656</u>	<u>100</u>	<u>\$ 347,414,937</u>	<u>100</u>

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**For the three months and nine months ended September 30, 2016 and 2015**

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

Description	Notes	Three Months Ended September 30				Nine Months Ended September 30			
		2016	%	2015	%	2016	%	2015	%
<b>Net sales</b>	6(20), 7	\$ 78,403,491	100	\$ 56,962,044	100	\$ 206,836,288	100	\$ 151,542,321	100
<b>Operating costs</b>	6(8), 6(21), 7	<u>(50,786,898)</u>	<u>(65)</u>	<u>(32,657,866)</u>	<u>(57)</u>	<u>(132,359,141)</u>	<u>(64)</u>	<u>(83,143,171)</u>	<u>(55)</u>
<b>Gross profit</b>		<u>27,616,593</u>	<u>35</u>	<u>24,304,178</u>	<u>43</u>	<u>74,477,147</u>	<u>36</u>	<u>68,399,150</u>	<u>45</u>
<b>Operating expenses</b>	6(21), 7								
Selling expenses		(3,532,233)	(5)	(1,903,708)	(3)	(8,738,716)	(4)	(5,727,147)	(4)
Administrative expenses		(1,870,619)	(2)	(2,435,794)	(4)	(4,993,750)	(3)	(6,420,535)	(4)
Research and development expenses		<u>(14,591,664)</u>	<u>(19)</u>	<u>(12,342,909)</u>	<u>(22)</u>	<u>(41,650,321)</u>	<u>(20)</u>	<u>(34,091,347)</u>	<u>(23)</u>
Total operating expenses		<u>(19,994,516)</u>	<u>(26)</u>	<u>(16,682,411)</u>	<u>(29)</u>	<u>(55,382,787)</u>	<u>(27)</u>	<u>(46,239,029)</u>	<u>(31)</u>
<b>Operating income</b>		<u>7,622,077</u>	<u>9</u>	<u>7,621,767</u>	<u>14</u>	<u>19,094,360</u>	<u>9</u>	<u>22,160,121</u>	<u>14</u>
<b>Non-operating income and expenses</b>									
Other income	6(22), 7	765,657	1	733,517	1	2,419,649	1	2,736,967	2
Other gains and losses	6(23)	(83,242)	-	726,400	1	(114,367)	-	(230,127)	-
Finance costs	6(24)	(143,949)	-	(162,414)	-	(404,467)	-	(417,076)	-
Share of profit of associates accounted for using the equity method	6(9)	<u>454,864</u>	<u>1</u>	<u>154,906</u>	<u>-</u>	<u>649,907</u>	<u>-</u>	<u>373,626</u>	<u>-</u>
Total non-operating income and expenses		<u>993,330</u>	<u>2</u>	<u>1,452,409</u>	<u>2</u>	<u>2,550,722</u>	<u>1</u>	<u>2,463,390</u>	<u>2</u>
<b>Net income before income tax</b>		8,615,407	11	9,074,176	16	21,645,082	10	24,623,511	16
<b>Income tax expense</b>	4, 6(26)	<u>(785,120)</u>	<u>(1)</u>	<u>(1,114,408)</u>	<u>(2)</u>	<u>(2,752,089)</u>	<u>(1)</u>	<u>(3,035,339)</u>	<u>(2)</u>
<b>Net income</b>		<u>7,830,287</u>	<u>10</u>	<u>7,959,768</u>	<u>14</u>	<u>18,892,993</u>	<u>9</u>	<u>21,588,172</u>	<u>14</u>
<b>Other comprehensive income</b>	6(9), 6(25), 6(26)								
To be reclassified to profit or loss in subsequent periods									
Exchange differences resulting from translating the financial statements of foreign operations		(2,783,499)	(4)	4,702,549	8	(5,770,212)	(3)	3,252,223	2
Unrealized gains (losses) from available-for-sale financial assets		354,431	1	(1,195,064)	(2)	235,287	-	(1,466,324)	(1)
Share of other comprehensive income of associates accounted for using the equity method		13,232	-	(73,184)	-	(18,945)	-	(72,186)	-
Income tax relating to those items to be reclassified profit or loss		<u>(36,612)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(49,465)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other comprehensive income, net of tax</b>		<u>(2,452,448)</u>	<u>(3)</u>	<u>3,434,301</u>	<u>6</u>	<u>(5,603,335)</u>	<u>(3)</u>	<u>1,713,713</u>	<u>1</u>
<b>Total comprehensive income</b>		<u>\$ 5,377,839</u>	<u>7</u>	<u>\$ 11,394,069</u>	<u>20</u>	<u>\$ 13,289,658</u>	<u>6</u>	<u>\$ 23,301,885</u>	<u>15</u>
<b>Net income for the periods attributable to :</b>									
Owners of the parent	6(27)	\$ 7,792,050		\$ 7,954,447		\$ 18,654,593		\$ 21,530,291	
Non-controlling interests	6(18)	<u>38,237</u>		<u>5,321</u>		<u>238,400</u>		<u>57,881</u>	
		<u>\$ 7,830,287</u>		<u>\$ 7,959,768</u>		<u>\$ 18,892,993</u>		<u>\$ 21,588,172</u>	
<b>Total comprehensive income for the periods attributable to :</b>									
Owners of the parent		\$ 5,372,555		\$ 11,403,152		\$ 13,127,133		\$ 23,247,592	
Non-controlling interests	6(18)	<u>5,284</u>		<u>(9,083)</u>		<u>162,525</u>		<u>54,293</u>	
		<u>\$ 5,377,839</u>		<u>\$ 11,394,069</u>		<u>\$ 13,289,658</u>		<u>\$ 23,301,885</u>	
Basic Earnings Per Share (in New Taiwan Dollars)	6(27)	<u>\$ 4.98</u>		<u>\$ 5.09</u>		<u>\$ 11.93</u>		<u>\$ 13.77</u>	
Diluted Earnings Per Share (in New Taiwan Dollars)	6(27)	<u>\$ 4.98</u>		<u>\$ 5.08</u>		<u>\$ 11.92</u>		<u>\$ 13.74</u>	

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

## MEDIATEK INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine months ended September 30, 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	Other				
Balance as of January 1, 2015	\$ 15,714,455	\$ 467	\$ 88,047,914	\$ 27,392,687	\$ 895,749	\$ 108,566,733	\$ 4,218,292	\$ 2,387,821	\$ -	\$ (55,970)	\$ 247,168,148	\$ 437,599	\$ 247,605,747
Appropriation and distribution of 2014 earnings:													
Legal reserve	-	-	-	4,639,789	-	(4,639,789)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(895,749)	895,749	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(34,574,697)	-	-	-	-	(34,574,697)	-	(34,574,697)
Total	-	-	-	4,639,789	(895,749)	(38,318,737)	-	-	-	-	(34,574,697)	-	(34,574,697)
Profit for the nine months ended September 30, 2015	-	-	-	-	-	21,530,291	-	-	-	-	21,530,291	57,881	21,588,172
Other comprehensive income for the nine months ended September 30, 2015	-	-	-	-	-	-	3,183,625	(1,466,324)	-	-	1,717,301	(3,588)	1,713,713
Total comprehensive income	-	-	-	-	-	21,530,291	3,183,625	(1,466,324)	-	-	23,247,592	54,293	23,301,885
Share-based payment transactions	1,364	(449)	32,302	-	-	-	-	-	-	-	33,217	-	33,217
Adjustments due to dividends that subsidiaries received from parent company	-	-	171,469	-	-	-	-	-	-	-	171,469	-	171,469
Changes in ownership interests in subsidiaries	-	-	89,270	-	-	-	-	-	-	-	89,270	151,508	240,778
Changes in other capital surplus	-	-	28,543	-	-	-	-	-	-	-	28,543	-	28,543
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	267,712	267,712
Balance as of September 30, 2015	\$ 15,715,819	\$ 18	\$ 88,369,498	\$ 32,032,476	\$ -	\$ 91,778,287	\$ 7,401,917	\$ 921,497	\$ -	\$ (55,970)	\$ 236,163,542	\$ 911,112	\$ 237,074,654
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 nine months ended September 30, 2016	-	-	-	-	-	18,654,593	-	-	-	-	18,654,593	238,400	18,892,993
Other comprehensive income for the nine months ended September 30, 2016	-	-	-	-	-	-	(5,713,282)	185,822	-	-	(5,527,460)	(75,875)	(5,603,335)
Total comprehensive income	-	-	-	-	-	18,654,593	(5,713,282)	185,822	-	-	13,127,133	162,525	13,289,658
Share-based payment transactions	-	-	19,311	-	-	-	-	-	-	-	19,311	-	19,311
Adjustments due to dividends that subsidiaries received from parent company	-	-	85,735	-	-	-	-	-	-	-	85,735	-	85,735
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	-	-	(99,948)	-	-	-	-	-	-	-	(99,948)	232,572	132,624
Issuance of restricted stock for employees	105,285	-	2,416,643	-	-	-	-	-	(2,418,599)	-	103,329	-	103,329
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(5,253,695)	(5,253,695)
Balance as of September 30, 2016	\$ 15,821,122	\$ -	\$ 90,633,276	\$ 34,628,319	\$ -	\$ 87,332,292	\$ 790,313	\$ 1,587,145	\$ (2,418,599)	\$ (55,970)	\$ 228,317,898	\$ 1,800,561	\$ 230,118,459

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

## MEDIATEK INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 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	\$ 21,645,082	\$ 24,623,511
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	2,238,647	1,356,624
Amortization	2,901,745	2,053,785
Bad debt reversal	(78,735)	(28,545)
Losses on financial assets and liabilities at fair value through profit or loss	14,559	74,538
Interest expenses	404,467	417,076
Interest income	(1,869,927)	(2,238,214)
Dividend income	(307,808)	(366,078)
Share-based payment expenses	129,728	32,302
Share of profit of associates accounted for using the equity method	(649,907)	(373,626)
Losses on disposal of property, plant and equipment	7,104	6,344
Losses on disposal of intangible assets	498	-
Losses (Gains) on disposal of investments	74,895	(1,224,250)
Impairment of financial assets	71,172	851,478
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	2,247,381	(426,072)
Notes receivables	(44,991)	-
Trade receivables	(7,198,311)	(2,822,275)
Other receivables	337,085	1,856,357
Inventories	(11,046,147)	(11,389,931)
Prepayments	(131,011)	(117,797)
Other current assets	(1,288,012)	(626,089)
Other non-current assets-others	78,429	-
Trade payables	13,457,605	3,809,013
Trade payables to related parties	475,866	97,296
Other payables	2,663,940	(6,481,084)
Other current liabilities	(115,099)	962,736
Long-term payables	(42,881)	(25,727)
Net defined benefit liabilities	3,236	8,430
Non-current liabilities-others	84,267	8,391
Cash generated from operating activities:		
Interest received	1,566,407	2,531,310
Dividend received	307,808	663,445
Interest paid	(416,820)	(407,494)
Income tax paid	(2,181,594)	(7,613,277)
Net cash provided by operating activities	23,338,678	5,212,177
<b>Cash flows from investing activities :</b>		
Acquisition of available-for-sale financial assets	(6,286,456)	(6,906,875)
Proceeds from disposal of available-for-sale financial assets	5,009,943	3,913,798
Acquisition of debt instrument investments for which no active market exists	(2,128,493)	(1,578,221)
Proceeds from disposal of debt instrument investments for which no active market exists	311,686	1,850,906
Acquisition of held-to-maturity financial assets	-	(1,773,790)
Proceeds from redemption of held-to-maturity financial assets	607,237	299,121
Acquisition of financial assets measured at cost	(1,652,687)	(1,198,997)
Proceeds from disposal of financial assets measured at cost	131	33,721
Proceeds from capital return of financial assets measured at cost	37,185	29,371
Acquisition of investments accounted for using the equity method	(2,410,972)	(459,409)
Proceeds from disposal of investments accounted for using the equity method	-	248,000
Proceeds from capital return of investments accounted for using the equity method	189,932	21,864
Net cash outflow from acquisition of subsidiaries	(2,406,378)	(1,895,647)
Acquisition of property, plant and equipment	(5,423,498)	(8,379,402)
Proceeds from disposal of property, plant and equipment	53,394	9,182
Increase in refundable deposits	(61,681)	(27,537)
Acquisition of intangible assets	(296,101)	(1,895,402)
Acquisition of investment property	(731)	-
Decrease (increase) in long-term prepaid rent	13,866	(35,297)
Net cash used in investing activities	(14,443,623)	(17,744,614)
<b>Cash flows from financing activities :</b>		
Increase in short-term borrowings	16,042,553	10,339,590
Proceeds from long-term borrowings	165,714	-
Increase in deposits received	5,351	2,555
Proceeds from exercise of employee stock options	-	30,132
Cash dividends	(17,201,686)	(34,403,228)
Acquisition of subsidiaries	(14,184,102)	-
Change in non-controlling interests	1,000,488	242,032
Net cash used in financing activities	(14,171,682)	(23,788,919)
Effect of changes in exchange rate on cash and cash equivalents	(4,059,014)	2,639,711
Net decrease in cash and cash equivalents	(9,335,641)	(33,681,645)
Cash and cash equivalents at the beginning of the period	153,279,687	192,797,506
Cash and cash equivalents at the end of the period	\$ 143,944,046	\$ 159,115,861
Reconciliation of the balances of cash and cash equivalents at the end of the period:		
Cash and cash equivalents on the consolidated balance sheets	\$ 143,446,484	\$ 159,115,861
Cash and cash equivalents included in non-current assets held for sale	497,562	-
Cash and cash equivalents at the end of the period	\$ 143,944,046	\$ 159,115,861

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

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

**MEDIATEK INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. Organization and Operation**

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

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

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on October 28, 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
IFRS 4	“Insurance Contracts” (Amendment)	Not earlier than 2020

**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
			September 30, 2016	December 31, 2015	September 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%	-
Hsu-Ta Investment Corp.	MediaTek Capital Corp.	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
			September 30, 2016	December 31, 2015	September 30, 2015	
Hsu-Ta Investment Corp.	MediaTek Bangalore Private Limited	Research	0%	0%	0%	-
Hsu-Ta Investment Corp.	Hsu-Si Investment Corp.	General investing	100%	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%	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
Richtek Technology Corp.	Li-Yu Investment Corp.	General investing	100%	100%	-	3

(To be continued)



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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2016	December 31, 2015	September 30, 2015	
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%	-
Gaintech Co. Limited	Gold Rich International (Samoa) Limited	General investing	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2016	December 31, 2015	September 30, 2015	
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	83%	88%	88%	-
Gaintech Co. Limited	MediaTek Wireless FZ-LLC	Technology services	100%	100%	100%	-
Gaintech Co. Limited	Digital Lord Limited	General investing	100%	100%	100%	8
Gaintech Co. Limited	Hsu Chia (Samoa) Investment Ltd.	General investing	100%	100%	100%	8
Gaintech Co. Limited	Hsu Fa (Samoa) Investment Ltd.	General investing	100%	100%	100%	8
Gaintech Co. Limited	Hsu Kang (Samoa) Investment Ltd.	General investing	100%	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
MediaTek China Limited	MediaTek (Shanghai) Inc.	Research and Technology services	100%	100%	100%	14

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2016	December 31, 2015	September 30, 2015	
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%	-
Digital Lord Limited	Lepower (HK) Limited	General investing	100%	100%	100%	7
Lepower (HK) Limited	Lepower Technologies (Beijing), Inc.	Research, manufacturing and sales	91%	91%	91%	-
E-Vehicle Semiconductor Technology Co., Ltd.	E-Vehicle Holdings Corp.	General investing	100%	100%	100%	-
E-Vehicle Holdings Corp.	E-Vehicle Investment Limited	General investing	100%	100%	100%	-
E-Vehicle Investment Limited	E-Vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	100%	100%	100%	-
EcoNet (Cayman) Inc.	Shadow Investment Limited	General investing	100%	100%	100%	-
EcoNet (Cayman) Inc.	EcoNet (HK) Limited	Research and sales	100%	100%	100%	-
EcoNet (HK) Limited	EcoNet (Suzhou) Limited	Research, manufacturing and sales	100%	100%	100%	-
Shadow Investment Limited	MediaTek (Suzhou) Inc.	Research	100%	100%	100%	-
Shadow Investment Limited	MediaTek (Nanjing) Inc.	Research	100%	100%	100%	-

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2016	December 31, 2015	September 30, 2015	
Ralink Technology (Samoa) Corp.	AutoChips Inc.	Research, manufacturing and sales	83%	86%	86%	-
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%	100%	16
MStar Semiconductor, Inc.	MSilicon Technology Inc.	Research, manufacturing and sales	-	-	100%	4
MStar Semiconductor, Inc.	AIT Holding Ltd.	General investing	100%	100%	100%	4

(To be continued)

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

(Continued)

Investor	Subsidiary	Business nature	Percentage of Ownership			Note
			September 30, 2016	December 31, 2015	September 30, 2015	
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
Nephos Cayman Co. Limited	Nephos (Hefei) Co. Ltd.	Research, manufacturing and sales	100%	-	-	24

**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 Tech.") 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 Tech. renamed ILI Technology Corporation ("ILI Tech."). Subsidiaries of ILI Tech. were included in the consolidated entities thereafter.
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. Since the Company has the ability to direct the relevant activities of Shanghai ShanShengChuangXin Investment Partnership (Limited Partnership) and has control over it, the Company included it in consolidation.
24. Nephos Cayman Co. Limited established Nephos (Hefei) Co. Ltd. in July 2016.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

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

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

	September 30, 2016	December 31, 2015	September 30, 2015
Cash on hand and petty cash	\$ 5,510	\$ 8,449	\$ 7,422
Checking and savings accounts	22,086,334	32,471,167	37,448,957
Time deposits	121,354,640	120,800,071	121,659,482
Total	<u>\$ 143,446,484</u>	<u>\$ 153,279,687</u>	<u>\$ 159,115,861</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

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Current</u>			
<u>Held for trading financial assets</u>			
Stocks	\$ -	\$ 4,569	\$ 4,508
Forward exchange contracts	766	232	3,831
Subtotal	766	4,801	8,339
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>			
Credit-linked deposits	1,601,523	1,928,967	1,290,352
Exchange rate-linked deposits	1,146,831	1,057,352	306,105
Bonds	-	590,278	-
Index-linked deposits	562,395	254,605	260,559
Subtotal	3,310,749	3,831,202	1,857,016
Total	\$ 3,311,515	\$ 3,836,003	\$ 1,865,355
<u>Held for trading financial liabilities</u>			
Forward exchange contracts	\$ -	\$ 32,194	\$ 13,439
<u>Noncurrent</u>			
<u>Financial assets designated upon initial recognition at fair value through profit or loss</u>			
Credit-linked deposits	\$ 1,508,838	\$ 2,994,699	\$ 2,956,614
Bonds	1,160,672	1,121,994	763,072
Index-linked deposits	283,376	939,650	943,849
Interest rate-linked deposits	544,772	297,594	298,152
Exchange rate-linked deposits	-	613,364	1,390,502
Total	\$ 3,497,658	\$ 5,967,301	\$ 6,352,189

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

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Current</u>			
Bonds	\$ 3,603,294	\$ 3,326,824	\$ 2,093,174
Funds	2,115,861	2,708,760	2,163,203
Stocks	841,148	1,692,605	2,667,921
Depository receipts	25,936	34,942	30,727
Subtotal	6,586,239	7,763,131	6,955,025
<u>Noncurrent</u>			
Bonds	5,350,198	4,133,564	3,491,563
Funds	3,765,710	4,101,097	4,082,928
Stocks	926,339	464,201	160,335
Subtotal	10,042,247	8,698,862	7,734,826
Total	\$ 16,628,486	\$ 16,461,993	\$ 14,689,851

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

Available-for-sale financial assets were not pledged.

## (4) Financial assets measured at cost

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Available-for-sale financial</u>			
<u>assets-noncurrent</u>			
Capital	\$ 4,966,209	\$ 3,768,448	\$ 3,613,796
Non-publicly traded stocks	1,252,154	1,132,564	976,773
Total	\$ 6,218,363	\$ 4,901,012	\$ 4,590,569

The Company assessed and concluded its financial assets measured at cost were partially impaired, and recorded an impairment loss of NT\$71,172 thousand and NT\$361,785 thousand for the nine months ended September 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**

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Current</u>			
Bonds	\$ 876,371	\$ 1,257,437	\$ 330,041
<u>Noncurrent</u>			
Bonds	-	266,498	1,573,330
Total	\$ 876,371	\$ 1,523,935	\$ 1,903,371

Held-to-maturity financial assets were not pledged.

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

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Current</u>			
Bonds	\$ 1,444,285	\$ 682,340	\$ 620,130
Time deposits	18,885	78,942	81,292
Subtotal	1,463,170	761,282	701,422
<u>Noncurrent</u>			
Time deposits	267,866	257,756	210,402
Preferred stock	3,312	3,312	-
Subtotal	271,178	261,068	210,402
Total	\$ 1,734,348	\$ 1,022,350	\$ 911,824

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

**(7) Trade receivables**

	September 30, 2016	December 31, 2015	September 30, 2015
Trade receivables	\$ 31,297,745	\$ 22,768,327	\$ 23,572,854
Less: allowance for doubtful debts	(337,866)	(363,564)	(147,563)
Less: allowance for sales returns and discounts	(6,673,754)	(6,209,445)	(7,308,060)
Total	\$ 24,286,125	\$ 16,195,318	\$ 16,117,231

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	-	(78,735)	(78,735)
Write-off for uncollectable accounts	-	(9,248)	(9,248)
Acquired through business combinations	-	66,452	66,452
Exchange differences	-	(4,167)	(4,167)
As of September 30, 2016	\$ -	\$ 337,866	\$ 337,866

	Individually impaired	Collectively impaired	Total
As of January 1, 2015	\$ -	\$ 162,112	\$ 162,112
Reversal for current period	-	(28,545)	(28,545)
Acquired through business combinations	-	7,087	7,087
Exchange differences	-	6,909	6,909
As of September 30, 2015	\$ -	\$ 147,563	\$ 147,563

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	
September 30, 2016	\$ 23,167,736	\$ 1,109,219	\$ 9,170	\$ 24,286,125
December 31, 2015	\$ 14,774,185	\$ 1,408,388	\$ 12,745	\$ 16,195,318
September 30, 2015	\$ 15,777,085	\$ 324,864	\$ 15,282	\$ 16,117,231

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\$1,608,917 thousand, NT\$1,114,983 thousand, and NT\$1,652,404 thousand as of September 30, 2016, December 31, 2015, and September 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 September 30, 2016, December 31, 2015, and September 30, 2015, trade receivables derecognized were as follows:

**A. As of September 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	-	\$ 31,229	\$ -	\$ 31,229	\$ 127,594
BNP Paribas	-	19,840	-	19,840	85,000
HSBC	-	137	-	137	1,000
TC Bank	-	89	-	89	300
ING Bank	-	-	-	-	100,000
Total		<u>\$ 51,295</u>	<u>\$ -</u>	<u>\$ 51,295</u>	<u>\$ 313,894</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 September 30, 2015:**

The Factor (Transferee)	Interest rate	Trade receivables derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International Bank	-	\$ 31,666	\$ -	\$ 31,666	\$ 135,459
BNP Paribas	-	12,119	-	12,119	85,000
HSBC	-	-	-	-	1,000
TC Bank	-	6,094	-	6,094	16,500
ING Bank	-	-	-	-	100,000
Total		<u>\$ 49,879</u>	<u>\$ -</u>	<u>\$ 49,879</u>	<u>\$ 337,959</u>

**(8) Inventories**

	September 30, 2016	December 31, 2015	September 30, 2015
Raw materials	\$ 4,077,878	\$ 1,542,303	\$ 919,776
Work in progress	19,913,377	10,937,902	19,884,045
Finished goods	12,638,965	11,650,139	13,177,112
Net amount	<u>\$ 36,630,220</u>	<u>\$ 24,130,344</u>	<u>\$ 33,980,933</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 September 30, 2016 and 2015, the cost of inventories recognized in expenses amounted to NT\$50,786,898 thousand and NT\$32,657,866 thousand, including the write-down of inventories of NT\$831,416 thousand for the three months ended September 30, 2016 and the reversal gain of the write-down of inventories of NT\$494,423 thousand for the three months ended September 30, 2015 because of circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed.

For the nine months ended September 30, 2016 and 2015, the cost of inventories recognized in expenses amounted to NT\$132,359,141 thousand and NT\$83,143,171 thousand, including the write-down of inventories of NT\$725,510 thousand for the nine months ended September 30, 2016 and the reversal gain of the write-down of inventories of NT\$48,248 thousand for the nine months ended September 30, 2015 because of circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed.

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	September 30, 2016		December 31, 2015		September 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.	\$ 1,776,724	24	\$ 1,372,733	24	\$ 1,240,986	24
Airoha Technology Corp.	585,092	25	538,751	24	530,811	24
Others	1,817,899	-	807,506	-	670,927	-
Subtotal	4,179,715		2,718,990		2,442,724	
Investments in jointly controlled entities:						
Yuan Ke (Pingtan) Investment Fund Limited Partnership	1,251,503	73	-	-	-	-
Subtotal	1,251,503		-		-	
Total	\$ 5,431,218		\$ 2,718,990		\$ 2,442,724	

**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:

	Three months ended		Nine months ended	
	September 30		September 30	
	2016	2015	2016	2015
Profit from continuing operations	\$ 357,807	\$ 227,243	\$ 734,153	\$ 474,125
Other comprehensive income (post-tax)	(1,218)	(9,181)	(6,350)	(8,198)
Total comprehensive income	<u>\$ 356,589</u>	<u>\$ 218,062</u>	<u>\$ 727,803</u>	<u>\$ 465,927</u>

The associates had no contingent liabilities or capital commitments and investment in the associates were not pledged as of September 30, 2016, December 31, 2015, and September 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	1,833,912	203,750	825,453	557,259	384,792	1,346,014	5,162,585
Additions-acquired through business combinations	142,453	607,570	134,893	-	54,211	30,528	16,080	985,735
Disposals	-	(83,845)	(4,534)	(152,297)	(97,009)	(115,744)	-	(453,429)
Transfers	(169,775)	3,771,017	-	(24,777)	255,660	(47,197)	(3,835,616)	(50,688)
Exchange differences	3	(457,084)	(1,591)	(156,478)	(192,335)	(77,996)	(663,589)	(1,549,070)
As of September 30, 2016	<u>\$ 5,107,423</u>	<u>\$ 21,477,605</u>	<u>\$ 1,120,603</u>	<u>\$ 4,843,204</u>	<u>\$ 6,567,142</u>	<u>\$ 2,189,200</u>	<u>\$ 6,214,646</u>	<u>\$ 47,519,823</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	112,870	759,425	8,711	1,323,920	987,499	307,826	4,879,918	8,380,169
Additions-acquired through business combinations	-	-	18,753	1,689	21,690	52,092	2,327	96,551
Disposals	-	(167)	(2,034)	(135,957)	(230,519)	(116,385)	-	(485,062)
Transfers	6,825	1,466,148	249	49,770	308,859	8,424	(1,846,668)	(6,393)
Exchange differences	56,550	64,553	(5,796)	35,957	26,396	62	(14,605)	163,117
As of September 30, 2015	<u>\$ 3,569,755</u>	<u>\$ 13,231,477</u>	<u>\$ 97,342</u>	<u>\$ 4,195,173</u>	<u>\$ 5,626,927</u>	<u>\$ 1,531,069</u>	<u>\$ 10,814,357</u>	<u>\$ 39,066,100</u>

**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	-	366,093	143,852	628,462	666,549	432,829	-	2,237,785
Disposals	-	(34,864)	(3,430)	(146,558)	(94,660)	(113,419)	-	(392,931)
Transfers	-	(675)	(483)	(8,426)	(5,729)	(30,200)	-	(45,513)
Exchange differences	-	(25,140)	(1,628)	(103,338)	(130,734)	(64,846)	-	(325,686)
As of September 30, 2016	<u>\$ -</u>	<u>\$ 2,797,331</u>	<u>\$ 218,325</u>	<u>\$ 2,696,996</u>	<u>\$ 3,613,935</u>	<u>\$ 1,181,681</u>	<u>\$ -</u>	<u>\$ 10,508,268</u>
As of January 1, 2015	\$ -	\$ 2,110,031	\$ 14,033	\$ 1,930,859	\$ 2,722,355	\$ 845,885	\$ -	\$ 7,623,163
Depreciation	-	265,530	17,759	395,078	491,844	186,413	-	1,356,624
Disposals	-	(91)	(1,818)	(131,207)	(225,368)	(111,052)	-	(469,536)
Transfers	-	(241)	242	-	(242)	168	-	(73)
Exchange differences	-	10,740	2,784	31,745	23,691	13,963	-	82,923
As of September 30, 2015	<u>\$ -</u>	<u>\$ 2,385,969</u>	<u>\$ 33,000</u>	<u>\$ 2,226,475</u>	<u>\$ 3,012,280</u>	<u>\$ 935,377</u>	<u>\$ -</u>	<u>\$ 8,593,101</u>
Net carrying amount as of:								
September 30, 2016	<u>\$ 5,107,423</u>	<u>\$18,680,274</u>	<u>\$ 902,278</u>	<u>\$ 2,146,208</u>	<u>\$ 2,953,207</u>	<u>\$ 1,007,519</u>	<u>\$ 6,214,646</u>	<u>\$ 37,011,555</u>
December 31, 2015	<u>\$ 5,123,337</u>	<u>\$13,314,118</u>	<u>\$ 708,071</u>	<u>\$ 2,024,447</u>	<u>\$ 2,810,847</u>	<u>\$ 1,057,500</u>	<u>\$ 9,351,757</u>	<u>\$ 34,390,077</u>
September 30, 2015	<u>\$ 3,569,755</u>	<u>\$10,845,508</u>	<u>\$ 64,342</u>	<u>\$ 1,968,698</u>	<u>\$ 2,614,647</u>	<u>\$ 595,692</u>	<u>\$ 10,814,357</u>	<u>\$ 30,472,999</u>

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

Please refer to Note 6. (29) 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**

	Land	Buildings	Total
Cost:			
As of January 1, 2016	\$ 218,885	\$ 56,857	\$ 275,742
Additions	475	256	731
Transfers	(18,484)	(2,152)	(20,636)
As of September 30, 2016	<u>\$ 200,876</u>	<u>\$ 54,961</u>	<u>\$ 255,837</u>
Depreciation and impairment:			
As of January 1, 2016	\$ -	\$ 152	\$ 152
Depreciation	-	862	862
Transfers	-	675	675
As of September 30, 2016	<u>\$ -</u>	<u>\$ 1,689</u>	<u>\$ 1,689</u>
Net carrying amount as of:			
September 30, 2016	<u>\$ 200,876</u>	<u>\$ 53,272</u>	<u>\$ 254,148</u>
December 31, 2015	<u>\$ 218,885</u>	<u>\$ 56,705</u>	<u>\$ 275,590</u>

There were no investment properties for the nine months ended September 30, 2015.

	Three months ended September 30, 2016	Nine months ended September 30, 2016
Rental income from investment properties	\$ 1,538	\$ 5,192
Less:		
Direct operating expenses from investment properties generating rental income	(304)	(862)
Total	<u>\$ 1,234</u>	<u>\$ 4,330</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 nine months ended September 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	-	216,201	-	79,900	-	296,101
Additions-acquired through business combinations	-	23,297	-	73,618	161	97,076
Disposals	-	(2,912)	-	(1,791)	-	(4,703)
Transfers	-	188	7,881	(1,789)	(238)	6,042
Exchange differences	-	(1,846)	-	(94,149)	(31,960)	(127,955)
As of September 30, 2016	<u>\$ 772,487</u>	<u>\$ 2,015,747</u>	<u>\$ 5,114,146</u>	<u>\$ 8,616,051</u>	<u>\$ 63,370,863</u>	<u>\$ 79,889,294</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	-	385,584	-	3,094,057	-	3,479,641
Additions-acquired through business combinations	-	6,121	244,069	637,631	992,444	1,880,265
Disposals	-	-	-	(3,063,376)	-	(3,063,376)
Transfers	-	62,587	-	(56,267)	-	6,320
Exchange differences	(2,032)	(62,613)	(13,409)	(61,689)	25,456	(114,287)
As of September 30, 2015	<u>\$ 420,882</u>	<u>\$ 1,664,936</u>	<u>\$ 2,852,597</u>	<u>\$ 7,153,832</u>	<u>\$ 55,154,315</u>	<u>\$ 67,246,562</u>

**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	84,449	323,850	480,238	2,013,208	-	2,901,745
Disposals	-	(2,418)	-	(1,791)	-	(4,209)
Transfers	-	(180)	-	(506)	-	(686)
Exchange differences	-	2,953	-	(50,170)	-	(47,217)
As of September 30, 2016	<u>\$ 251,445</u>	<u>\$ 1,462,233</u>	<u>\$ 1,281,275</u>	<u>\$ 4,046,740</u>	<u>\$ -</u>	<u>\$ 7,041,693</u>
As of January 1, 2015	\$ 90,032	\$ 856,677	\$ 329,940	\$ 3,023,524	\$ -	\$ 4,300,173
Amortization	48,814	192,697	296,771	1,515,503	-	2,053,785
Disposals	-	-	-	(3,063,376)	-	(3,063,376)
Transfers	-	56,172	-	(56,172)	-	-
Exchange differences	-	(52,542)	-	(63,092)	-	(115,634)
As of September 30, 2015	<u>\$ 138,846</u>	<u>\$ 1,053,004</u>	<u>\$ 626,711</u>	<u>\$ 1,356,387</u>	<u>\$ -</u>	<u>\$ 3,174,948</u>
Net carrying amount as of:						
September 30, 2016	<u>\$ 521,042</u>	<u>\$ 553,514</u>	<u>\$ 3,832,871</u>	<u>\$ 4,569,311</u>	<u>\$ 63,370,863</u>	<u>\$ 72,847,601</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>
September 30, 2015	<u>\$ 282,036</u>	<u>\$ 611,932</u>	<u>\$ 2,225,886</u>	<u>\$ 5,797,445</u>	<u>\$ 55,154,315</u>	<u>\$ 64,071,614</u>

Please refer to Note 6. (29) 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**

	September 30, 2016	December 31, 2015	September 30, 2015
Unsecured bank loans	\$ 64,554,725	\$ 49,123,477	\$ 57,032,937
Interest rates	0.85%~2.20%	0.68%~2.22%	0.64%~4.90%

**(15) Other payables**

	September 30, 2016	December 31, 2015	September 30, 2015
Accrued salaries and bonuses	\$ 18,092,618	\$ 17,157,719	\$ 14,896,216
Accrued royalties	3,487,927	1,252,298	1,334,957
Others	12,591,373	13,148,604	11,729,826
Total	\$ 34,171,918	\$ 31,558,621	\$ 27,960,999

**(16) Long-term borrowings**

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

Lenders	As of		Maturity date and terms of repayment
	September 30, 2016	Interest Rate (%)	
Secured Long-Term Loan from Mega International Commercial Bank	\$ 165,714	1.79%	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	1.40%	Effective from April 30, 2015 to April 30, 2025. Principle is repaid in 16 semi-annually payments with monthly interest payment.
Total	\$ 460,514		

Details of long-term loans as of December 31, 2015 and September 30, 2015 are as follows:  
None

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

(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 September 30, 2016 and 2015 were NT\$397,439 thousand and NT\$381,107 thousand, respectively. Pension expenses under the defined contribution plan for the nine months ended September 30, 2016 and 2015 were NT\$1,189,168 thousand and NT\$1,047,066 thousand, respectively.

Defined benefits plan

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

Pension expenses under the defined benefits plan for the three months ended September 30, 2016 and 2015 were NT\$6,328 thousand and NT\$6,663 thousand, respectively. Pension expenses under the defined benefits plan for the nine months ended September 30, 2016 and 2015 were NT\$18,735 thousand and NT\$19,810 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 September 30, 2016, December 31, 2015, and September 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\$15,821,122 thousand, NT\$15,715,837 thousand, and NT\$15,715,819 thousand, divided into 1,582,112,191 shares, 1,571,583,686 shares, and 1,571,581,880 shares as of September 30, 2016, December 31, 2015, and September 30, 2015, respectively. Each share has one voting right and a right to receive dividends.

MTK issued 136,336 new shares during the nine months ended September 30, 2015, at par value of NT\$10 for employee stock options exercised. As of September 30, 2015, 1,806 shares (NT\$18 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance.

On June 24, 2016, the general shareholders' meeting approved to issue restricted stocks for employees. As of September 30, 2016, 10,528,505 shares of restricted stocks for employees were issued. MTK has successfully obtained relevant regulators approvals.

**B. Capital surplus**

	September 30, 2016	December 31, 2015	September 30, 2015
Additional paid-in capital	\$ 85,867,533	\$ 85,867,533	\$ 85,867,045
Treasury share transactions	1,455,706	1,369,971	1,369,971
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	176,894	276,842	304,550
Donated assets	1,261	1,261	1,261
From share of changes in net assets of associates	81,858	81,858	67,312
Employee stock options	522,367	503,056	498,079
Restricted stocks for employees	2,416,643	-	-
Others	111,014	111,014	111,315
Total	<u>\$ 90,633,276</u>	<u>\$ 88,354,178</u>	<u>\$ 88,369,498</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 September 30, 2016, December 31, 2015, and September 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 September 30, 2016, December 31, 2015, and September 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. Non-controlling interests

	Nine months ended September 30	
	2016	2015
Beginning balance	\$ 6,659,159	\$ 437,599
Gains attributable to non-controlling interests	238,400	57,881
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	(75,875)	(3,588)
Changes in ownership interests in subsidiaries	232,572	151,508
Acquisitions through business combinations	-	267,712
Acquisition of additional interest in a subsidiary	(6,126,135)	-
Others	872,440	-
Ending balance	<u>\$ 1,800,561</u>	<u>\$ 911,112</u>

## (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.

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

Detail information relevant to the share-based payment plan as of September 30, 2016 is as follows:

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NT\$) (Note)
2008.03.31	1,134,119	265,097	265,097	\$ 355.6
2008.08.28	1,640,285	457,874	457,874	342.2
2009.08.18	1,382,630	545,202	545,202	426.6
2010.08.27	1,605,757	675,581	675,581	402.1
2010.11.04	65,839	14,634	14,634	374.5
2011.08.24	2,109,871	1,158,916	1,158,916	275.6
2012.08.14	1,346,795	920,276	920,276	284.9
2013.08.22	1,436,343	1,142,863	692,835	365.6

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	Nine months ended September 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	-	-	(91,442)	329.5
Forfeited (Expired)	(277,288)	335.5	(103,381)	334.6
Outstanding at end of period	<u>5,180,443</u>	339.8	<u>5,560,175</u>	341.8
Exercisable at end of period	<u>4,730,415</u>		<u>4,260,621</u>	
Weighted-average fair value of options granted during the period (in NT\$)	<u>\$ -</u>		<u>\$ -</u>	

The weighted average share price at the date of exercise of those options were NT\$481.7 for the nine months ended September 30, 2015.

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

As of September 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	\$ 342.2~355.6	-	\$ 347.1	-	\$ 349.5
2009.07.27	426.6	-	426.6	0.38	429.5
2010.05.10	374.5~402.1	0.42	401.5	1.42	404.2
2011.08.09	275.6	1.42	275.6	2.42	277.4
2012.08.09	284.9	2.38	284.9	3.38	286.8
2013.08.09	365.6	3.42	365.6	4.42	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)**

Restricted stocks plan for employees of MTK

On June 24, 2016, the shareholders' meeting approved to issue restricted stocks for employees, at a total of 17,500,000 common shares and issue price is gratuitous. MTK shall set up the actual issuance date(s) in one tranche or in installments within one year from the date of receipt of the effective registration of the competent authority. The issuance process was granted effective registration by the securities authority.

MTK has issued 10,528,505 shares gratuitously on September 6, 2016. The distribution process was granted effective registration by the securities authority.

The fair value of the restricted stocks issued was NT\$254.5 per share. The estimated expense amount is NT\$2,521,928 thousand in total based on the vesting conditions and will be recognized during the vesting period. For the nine months ended September 30, 2016, MTK had recognized NT\$103,329 thousand as compensation expense and NT\$2,418,599 thousand as unearned employee compensation, which were recorded under salary expense and other equity, respectively.

Restriction on the rights and vesting conditions of restricted stocks for employees of 2016 is as follows:

- A. To issue common shares of MTK with gratuitous issue price.
- B. Employee's continuous employment with the Company through the vesting dates, no violation on any terms of the Company's employment agreement, employee handbook, or policies and achievement of both personal performance criterion and the Company's operation objectives during the vesting period are eligible to receive the vested shares. The maximum portions of the vesting shares of each year are 15%, 35%, and 50% for the year ended 2017, 2018, and 2019, respectively. The actual portions of the vesting shares shall be determined by achievement of both personal performance and the Company's operation objectives.
- C. During the vesting period, employees may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted employee shares, excluding inheritance.
- D. During the vesting period, the rights of attending shareholders' meeting, proposal, speech, resolution and voting right, etc., and other rights of restricted stock plan for employees, including but not limited to, dividends, bonuses, the distribution rights of legal reserve and capital surplus, the right to subscription of new shares, etc. are as the same as the common shares issued by the Company.
- E. The restricted stock for employees issued by MTK may be deposited in a security trust account.

**MEDIATEK INC. AND SUBSIDIARIES**

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

Movements in the number of MTK's restricted stocks for employees were as follows:

	Nine months ended September 30, 2016
January 1, 2016	-
Granted (share)	10,528,505
Cancelled (share)	-
September 30, 2016	10,528,505

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 865,272 units and 692,741 units as of September 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:

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

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

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	(897)	195
Forfeited (Expired)	(7)	160
Outstanding at end of period	12	195
Exercisable at end of period	12	

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 nine months ended September 30, 2016. Please refer to Note 6.(28) 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 nine months ended September 30, 2016. As of September 30, 2016, related liabilities recognized amounted to NT\$420 thousand. The vested intrinsic value of share appreciation rights was NT\$420 thousand.

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Total equity-settled transactions	\$ 7,480	\$ (794)	\$ 23,887	\$ 32,302
Restricted stocks for employees	103,329	-	103,329	-
Share appreciation rights plan	-	-	2,512	-
Total	\$ 110,809	\$ (794)	\$ 129,728	\$ 32,302

The Company did not modify or cancel the share-based payment plan for the nine months ended September 30, 2016 and 2015.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(20) Sales**

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Sale of goods	\$ 86,832,905	\$ 66,275,786	\$ 232,275,993	\$ 172,002,468
Other operating revenues	279,046	229,028	1,201,333	790,394
Less: Sales returns and discounts	(8,708,460)	(9,542,770)	(26,641,038)	(21,250,541)
Net sales	<u>\$ 78,403,491</u>	<u>\$ 56,962,044</u>	<u>\$ 206,836,288</u>	<u>\$ 151,542,321</u>

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

	Three months ended September 30					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 11,493	\$ 392,274	\$ 403,767	\$ 4,067	\$ 383,703	\$ 387,770
Others	\$ 188,590	\$ 11,617,687	\$ 11,806,277	\$ 85,174	\$ 9,320,401	\$ 9,405,575
Depreciation	\$ 47,770	\$ 721,285	\$ 769,055	\$ 1,005	\$ 519,043	\$ 520,048
Amortization	\$ 188	\$ 995,814	\$ 996,002	\$ -	\$ 718,266	\$ 718,266

	Nine months ended September 30					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Pension	\$ 20,406	\$ 1,187,497	\$ 1,207,903	\$ 12,307	\$ 1,054,569	\$ 1,066,876
Others	\$ 501,842	\$ 30,706,444	\$ 31,208,286	\$ 244,747	\$ 27,117,969	\$ 27,362,716
Depreciation	\$ 119,208	\$ 2,119,439	\$ 2,238,647	\$ 2,661	\$ 1,353,963	\$ 1,356,624
Amortization	\$ 771	\$ 2,900,974	\$ 2,901,745	\$ -	\$ 2,053,785	\$ 2,053,785



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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.

MTK accrued employees' compensation and remuneration to directors based on a specific rate of profit for the nine months ended September 30, 2016. The amounts of employees' compensation and remunerations to directors were NT\$101,401 thousand and NT\$13,689 thousand for the three months ended September 30, 2016, respectively. The amounts of employees' compensation and remunerations to directors were NT\$246,960 thousand and NT\$33,340 thousand for the nine months ended September 30, 2016, respectively. The amounts of employees' compensation and remunerations to directors were NT\$99,428 thousand and NT\$15,602 thousand for the three months ended September 30, 2015, respectively. The amounts of employees' compensation and remunerations to directors and supervisors were NT\$269,129 thousand and NT\$37,639 thousand for the nine months ended September 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.

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

## (22) Other income

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Interest income	\$ 604,637	\$ 615,179	\$ 1,869,927	\$ 2,238,214
Dividend income	98,305	67,905	307,808	366,078
Rental income	44,532	9,370	116,608	24,976
Others	18,183	41,063	125,306	107,699
Total	<u>\$ 765,657</u>	<u>\$ 733,517</u>	<u>\$ 2,419,649</u>	<u>\$ 2,736,967</u>

## (23) Other gains and losses

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Losses on disposal of property, plant and equipment	\$ (3,321)	\$ (503)	\$ (7,602)	\$ (6,344)
(Losses) gains on disposal of investments				
Available-for-sale financial assets	(4,273)	613,134	(57,332)	832,178
Financial assets measured at cost	-	8,267	(1,000)	14,607
Investments accounted for using the equity method	-	183,382	-	377,465
Held-to-maturity financial assets	18	-	(16,563)	-
Foreign exchange (losses) gains	(74,266)	51,719	39,782	(527,014)
Impairment losses				
Available-for-sale financial assets	-	-	-	(489,693)
Financial assets measured at cost	-	-	(71,172)	(361,785)
(Losses) gains on financial assets at fair value through profit or loss	(28,528)	(93,892)	(17,377)	35,319
Losses on financial liabilities at fair value through profit or loss	-	(8,294)	-	(13,439)
Others	27,128	(27,413)	16,897	(91,421)
Total	<u>\$ (83,242)</u>	<u>\$ 726,400</u>	<u>\$ (114,367)</u>	<u>\$ (230,127)</u>

## (24) Finance costs

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Interest expenses on borrowings	<u>\$ 143,949</u>	<u>\$ 162,414</u>	<u>\$ 404,467</u>	<u>\$ 417,076</u>

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(25) Components of other comprehensive income**

For three months ended September 30, 2016 :

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	\$ (2,783,499)	\$ -	\$ (2,783,499)	\$ -	\$ (2,783,499)
Unrealized gains (losses) from available-for-sale financial assets	350,158	4,273	354,431	(36,612)	317,819
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	13,232	-	13,232	-	13,232
Total of other comprehensive income	\$ (2,420,109)	\$ 4,273	\$ (2,415,836)	\$ (36,612)	\$ (2,452,448)

For three months ended September 30, 2015 :

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	\$ 4,702,549	\$ -	\$ 4,702,549	\$ -	\$ 4,702,549
Unrealized (losses) gains from available-for-sale financial assets	(1,808,198)	613,134	(1,195,064)	-	(1,195,064)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(73,184)	-	(73,184)	-	(73,184)
Total of other comprehensive income	\$ 2,821,167	\$ 613,134	\$ 3,434,301	\$ -	\$ 3,434,301

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

For nine months ended September 30, 2016 :

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	\$ (5,770,212)	\$ -	\$ (5,770,212)	\$ -	\$ (5,770,212)
Unrealized gains (losses) from available-for-sale financial assets	177,955	57,332	235,287	(49,465)	185,822
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(18,945)	-	(18,945)	-	(18,945)
Total of other comprehensive income	<u>\$ (5,611,202)</u>	<u>\$ 57,332</u>	<u>\$ (5,553,870)</u>	<u>\$ (49,465)</u>	<u>\$ (5,603,335)</u>

For nine months ended September 30, 2015 :

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	\$ 3,252,223	\$ -	\$ 3,252,223	\$ -	\$ 3,252,223
Unrealized (losses) gains from available-for-sale financial assets	(1,808,809)	342,485	(1,466,324)	-	(1,466,324)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(72,186)	-	(72,186)	-	(72,186)
Total of other comprehensive income	<u>\$ 1,371,228</u>	<u>\$ 342,485</u>	<u>\$ 1,713,713</u>	<u>\$ -</u>	<u>\$ 1,713,713</u>

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(26) Income tax**

The major components of income tax expense are as follows:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Current income tax	\$ (98,980)	\$ 754,070	\$ 2,193,172	\$ 1,936,113
Deferred tax expenses	624,262	310,767	361,404	994,708
Others	259,838	49,571	197,513	104,518
Income tax expense recognized in profit or loss	<u>\$ 785,120</u>	<u>\$ 1,114,408</u>	<u>\$ 2,752,089</u>	<u>\$ 3,035,339</u>

Income tax recognized in other comprehensive income

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Deferred tax expenses:				
Unrealized gains on available-for-sale financial assets	<u>\$ 36,612</u>	<u>\$ -</u>	<u>\$ 49,465</u>	<u>\$ -</u>

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Accounting profit before tax from continuing operations	<u>\$ 8,615,407</u>	<u>\$ 9,074,176</u>	<u>\$ 21,645,082</u>	<u>\$ 24,623,511</u>
Tax at the domestic rates applicable to profits in the country concerned	\$ 2,490,174	\$ 2,442,005	\$ 6,936,067	\$ 6,104,957
Tax effect of revenues exempt from taxation	(688,477)	(784,645)	(2,082,370)	(1,507,161)
Tax effect of expenses not deductible for tax purposes	24,545	(1,475,814)	(497)	(1,380,932)
Investment tax credits	4,258	186,651	(190,351)	(380,281)
Tax effect of deferred tax assets/liabilities	(482,249)	771,046	(2,223,902)	(688,202)
10% surtax on undistributed retained earnings	-	-	634,503	807,915
Others	<u>(563,131)</u>	<u>(24,835)</u>	<u>(321,361)</u>	<u>79,043</u>
Total income tax expense recognized in profit or loss	<u>\$ 785,120</u>	<u>\$ 1,114,408</u>	<u>\$ 2,752,089</u>	<u>\$ 3,035,339</u>

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

	September 30, 2016	December 31, 2015	September 30, 2015
Balance of the imputation credit account	\$ 8,203,087	\$ 9,546,658	\$ 8,119,096

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.

The assessment of income tax returns

As of September 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.

**(27) Earnings per share**

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

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

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
A. Basic earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 7,792,050	\$ 7,954,447	\$ 18,654,593	\$ 21,530,291
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,789,601	1,563,789,012	1,563,789,601	1,563,772,870
Basic earnings per share (NT\$)	\$ 4.98	\$ 5.09	\$ 11.93	\$ 13.77
B. Diluted earnings per share				
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$ 7,792,050	\$ 7,954,447	\$ 18,654,593	\$ 21,530,291
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	1,563,789,601	1,563,789,012	1,563,789,601	1,563,772,870
Effect of dilution:				
Employees' compensation	1,031,148	1,105,251	1,416,978	2,007,375
Employee stock options (Note)	-	94,097	-	655,578
Restricted stocks for employees	173,291	-	58,185	-
Weighted average number of ordinary shares outstanding after dilution (share)	1,564,994,040	1,564,988,360	1,565,264,764	1,566,435,823
Diluted earnings per share (NT\$)	\$ 4.98	\$ 5.08	\$ 11.92	\$ 13.74

Note: There were no dilutive employee stock options for the three months and nine months ended September 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.

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

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

Alpha Tech. is a fabless IC design company specialized in image processing. The Company's image processing chips are mainly applied to TV camera, Web camera and car DV. The purpose of this tender offer is to meet the Company's long-term development strategies. The 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>



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

Goodwill of Alpha Tech. is as follows:

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

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

Cash flows on acquisition:

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

The 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 nine months ended September 30, 2015 would have been NT\$151,785,351 thousand and NT\$21,561,610 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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

Goodwill of Chingis Tech. is as follows:

	Amount
Cash consideration	\$ 887,932
Less: identifiable net assets at fair value	(881,641)
Goodwill	<u><u>\$ 6,291</u></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><u>\$ (790,642)</u></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 nine months ended September 30, 2015 would have been NT\$152,047,375 thousand and NT\$21,558,793 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 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 nine months ended September 30, 2015 would have been NT\$161,153,643 thousand and NT\$22,759,793 thousand, respectively.

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.

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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>\$ 3,642,521</u>

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

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	<u>\$ (2,406,378)</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 identifiable net assets recognized in the consolidated financial statements as of September 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 September 30, 2016, ILI Tech. has contributed NT\$2,653,206 thousand of revenue and NT\$33,522 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 nine months ended September 30, 2016 would have been NT\$209,967,638 thousand and NT\$19,053,886 thousand, respectively.

**(29) 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 September 30, 2016. Assets and liabilities reclassified to non-current assets held for sale as a disposal group mainly consisted of:

	<u>As of September 30, 2016</u>
Non-current assets held for sale	
Cash and cash equivalents	\$ 497,562
Available-for-sale financial assets-current	789,496
Debt instrument investments for which no active market exists-current	1,057,361
Trade receivables, net	183,112
Other receivables	134,191
Inventories, net	144,372
Prepayments	54,196
Other current assets	178,957
Property, plant and equipment	48,760
Intangible assets	9,572
Refundable deposits	1,865
	<u>3,099,444</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>As of September 30, 2016</u>
Liabilities directly associated with non-current assets held for sale	
Trade payables	(83,431)
Trade payables to related parties	(6,165)
Other payables	(369,517)
Current tax liabilities	(22,876)
Other current liabilities	(27,708)
	<u>(509,697)</u>
Net carrying amount of the disposal group	<u><u>\$ 2,589,747</u></u>

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

Changes in ownership of subsidiaries

AutoChips and EcoNet (Cayman) Inc. increased its capital by cash in the nine-month period ended September 30, 2016, and the Company did not subscribe new shares in proportionate to its original ownership interest. Consequently, the ownership interest in both companies changed but control over both companies remained. The difference between the fair value of purchased equity investments and the increase in the non-controlling interest was NT\$99,948 thousand and was recorded in equity.

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 nine months ended September 30, 2015 and the year ended December 31, 2015 were NT\$89,270 thousand and NT\$61,562 thousand, respectively, and were recorded in equity.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****7. Related Party Transactions****(1) Significant transactions with related parties****A. Sales**

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Associates	\$ -	\$ -	\$ -	\$ 2,740

For the three months and nine months ended September 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 September 30		Nine months ended September 30	
	2016	2015	2016	2015
Other related parties	\$ 1,120,798	\$ 742,457	\$ 2,799,946	\$ 1,984,180

For the three months and nine months ended September 30, 2016 and 2015, respectively, the trade credit term for related parties and third-party customers were both 60 to 75 days.

**C. Consign research and development expenses and license expenses**

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Associates	\$ -	\$ 6,570	\$ -	\$ 6,570
Other related parties	-	2,739	-	23,885
Total	\$ -	\$ 9,309	\$ -	\$ 30,455

**D. Purchases**

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Associates	\$ 3,180	\$ 8,943	\$ 6,259	\$ 10,777

For the three months and nine months ended September 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.



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

## E. Rental income

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Associates	\$ 3,657	\$ 215	\$ 4,086	\$ 643
Other related parties	134	3,113	3,321	7,784
Total	<u>\$ 3,791</u>	<u>\$ 3,328</u>	<u>\$ 7,407</u>	<u>\$ 8,427</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 September 30		Nine months ended September 30	
	2016	2015	2016	2015
Other related parties	\$ -	\$ -	\$ -	\$ 9,944

## G. Other receivables from related parties

	September 30, 2016	December 31, 2015	September 30, 2015
Associates	\$ -	\$ 75	\$ 75
Other related parties	-	-	766
Total	<u>\$ -</u>	<u>\$ 75</u>	<u>\$ 841</u>

## H. Trade payables to related parties

	September 30, 2016	December 31, 2015	September 30, 2015
Associates	\$ 1,683	\$ -	\$ 2,920
Other related parties	1,113,138	645,120	776,677
Total	<u>\$ 1,114,821</u>	<u>\$ 645,120</u>	<u>\$ 779,597</u>

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

	September 30, 2016	December 31, 2015	September 30, 2015
Other related parties	<u>\$ 6,165</u>	<u>\$ -</u>	<u>\$ -</u>

## J. Other prepayments to related parties

	September 30, 2016	December 31, 2015	September 30, 2015
Other related parties	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,816</u>

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2016	2015	2016	2015
Short-term employee benefits (Note)	\$ 185,242	\$ 188,456	\$ 565,718	\$ 749,702
Post-employment benefits	1,065	1,096	3,261	2,349
Termination benefits	-	9,544	1,972	9,544
Share-based payment	32,860	-	33,541	-
Total	<u>\$ 219,167</u>	<u>\$ 199,096</u>	<u>\$ 604,492</u>	<u>\$ 761,595</u>

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

**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
	September 30, 2016	December 31, 2015	September 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	20,919	Land lease guarantee
Debt instrument investments for which no active market exists-current	-	1,439	1,489	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	2,603	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
	September 30, 2016	December 31, 2015	September 30, 2015	
Debt instrument investments for which no active market exists-current	-	-	3,139	Customs clearance deposits
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	532	564	571	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	118	125	126	Lease execution deposits
Debt instrument investments for which no active market exists-noncurrent	200,000	200,000	200,000	Project performance deposits
Debt instrument investments for which no active market exists-noncurrent	-	9,705	9,705	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	24,100	24,223	-	Customs clearance deposits
Debt instrument investments for which no active market exists-noncurrent	22,964	-	-	Land lease guarantee
Debt instrument investments for which no active market exists-noncurrent	7,000	-	-	Land lease guarantee
Property, plant and equipment - buildings	429,658	-	-	Long-term borrowing
Property, plant and equipment - buildings and land	337,846	-	-	Long-term borrowing
Total	<u>\$ 1,054,255</u>	<u>\$ 336,698</u>	<u>\$ 291,694</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:

	September 30, 2016	December 31, 2015	September 30, 2015
Not later than one year	\$ 620,375	\$ 675,534	\$ 453,595
Later than one year but not later than five years	1,178,708	1,394,772	1,153,727
Later than five years	581,161	589,696	506,878
Total	<u>\$ 2,380,244</u>	<u>\$ 2,660,002</u>	<u>\$ 2,114,200</u>

Operating lease expenses are as follows:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Minimum lease payments	<u>\$ 211,499</u>	<u>\$ 205,632</u>	<u>\$ 656,100</u>	<u>\$ 593,404</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 Inc. 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 court dismissed the claims with prejudice against MediaTek USA Inc. pursuant to the parties' joint stipulation on August 22, 2016.

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

	September 30, 2016	December 31, 2015	September 30, 2015
Financial assets at fair value through profit or loss:			
Held for trading financial assets	\$ 766	\$ 4,801	\$ 8,339
Financial assets designated upon initial recognition at fair value through profit or loss	6,808,407	9,798,503	8,209,205
Subtotal	6,809,173	9,803,304	8,217,544
Available-for-sale financial assets	16,628,486	16,461,993	14,689,851
Financial assets measured at cost	6,218,363	4,901,012	4,590,569
Held-to-maturity financial assets	876,371	1,523,935	1,903,371
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand and petty cash)	143,440,974	153,271,238	159,108,439
Debt instrument investments for which no active market exists	1,734,348	1,022,350	911,824
Trade receivables	24,331,116	16,195,318	16,117,231
Other receivables	3,149,472	2,996,512	3,152,314
Subtotal	172,655,910	173,485,418	179,289,808
Total	\$ 203,188,303	\$ 206,175,662	\$ 208,691,143

Financial liabilities

	September 30, 2016	December 31, 2015	September 30, 2015
Financial liabilities at fair value through profit or loss:			
Held for trading financial liabilities	\$ -	\$ 32,194	\$ 13,439
Financial liabilities at amortized cost:			
Short-term borrowings	64,554,725	49,123,477	57,032,937
Trade payables (including related parties)	30,218,808	16,156,252	18,666,937
Other payables	34,171,918	31,558,621	27,960,999
Long-term payables (including current portion)	13,331	56,212	66,255
Long-term borrowings	460,514	-	-
Subtotal	129,419,296	96,894,562	103,727,128
Total	\$ 129,419,296	\$ 96,926,756	\$ 103,740,567

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**B. Fair values of financial instruments**

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

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

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

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

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

	Carrying amount as of		
	September 30, 2016	December 31, 2015	September 30, 2015
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ 876,371	\$ 1,523,935	\$ 1,903,371

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

	Fair value as of		
	September 30, 2016	December 31, 2015	September 30, 2015
Financial assets			
Held-to-maturity financial assets			
Bonds	\$ 875,712	\$ 1,507,295	\$ 1,893,205

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 September 30, 2016

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value				
through profit or loss				
Bonds	\$ 469,980	\$ -	\$ 690,692	\$ 1,160,672
Derivative financial instruments	-	766	-	766
Linked deposits	-	2,537,374	3,110,361	5,647,735
Available-for-sale financial assets				
Depository receipts	25,936	-	-	25,936
Stocks	1,630,947	103,839	32,701	1,767,487
Bonds	6,648,186	-	2,305,306	8,953,492
Funds	5,059,180	-	822,391	5,881,571
Total	<u>\$ 13,834,229</u>	<u>\$ 2,641,979</u>	<u>\$ 6,961,451</u>	<u>\$ 23,437,659</u>

As of December 31, 2015

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

Financial liabilities:

Financial liabilities at fair value

through profit or loss

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

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

As of September 30, 2015

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

Financial liabilities:

Financial liabilities at fair value

through profit or loss

Derivative financial instruments	\$ -	\$ 13,439	\$ -	\$ 13,439
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For the nine months ended September 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	5,207	8,474	3,092	2,360	-	19,133
Amount recognized in OCI	4,891	(22,534)	5,461	-	-	(12,182)
Amount recognized in OCI- exchange differences	(132,328)	(184,403)	(134,747)	(125,212)	-	(576,690)
Acquisitions	749,070	86,700	1,862,976	1,997,520	-	4,696,266
Settlements	(1,648,420)	(1,701,542)	(564,588)	(1,511,872)	-	(5,426,422)
Reclassified to non-current assets held for sale	-	-	-	(789,495)	-	(789,495)
As of September 30, 2016	\$ 690,692	\$ 3,110,361	\$ 2,305,306	\$ 822,391	\$ 32,701	\$ 6,961,451

	Financial assets at fair value through profit or loss		Available-for-sale financial assets			
	Linked					
	Bonds	deposits	Bonds	Funds		Total
As of January 1, 2015	\$ 63,199	\$ 1,692,128	\$ 216,868	\$ 470,350		\$ 2,442,545
Amount recognized in profit or loss	(3,719)	(21,800)	-	2,161		(23,358)
Amount recognized in OCI	-	-	12,568	(5,919)		6,649
Acquisitions	769,848	3,251,610	3,032	886,002		4,910,492
Settlements	(66,256)	(674,972)	-	(517,242)		(1,258,470)
As of September 30, 2015	\$ 763,072	\$ 4,246,966	\$ 232,468	\$ 835,352		\$ 6,077,858

Total profits or losses recognized for the nine months ended September 30, 2016 and 2015 in the amount of NT\$17,643 thousand and NT\$26,491 thousand, respectively, which contained losses related to bonds, funds and linked deposits on hand.

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**Information on significant unobservable inputs to valuation of fair value measurements categorized within Level 3 of the fair value hierarchy

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

As of September 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	24.63~ 30.77	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\$2,405 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 September 30, 2015:

None

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

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

The Company's Finance Department is responsible for validating the fair value measurements and updating the latest quoted price of trading partner periodically to ensure that the results of the valuation are in line with market conditions, based on stable, independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies at each reporting date to ensure the measurement or assessment are reasonable.

## C. Fair value measurement hierarchy of the Company's assets and liabilities not measured at fair value but for which the fair value is disclosed.

As of September 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	\$ 875,712	\$ -	\$ -	\$ 875,712
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

As of September 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	\$ 1,893,205	\$ -	\$ -	\$ 1,893,205

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

**D. Derivative financial instruments**

The Company's derivative financial instruments held for trading were forward exchange contracts. 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:

Forward exchange contracts	Currency	Contract amount ( '000)	Maturity
As of September 30, 2016	TWD to USD	Buy USD20,000	October 2016
As of December 31, 2015	TWD to USD	Sell USD146,000	January 2016
As of September 30, 2015	TWD to USD	Sell USD110,000	October 2015

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

**(2) Financial risk management objectives**

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

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

**A. Market risk**

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

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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

a. Foreign currency risk

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

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

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

When NTD appreciates or depreciates against USD by 0.1%, the profit for the nine months ended September 30, 2016 and 2015 would decrease/increase by NT\$5,228 thousand and NT\$7,880 thousand, respectively, while equity would decrease/increase by NT\$58,088 thousand and NT\$51,112 thousand, respectively.

When NTD appreciates or depreciates against CNY by 0.1%, the profit for the nine months ended September 30, 2016 and 2015 would decrease/increase by NT\$3 thousand and NT\$3,098 thousand, respectively, while equity would decrease/increase by NT\$7,814 thousand and NT\$2,524 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

**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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 nine months ended September 30, 2016 and 2015 to increase/decrease by NT\$9,952 thousand and NT\$6,855 thousand, respectively.

c. Other price risk

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

A change of 1% in the price of the listed equity securities classified under available-for-sale could cause the other comprehensive income for the nine months ended September 30, 2016 and 2015 to increase/decrease by NT\$67,161 thousand and NT\$82,698 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.



**MEDIATEK INC. AND SUBSIDIARIES**

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

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

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

As of September 30, 2016, December 31, 2015, and September 30, 2015, receivables from top ten customers represented 59.88%, 74.52% and 68.60% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

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

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

**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.

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

	Less than 1 year	1 to 5 years	Less than 5 years	Total
<u>As of September 30, 2016</u>				
Short-term borrowings	\$ 64,595,684	\$ -	\$ -	\$ 64,595,684
Trade payables (including related parties)	30,218,808	-	-	30,218,808
Other payables	34,156,840	-	-	34,156,840
Long-term payables	13,331	-	-	13,331
Long-term borrowings	7,094	330,348	152,043	489,485
Total	<u>\$ 128,991,757</u>	<u>\$ 330,348</u>	<u>\$ 152,043</u>	<u>\$ 129,474,148</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>

As of September 30, 2015

Short-term borrowings	\$ 57,116,796	\$ -	\$ -	\$ 57,116,796
Trade payables (including related parties)	18,666,937	-	-	18,666,937
Other payables	27,935,574	-	-	27,935,574
Long-term payables	52,176	14,079	-	66,255
Total	<u>\$ 103,771,483</u>	<u>\$ 14,079</u>	<u>\$ -</u>	<u>\$ 103,785,562</u>

Derivative financial instrumentsAs of September 30, 2016

None

As of December 31, 2015

Net settlement

	Less than 1 year	1 to 5 years	Total
Forward exchange contracts	<u>\$ (33,996)</u>	<u>\$ -</u>	<u>\$ (33,996)</u>

As of September 30, 2015

Net settlement

	Less than 1 year	1 to 5 years	Total
Forward exchange contracts	<u>\$ (23,010)</u>	<u>\$ -</u>	<u>\$ (23,010)</u>

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

**MEDIATEK INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(3) Significant assets and liabilities denominated in foreign currencies**

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

September 30, 2016			
	Foreign Currency		
	(thousand)	Exchange rate	NT\$ (thousand)
<b>Financial assets</b>			
Monetary item:			
USD	\$ 4,829,194	31.366	\$ 151,472,546
CNY	\$ 928	4.699	\$ 4,360
Non-monetary item:			
USD	\$ 472,450	31.366	\$ 14,818,864
CNY	\$ 1,662,621	4.699	\$ 7,813,288
<b>Financial liabilities</b>			
Monetary item:			
USD	\$ 3,303,016	31.366	\$ 103,602,630
CNY	\$ 110	4.699	\$ 517
December 31, 2015			
	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)**

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

The Company's entities functional currency are various, and hence is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange (losses) gains were NT\$(74,266) thousand and NT\$51,719 thousand for the three months ended September 30, 2016 and 2015, respectively. The foreign exchange gains (losses) were NT\$39,782 thousand and NT\$(527,014) thousand for the nine months ended September 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.